

Financial Statements of

COMPASSION CANADA

Year ended June 30, 2009



BDO Dunwoody LLP
Chartered Accountants
and Advisors

Suite 201
252 Pall Mall Street
London Ontario Canada N6A 5P6
Telephone: (519) 672-8940
Fax: (519) 672-5562
www.bdo.ca

Auditors' Report

**To the Members of
COMPASSION CANADA**

We have audited the balance sheet of COMPASSION CANADA as at June 30, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at June 30, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Ontario
August 26, 2009

COMPASSION CANADA

Statement of Financial Position

As at June 30, 2009 with comparative figures for 2008

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2009 Total	2008 Total
Assets						
Current assets:						
Cash	\$ 1,883,840	\$ -	1,879	\$ -	1,885,719	\$ 3,733,743
Investments (note 2)	4,954,459	1,998,515	227,569	-	7,180,543	6,496,343
Prepaid expenses and taxes recoverable	291,039	-	-	-	291,039	229,565
Interfund balances	821,345	1,120	-	(822,465)	-	-
	7,950,683	1,999,635	229,448	(822,465)	9,357,301	10,459,651
Property, building and equipment (note 3)	-	-	-	3,911,616	3,911,616	2,743,829
	\$ 7,950,683	\$ 1,999,635	\$ 229,448	\$ 3,089,151	\$ 13,268,917	\$ 13,203,480
Liabilities and Fund Balances						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 443,628	\$ -	3,958	\$ 39,496	\$ 487,082	\$ 441,882
Child support and gifts payable	2,958,722	-	-	-	2,958,722	2,570,726
	3,402,350	-	3,958	39,496	3,445,804	3,012,608
Deferred contributions (note 4)	3,655,572	-	-	-	3,655,572	4,161,460
Liabilities for revocable funds invested	-	-	-	-	-	5,000
	7,057,922	-	3,958	39,496	7,101,376	7,179,068
Fund balances:						
Equity in property, building and equipment	-	-	-	3,049,655	3,049,655	3,082,367
Externally restricted	-	491,525	166,000	-	657,525	697,525
Internally restricted	-	1,508,110	59,490	-	1,567,600	1,528,124
Funds for future ministries	892,761	-	-	-	892,761	716,396
	892,761	1,999,635	225,490	3,049,655	6,167,541	6,024,412
	\$ 7,950,683	\$ 1,999,635	\$ 229,448	\$ 3,089,151	\$ 13,268,917	\$ 13,203,480

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

On behalf of the Board

_____, Director

_____, Director

COMPASSION CANADA

Statement of Operations and Changes in Fund Balances

Year ended June 30, 2009, with comparative figures for 2008

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2009		2008	
					Total	Total	Total	Total
Revenues:								
Child sponsorships	\$ 30,524,263	\$ 16,253	\$ -	\$ -	\$ 30,540,516	\$ 26,126,896		
LDP, CSP & CIV development	3,107,848	-	-	-	3,107,848	2,594,652		
Planned gifts	93,768	-	-	-	93,768	294,977		
General programs	153,697	-	-	-	153,697	177,565		
Investment income (note 2)	297,680	-	13,706	3,036	314,422	307,589		
Unrealized investment gains (losses)	59,210	12,870	5,859	(11,060)	66,879	7,438		
	34,236,466	29,123	19,565	(8,024)	34,277,130	29,509,117		
Expenditures:								
Ministry activities:								
Child support	26,077,020	-	-	-	26,077,020	21,936,677		
LDP, CSP & CIV development	2,601,375	-	-	-	2,601,375	2,481,272		
General programs	-	-	49,212	-	49,212	15,958		
	28,678,395	-	49,212	-	28,727,607	24,433,907		
Excess of revenue over expenses before support services	5,558,071	29,123	(29,647)	(8,024)	5,549,523	5,075,210		
Support services:								
Marketing	3,297,666	-	-	-	3,297,666	2,916,908		
General and administration	2,084,040	-	-	24,688	2,108,728	1,624,443		
	5,381,706	-	-	24,688	5,406,394	4,541,351		
Excess of revenues over expenses before other items	176,365	29,123	(29,647)	(32,712)	143,129	533,859		
Loss on disposal of capital assets	-	-	-	-	-	(5,634)		
Excess of revenues over expenses	176,365	29,123	(29,647)	(32,712)	143,129	528,225		
Fund balances, beginning of year	716,396	1,970,512	255,137	3,082,367	6,024,412	5,556,980		
Change in accounting policy	-	-	-	-	-	(60,793)		
Fund balances, end of year	\$ 892,761	\$ 1,999,635	\$ 225,490	\$ 3,049,655	\$ 6,167,541	\$ 6,024,412		

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

COMPASSION CANADA

Statement of Cash Flows

Year ended June 30, 2009, with comparative figures for 2008

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2009 Total	2008 Total
Cash provided by (used in):						
Operating activities:						
Excess of revenue over expenditures	\$ 176,365	\$ 29,123	\$ (29,647)	\$ (32,712)	\$ 143,129	\$ 528,225
Adjustments for:						
Amortization of property, building and equipment	-	-	-	274,354	274,354	188,337
Loss on disposal of property, building and equipment	-	-	-	-	-	5,634
Change in accounting policy	(1,333,432)	(610)	(5,623)	1,200,499	(139,166)	(60,793)
Net change in non-cash operating working capital (note 5)	(1,157,067)	28,513	(35,270)	1,442,141	278,317	3,137,547
Financing and investing activities:						
Purchase of property, building and equipment	-	-	-	(1,443,721)	(1,443,721)	(822,081)
Proceeds from disposal of property, building and equipment	-	-	-	1,580	1,580	1,645
Decrease (increase) in investments	(685,479)	(28,513)	29,792	-	(684,200)	(1,350,331)
	(685,479)	(28,513)	29,792	(1,442,141)	(2,126,341)	(2,170,767)
Net increase (decrease) in cash	(1,842,546)	-	(5,478)	-	(1,848,024)	966,780
Cash, beginning of year	3,726,386	-	7,357	-	3,733,743	2,766,963
Cash, end of year	\$ 1,883,840	\$ -	\$ 1,879	\$ -	\$ 1,885,719	\$ 3,733,743
Supplementary information						
Interest income received				\$	\$ 384,380	\$ 303,408

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

COMPASSION CANADA

Notes to Financial Statements

Year ended June 30, 2009

Compassion Canada (the "Organization") is an international Christian child and community development agency which responds to the physical and spiritual needs of children in the developing world and their communities by encouraging vision, providing resources and developing skills.

Compassion Canada is incorporated, without share capital, under the Canada Corporations Act as a not-for-profit organization. The Organization is a registered charity under the Income Tax Act and accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Restricted fund accounting:

The financial statements of the Organization are maintained in accordance with the restricted fund method of accounting. All financial statement transactions have been recorded in four funds: Operating, Restricted, Planned Giving and Capital.

(i) Operating Fund:

Operating Fund is composed of four main programs: Child Sponsorship (CDSP), Child Survival (CSP), Leadership Development (LDP) and Complementary Intervention (CIV). There are sub-programs within each of the main programs in order to maintain the integrity and control over the various distinct projects, and related revenues and expenses.

(ii) Restricted Fund:

Restricted Fund includes Living Sponsorship, Transformation, Child Survival (CSP) and Leadership Development (LDP). All restricted funds are invested in marketable securities.

Living Sponsorship primarily receives donor gifts, but has been augmented by directives from the Board of Directors. Investment income provides Child Sponsorship (CDSP) support to a child designated by the donor and for any subsequent children assigned to replace the original child.

Transformation receives donor gifts. Investment income is evenly divided between Child Sponsorship (CDSP) and Complementary Intervention (CIV).

Child Survival (CSP) could receive donor gifts, but all funds have been directives by the Board of Directors. Investment income earned provides support for CSP initiatives.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

1. Significant accounting policies (continued):

(a) Restricted fund accounting (continued):

(ii) Restricted Fund (continued):

Leadership Development (LDP) receives donor gifts, but funds have primarily been directed by the Board of Directors. Investment income earned provides LDP support.

(iii) Planned Giving Fund:

Planned Giving Fund includes Annuity and Managed.

Annuity is a closed fund containing twelve annuities totalling \$140,000. Charitable gift annuities provide the donor with tax reduced or tax-free income and may also provide a donation receipt for part of the gift. The charity receives any excess funds upon the death of the annuitant.

Managed is an irrevocable trust whereby interest earned by the investment is remitted to the trust-holder during his or her lifetime. The irrevocable trust of \$26,000 will cede to the Organization at the death of the trust-holder and cannot be withdrawn.

(iv) Capital Fund:

Capital Fund reports the assets, liabilities, revenues and expenses related to the Organization's property, building, vehicle and equipment.

(b) Revenue recognition:

Restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Unrestricted contributions are recognized as revenue of the Operating Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recognized as revenue as earned.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

1. Significant accounting policies (continued):

(c) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements.

(d) Financial instruments:

All transactions related to financial instruments are recorded on a settlement date basis.

The organization classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The organization's accounting policy for each category is as follows:

Held for trading

This category is comprised of cash, fixed income and equity investments. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held for trading are expensed as incurred.

Other financial liabilities

Other financial liabilities include accounts payable and accrued liabilities, and child support and gifts payable. The fair value is considered the same as the carrying value due to the short-term nature of the liability.

Fair values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

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Notes to Financial Statements (continued)

Year ended June 30, 2009

1. Significant accounting policies (continued):

(e) Property, building and equipment:

Purchased property, building and equipment are recorded at cost. Contributed property, building and equipment are recorded at fair value at the date of contribution. Amortization expense is reported in the Capital Fund net of an annual asset use fee charged to the Operating Fund. Amortization is provided on a straight-line basis over the estimated useful lives of capital assets. Amortization rates are as follows:

Asset	Rate
Building	Retire in 2043
Office and computer equipment	3 – 10 years
Vehicle	5 years

Effective July 1, 2008 the organization changed its amortization rates to more accurately reflect the asset lives.

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(g) New accounting pronouncements:

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the organization, are as follows:

Financial Statement Concepts

CICA Handbook Section 1000, Financial Statement Concepts has been amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Organization does not expect this section to have a material impact on the financial statements.

Cash Flow Statements

CICA Handbook Section 1540 was amended to include not-for-profit organizations within its scope. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The Organization does not expect this section to have a material impact on the financial statements.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

1. Significant accounting policies (continued):

(g) New accounting pronouncements (continued):

Financial Statement Presentation by Not for Profit Organizations

CICA Handbook Section 4400 has been amended for the treatment of net assets invested in capital assets and for the presentation of revenues and expenses. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009. The Organization does not expect this section to have a material impact on the financial statements.

Disclosure of Related Party Transactions by Not for Profit Organizations

CICA Handbook Section 4460 has been amended to make the language in Section 4460 consistent with Related Party Transactions, Section 3840. The changes are effective for interim and annual financial statements beginning on or after January 1, 2009. The Organization does not expect this section to have a material impact on the financial statements.

Disclosure of Allocated Expenses by Not for Profit Organizations

This new CICA Handbook Section 4470 establishes disclosure standards for not for profit organizations that choose to classify their expenses by function and allocate expenses from one function to another. The changes are effective for interim and annual financial statements beginning on or after January 1, 2009. The Organization does not expect this section to have a material impact on the financial statements.

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Notes to Financial Statements (continued)

Year ended June 30, 2009

2. Investments:

	2009		2008	
	Cost	Fair value	Cost	Fair value
<i>Held-for-trading</i>				
Government and Corporate Bonds	\$ 6,690,757	\$ 6,805,802	\$ 6,224,441	\$ 6,249,018
Guaranteed Investment Certificates	26,000	26,000	59,740	60,295
Money Market Funds	2,129	2,129	2,008	1,600
Canadian Equities	320,255	346,612	185,430	185,430
	\$ 7,039,141	\$ 7,180,543	\$ 6,471,619	\$ 6,496,343

The fair value of investments was determined by reference to published price quotations in an active market. Investment income includes interest, dividends and realized gains and losses.

Government and Corporate Bonds have an effective interest rate of 3.0% to 11.5% (2008 – 3.4% to 11.5%) and mature between 2009 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 1.55% to 3.45% (2008 – 3.775% to 4.4%) and mature between 2010 and 2014.

3. Property, building and equipment:

	2009		2008	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,421,588	\$ -	\$ 1,421,588	\$ 133,607
Building	2,248,324	303,652	1,944,672	1,999,634
Vehicle	4,635	2,318	2,317	3,708
Office and computer equipment	951,129	408,090	543,039	606,880
	\$ 4,625,676	\$ 714,060	\$ 3,911,616	\$ 2,743,829

Amortization charges for the year are \$274,354 (2008 - \$188,337). The asset use fees, net of other general capital expenses, for the year are \$249,666 (2008 - \$258,000).

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

4. Deferred contributions:

Deferred contributions related to expenses of future periods represent unspent donor restricted donations for child support and complementary intervention programs.

Support received from child, meals, medical and sponsorship plus sponsors in excess of the current month's support is deferred until subsequent periods when the funds are used for the specific program.

Donations received for complementary intervention programs are deferred until the related expense is incurred in future periods.

	2009	2008
Deferred child support	\$ 1,494,445	\$ 1,316,386
Complementary intervention deferred contributions	856,000	1,606,736
Long-term donor funding	1,305,127	1,238,338
	\$ 3,655,572	\$ 4,161,460

5. Net Change in Non-Cash Operating Working Capital

	2009	2008
Prepaid expenses and taxes recoverable	\$ (61,474)	\$ (74,910)
Accrued interest income	-	63,373
Accounts payable and accrued liabilities	40,200	52,639
Child support and gifts payable	387,996	541,904
Deferred contributions	(505,888)	1,893,138
	\$ (139,166)	\$ 2,476,144

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

6. International Ministry Agreements:

The Organization conducts its childcare ministry overseas under an International Ministry Agreement with Compassion International of Colorado Springs, Colorado.

During the year, the Organization participated in the following transactions with Compassion International: Computer service costs were incurred totalling \$234,694 (2008 - \$173,213). These transactions are measured at the exchange values agreed upon with Compassion International.

The Community Development portion of the Complementary Intervention program is not covered by this agreement. Separate agreements are entered into with Christian NGO's for each community development or relief project. Currently, Compassion Canada has development projects in East Africa and Middle America.

7. Contributions from government agencies:

Cash contributions received from government agencies are as follows:

	2009	2008
Canadian International Development Agency	\$ 290,525	\$ 213,654

These amounts have been included in Complementary Intervention revenue in accordance with the Organization's revenue recognition policy described in note 1(b).

8. Group Pension Plan:

In 2007 the Organization replaced a Group RSP with a defined contribution registered pension plan (RPP). Employer contributions during the year were \$149,038 (2008 - \$103,118) for current, and \$21,059 (2008 - \$22,888) for past service contributions. In addition, \$119,246 (2008 - \$144,476) of past service contributions will be paid out over the next 3 - 8 years based on continued employment of eligible staff.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2009

9. Change in Accounting Policy:

On July 1, 2008, the organization retroactively adopted, without restatement of prior periods, CICA Handbook Section 1400, "General Standards on Financial Statement Presentation", and Section 1535, "Capital Disclosures".

Section 1400, "General Standards on Financial Statement Presentation", requires management to make an assessment of an entity's ability to continue as a going concern and in making its assessment, management must take into account all available information about the future, which is at least but is not limited to, twelve months from the balance sheet date. Management may also consider a history of revenues received in excess of costs as well as ready access to financing and other potential funding arrangements. Financial statements must be prepared on a going concern basis unless management intends either to liquidate the entity, to cease trading or cease operations, or has no realistic alternative but to do so. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. When financial statements are not prepared on a going concern basis, that fact must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

Section 1535, "Capital Disclosures", requires disclosure of an entity's objectives, policies and processes for managing capital, information about what the entity regards as capital, whether the organization has complied with any external capital requirements, and the consequences of not complying with these capital requirements.

These changes have not impacted the financial statements other than additional financial statement disclosures.

10. Capital Disclosures:

The Organization's objective when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to respond to the physical and spiritual needs of children in the developing world and their communities by encouraging vision, providing resources and developing skills. As the Organization is a not-for-profit organization this objective is dependant on the support of individual donors throughout Canada.

The Organization defines its capital as its Fund balances. The Organization manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of its capital requirements, the Organization prepares annual revenue and expenditure budgets which are based on established and projected funding needs for the year. These budgets are updated as necessary depending on changes in circumstances and are approved by the Board of Directors.

There have been no changes in what the Organization defines as capital, or the objectives, policies and procedures for managing capital in the year.