




Financial Statements of

COMPASSION CANADA

Year ended June 30, 2011



Independent Auditor's Report

To the Members of COMPASSION CANADA

We have audited the accompanying financial statements of COMPASSION CANADA, which comprise the statement of financial position as at June 30, 2011, and the statements of operations and changes in fund balances and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of COMPASSION CANADA as at June 30, 2011 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

London, Ontario

COMPASSION CANADA

Statement of Financial Position

As at June 30, 2011 with comparative figures for 2010

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2011 Total	2010 Total
Assets						
Current assets:						
Cash	\$ 2,782,294	\$ -	\$ 2,171	\$ -	\$ 2,784,465	\$ 3,818,332
Investments (note 2)	5,596,574	1,627,369	180,538	764,777	8,169,258	7,653,542
Prepaid expenses and taxes recoverable	490,332	-	-	-	490,332	257,863
Interfund balances	(59,802)	-	-	59,802	-	-
	8,809,398	1,627,369	182,709	824,579	11,444,055	11,729,737
Property, building and equipment (note 3)	-	-	-	3,709,503	3,709,503	3,782,933
	\$ 8,809,398	\$ 1,627,369	\$ 182,709	\$ 4,534,082	\$ 15,153,558	\$ 15,512,670
Liabilities and Fund Balances						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 460,511	\$ -	\$ 2,382	\$ -	\$ 462,893	\$ 1,942,331
Child support and gifts payable	3,934,894	-	-	-	3,934,894	3,378,827
	4,395,405	-	2,382	-	4,397,787	5,321,158
Deferred contributions (note 4)	3,199,024	-	-	-	3,199,024	3,142,279
	7,594,429	-	2,382	-	7,596,811	8,463,437
Fund balances:						
Equity in property, building and equipment	-	-	-	4,534,082	4,534,082	4,428,056
Externally restricted	-	374,311	111,000	-	485,311	637,525
Internally restricted	-	1,253,058	69,327	-	1,322,385	1,628,652
Funds for future ministries	1,214,969	-	-	-	1,214,969	355,000
	1,214,969	1,627,369	180,327	4,534,082	7,556,747	7,049,233
	\$ 8,809,398	\$ 1,627,369	\$ 182,709	\$ 4,534,082	\$ 15,153,558	\$ 15,512,670

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, 2011, with comparative figures for 2010

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2011 Total	2010 Total
Revenues:						
Child sponsorships	\$ 42,150,191	\$ (13,740)	\$ -	\$ -	\$ 42,136,451	\$ 33,889,907
LDP, CSP & CIV support	3,642,053	-	-	-	3,642,053	6,119,306
Planned gifts	200,679	-	-	-	200,679	176,784
General programs	186,186	-	-	-	186,186	158,354
Investment income (note 2)	231,022	-	11,598	23,493	266,113	222,666
Unrealized investment gains	60,421	34,702	(2,626)	10,420	102,917	165,655
	<u>46,470,552</u>	<u>20,962</u>	<u>8,972</u>	<u>33,913</u>	<u>46,534,399</u>	<u>40,732,672</u>
Expenditures:						
Ministry activities:						
Child development program	36,375,909	-	-	-	36,375,909	28,775,431
LDP, CSP & CIV programs	3,210,739	-	-	-	3,210,739	5,424,911
General programs	-	-	41,214	-	41,214	27,295
	<u>39,586,648</u>	<u>-</u>	<u>41,214</u>	<u>-</u>	<u>39,627,862</u>	<u>34,227,637</u>
Excess of revenue over expenses before support services	6,883,904	20,962	(32,242)	33,913	6,906,537	6,505,035
Support services:						
Fundraising	3,926,724	-	-	-	3,926,724	3,365,357
General and administration	2,544,412	-	-	(72,113)	2,472,299	2,257,986
	<u>6,471,136</u>	<u>-</u>	<u>-</u>	<u>(72,113)</u>	<u>6,399,023</u>	<u>5,623,343</u>
Excess of revenues over expenses	412,768	20,962	(32,242)	106,026	507,514	881,692
Fund balances, beginning of year	355,000	2,053,608	212,569	4,428,056	7,049,233	6,167,541
Interfund transfers	447,201	(447,201)	-	-	-	-
Fund balances, end of year	\$ 1,214,969	\$ 1,627,369	\$ 180,327	\$ 4,534,082	\$ 7,556,747	\$ 7,049,233

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, 2011, with comparative figures for 2010

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2011 Total	2010 Total
Cash provided by (used in):						
Operating activities:						
Excess of revenue over expenditures	\$ 412,768	\$ 20,962	\$ (32,242)	\$ 106,026	\$ 507,514	\$ 881,692
Adjustments for:						
Transfers among funds	447,201	(447,201)	-	-	-	-
Amortization of property, building and equipment	-	-	-	221,713	221,713	256,373
Net change in non-cash operating working capital (Note 5)	(1,539,449)	-	2,844	437,510	(1,099,095)	1,395,237
	(679,480)	(426,239)	(29,398)	765,249	(369,868)	2,533,302
Financing and investing activities:						
Purchase of property, building and equipment	-	-	-	(149,766)	(149,766)	(162,249)
Proceeds from disposal of property, building and equipment	-	-	-	1,483	1,483	34,559
Decrease (increase) in investments	(355,161)	426,239	30,172	(616,966)	(515,716)	(472,999)
	(355,161)	426,239	30,172	(765,249)	(663,999)	(600,689)
Net increase (decrease) in cash	(1,034,641)	-	774	-	(1,033,867)	1,932,613
Cash, beginning of year	3,816,935	-	1,397	-	3,818,332	1,885,719
Cash, end of year	\$ 2,782,294	\$ -	\$ 2,171	\$ -	\$ 2,784,465	\$ 3,818,332
Supplementary information						
Interest income received				\$	296,684	\$ 282,976
Dividend income received				\$	17,516	\$ 13,521

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, 2011

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 Development through Sponsorship (CDSP), Child Survival (CSP), Leadership Development (LDP) and Complementary Intervention (CIV).

(ii) Restricted Funds:

Restricted Funds include 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, 2011

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 nine annuities totalling \$85,000. 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, 2011

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.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2011

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

(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) Allocation of expenses:

The costs of the Organization's property, building, vehicle and equipment are reported in the Capital Fund which in turn charges the operating fund an asset use fee for the use of those assets. The asset use fee charged has been disclosed in Note 3 to the financial statements.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2011

2. Investments:

	2011		2010	
	Cost	Fair value	Cost	Fair value
<i>Held-for-trading</i>				
Government and Corporate Bonds	\$ 6,272,772	\$ 6,411,034	\$ 5,754,125	\$ 6,000,685
Guaranteed Investment Certificates	999,191	1,019,243	999,191	1,019,243
Canadian Equities	705,123	738,981	654,861	633,614
	<u>\$ 7,977,086</u>	<u>\$ 8,169,258</u>	<u>\$ 7,408,177</u>	<u>\$ 7,653,542</u>

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 2.72% to 11.5% (2010 – 2.0% to 11.5%) and mature between 2011 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 1.90% to 3.45% (2010 – 1.90% to 3.45%) and mature between 2011 and 2014.

3. Property, building and equipment:

	2011		2010	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,421,588	\$ -	\$ 1,421,588	\$ 1,421,588
Building	2,278,136	420,885	1,857,251	1,908,636
Vehicle	13,001	1,300	11,701	1,390
Office and computer equipment	994,273	575,310	418,963	451,319
	<u>\$ 4,706,998</u>	<u>\$ 997,495</u>	<u>\$ 3,709,503</u>	<u>\$ 3,782,933</u>

Amortization charges for the year are \$221,713 (2010 - \$256,373). The asset use fees, net of other general capital expenses, for the year are \$293,826 (2010 - \$257,868).

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2011

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.

	2011	2010
Deferred child support	\$ 1,862,801	\$ 1,681,490
Complementary intervention deferred contributions	304,064	203,344
Long-term donor funding	1,032,159	1,257,445
	<u>\$ 3,199,024</u>	<u>\$ 3,142,279</u>

5. Net Change in Non-Cash Operating Working Capital

	2011	2010
Prepaid expenses and taxes recoverable	\$ (232,469)	\$ 33,176
Accounts payable and accrued liabilities	(1,479,438)	1,455,249
Child support and gifts payable	556,067	420,105
Deferred contributions	56,745	(513,293)
	<u>\$ (1,099,095)</u>	<u>\$ 1,395,237</u>

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 \$159,143 (2010 - \$186,423). 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.

COMPASSION CANADA

Notes to Financial Statements (continued)

Year ended June 30, 2011

7. Contributions from government agencies:

Cash contributions received from government agencies are as follows:

	2011	2010
Canadian International Development Agency	\$ 27,035	\$ 82,440

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 \$188,446 (2010 - \$171,568) for current, and \$20,616 (2010 - \$21,231) for past service contributions. In addition, \$64,765 (2010 - \$94,791) of past service contributions will be paid out over the next 1 - 6 years based on continued employment of eligible staff.

9. 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 dependent 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.