Financial Statements of

COMPASSION CANADA

Year ended June 30, 2014

BDO

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Independent Auditor's Report

To the Members of COMPASSION CANADA

We have audited the accompanying financial statements of COMPASSION CANADA which comprise the statements of financial position as at June 30, 2014, and the statements of operations, 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 accounting standards for not-for-profit organizations, 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, 2014 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

London, Ontario
October 31, 2014

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COMPASSION CANADA
Statement of Financial Position

As at June 30, 2014, with comparative figures for June 30, 2013

		Operating Fund		Capital Fund		Restricted Funds		2014 Total		2013 Total
Assets										
Current assets:										
Cash	$	2,977,025	$	-	$	72,683	$	3,049,708	$	2,272,439
Investments (note 2)		6,303,796		2,694,473		90,708		9,088,977		8,751,918
Prepaid expenses and taxes recoverable		625,712		-		-		625,712		611,129
Interfund balances		(492,977)		(11,301)		504,278		-		-
		9,413,556		2,683,172		667,669		12,764,397		11,635,486
Property, building and equipment (note 3)		-		4,025,117		-		4,025,117		3,928,902
	$	9,413,556	$	6,708,289	$	667,669	$	16,789,514	$	15,564,388
Liabilities and Fund Balances										
Current liabilities:										
Accounts payable and accrued liabilities	$	867,431	$	-	$	2,098	$	869,529	$	909,001
Child support and gifts payable		5,428,468		-		-		5,428,468		5,280,222
		6,295,899		-		2,098		6,297,997		6,189,223
Deferred contributions (note 4)		2,801,145		-		-		2,801,145		2,991,001
		9,097,044		-		2,098		9,099,142		9,180,224
Fund balances:										
Equity in property, building & equipment, internally restricted		-		4,821,289		-		4,821,289		5,248,678
Externally restricted		-		1,850,000		101,000		1,951,000		101,000
Internally restricted		-		37,000		564,571		601,571		730,198
Funds for future ministries		316,512		-		-		316,512		304,288
		316,512		6,708,289		665,571		7,690,372		6,384,164
	$	9,413,556	$	6,708,289	$	667,669	$	16,789,514	$	15,564,388

The accompanying notes are an integral part of these financial statements.

On behalf of the Board

Gerald Mills, Director

_______________, Director

COMPASSION CANADA

Statement of Operations and Changes in Fund Balances

For the year ended June 30, 2014, with comparative figures for 2013

	Operating Fund	Capital Fund	Restricted Funds	2014 Total	2013 Total
Revenues:					
Child sponsorships	$ 52,054,211	$ -	$ -	$ 52,054,211	$ 48,924,837
LDP, CSP & CIV support	7,808,163	-	-	7,808,163	5,635,523
General programs	29,122	1,350,000	-	1,379,122	508,036
Investment income (note 2)	263,752	62,677	6,042	332,471	316,697
	60,155,248	1,412,677	6,042	61,573,967	55,385,093
Expenditures:					
Ministry activities:					
Child development program	45,044,725	-	-	45,044,725	42,413,625
LDP, CSP & CIV programs	6,573,187	-	-	6,573,187	4,699,289
General programs	-	-	4,615	4,615	4,615
	51,617,912	-	4,615	51,622,527	47,117,529
Excess of revenue over expenses before support services	8,537,336	1,412,677	1,427	9,951,440	8,267,564
Support services:					
Fundraising	5,534,316	-	-	5,534,316	6,008,783
General and administration	3,157,850	(46,934)	-	3,110,916	2,928,063
	8,692,166	(46,934)	-	8,645,232	8,936,846
Excess (deficiency) of revenues over expenses	$ (154,830)	$ 1,459,611	$ 1,427	$ 1,306,208	$ (669,282)
Fund balances, beginning of year	304,288	5,248,678	831,198	6,384,164	7,053,446
Interfund transfers	167,054	-	(167,054)	-	-
Fund balances, end of year	$ 316,512	$ 6,708,289	$ 665,571	$ 7,690,372	6,384,164

The accompanying notes are an integral part of these financial statements.

COMPASSION CANADA

Statement of Cash Flows

For the year ended June 30, 2014, with comparative figures for 2013

	Operating Fund	Capital Fund	Restricted Funds	2014 Total	2013 Total
Cash provided by (used in):					
Operating activities:					
Excess of revenue over expenditures	$ (154,830)	$ 1,459,611	$ 1,427	$ 1,306,208	$ (669,282)
Adjustments for:					
Transfers among funds	167,054		(167,054)	-	-
Amortization of property, building and equipment	-	313,066	-	313,066	259,628
Net change in non-cash operating working capital (Note 5)	(85,511)	492,714	(502,868)	(95,665)	454,539
	(73,287)	2,265,391	(668,495)	1,523,609	44,885
Financing and investing activities:					
Purchase of property, building and equipment	-	(409,281)	-	(409,281)	(196,698)
Decrease (increase) in investments	804,273	(1,856,110)	714,778	(337,059)	(229,579)
	804,273	(2,265,391)	714,778	(746,340)	(426,277)
Net increase (decrease) in cash	730,986	-	46,283	777,269	(381,392)
Cash, beginning of year	2,246,039	-	26,400	2,272,439	2,653,831
Cash, end of year	$ 2,977,025	$ -	$ 72,683	$ 3,049,708	$ 2,272,439

The accompanying notes are an integral part of these financial statements.

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 Not-for-profit Corporations Act. 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 accounting standards for not-for-profit organizations.

(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 three funds: Operating, Capital and Restricted.

(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) Capital Fund:

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

(iii) Restricted Funds:

Restricted Funds include Living Sponsorship, Child Survival (CSP), Leadership Development (LDP), Annuity and Managed. All restricted funds are invested in marketable securities. The organization no longer receives donations to these restricted funds and the Board of Directors is directing the systematic release of these funds to support Operating fund expenditures.

Living Sponsorship had received donor gifts, but a significant amount of the remaining funds have been directed by the Board of Directors. The funds, and investment income earned on them, provide support for Child Development through Sponsorship initiatives.

1. Significant accounting policies (continued):

(a) Restricted fund accounting (continued):

(iii) Restricted Funds (continued):

Child Survival (CSP) could have received donor gifts, but all funds have been directed by the Board of Directors. The funds, and investment income earned on them, provide support for CSP initiatives.

Leadership Development (LDP) had received donor gifts, but all remaining funds have been directed by the Board of Directors. The funds, and investment income earned on them, provide support for LDP initiatives.

Annuity is a closed fund containing seven annuities totalling $75,000. 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.

(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.

Investment income is recognized as revenue as earned.

(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.

1. Significant accounting policies (continued):

(d) Financial instruments:

(i) Measurement

All financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument.

(ii) Financial Risk

Interest Rate Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income denominated investments.

Credit Risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization has a concentration of credit risk related to all cash being held by one financial institution.

Liquidity Risk is the risk that the Organization encounters difficulty in meeting its obligations associated with financial liabilities.

It is management's opinion that the Organization is not exposed to significant interest, credit or liquidity risks arising from their financial instruments.

(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
Building equipment & improvements	10 years
Office and computer equipment	3 – 10 years
Vehicle	5 years

1. Significant accounting policies (continued):

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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.

2. Investments:

		2014		2013
	Cost	Fair value	Cost	Fair value
Government and Corporate Bonds	$ 7,506,417	$ 7,844,967	$ 7,741,905	$ 7,923,563
Guaranteed Investment Certificate	984,010	984,010	1,010,013	1,009,874
Mutual Funds	598,550	597,966	-	-
	$ 9,088,977	$ 9,426,943	$ 8,751,918	$ 8,933,437

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 2.42% to 8.64% (2013 – 1.43% to 8.64%) and mature between 2015 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 2.35% to 3.25% (2013 – 2.35% to 3.45%) and mature between 2014 and 2016.

Mutual Funds have an effective interest rate of 1.25% with no fixed maturity date.

3. Property, building and equipment:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,433,934	$ -	$ 1,433,934	$ 1,433,934
Building	2,625,348	646,192	1,979,156	2,016,215
Vehicle	13,002	9,101	3,901	6,502
Office and computer equipment	1,272,097	663,971	608,126	472,251
	$ 5,344,381	$ 1,319,264	$ 4,025,117	$ 3,928,902

Amortization charges for the year are $313,066 (2013 - $259,628). The asset use fees, net of other general capital expenses, for the year are $360,000 (2013 - $359,999).

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.

	2014	2013
Deferred child support	$ 2,695,699	$ 2,724,278
Complementary intervention deferred contributions	105,446	179,723
Long-term donor funding	-	87,000
	$ 2,801,145	$ 2,991,001

5. Net Change in Non-Cash Operating Working Capital

	2014	2013
Prepaid expenses and taxes recoverable	$ (14,583)	$ 68,402
Accounts payable and accrued liabilities	(49,993)	147
Child support and gifts payable	158,767	373,200
Deferred contributions	(189,856)	12,790
	$ (95,665)	$ 454,539

6. International Ministry Agreements:

The Organization conducts its childcare ministry overseas under a Master Agency 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 $120,775 (2013 - $221,573). 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. 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 $318,254 (2013 - $278,428) for current, and $9,047 (2013 - $9,116) for past service contributions. In addition, $26,257 (2013 - $35,580) of past service contributions will be paid out over the next 3 years based on continued employment of eligible staff.

8. 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.