Financial Statements of

COMPASSION CANADA

Year ended June 30, 2015

BDO

Tel: 519 672 8940
Fax: 519 672 5562
www.bdo.ca

BDO Canada LLP
252 Pall Mall Street, Suite 201
London ON N6A 5P6 Canada

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, 2015, 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 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, 2015 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 Professional Accountants, Licensed Public Accountants

London, Ontario
September 14, 2015

COMPASSION CANADA
Statement of Financial Position

As at June 30, 2015, with comparative figures for June 30, 2014

	Operating Fund	Capital Fund	Planned Giving Funds	2015 Total	2014 Total
Assets					
Current assets:					
Cash	$ 2,887,202	$ -	$ 5,331	$ 2,892,533	$ 3,049,708
Investments (note 2)	6,185,560	2,339,909	133,914	8,659,383	9,088,977
Prepaid expenses and taxes recoverable	493,467	-	-	493,467	625,712
Interfund balances	(525,108)	525,108	-	-	-
	9,041,121	2,865,017	139,245	12,045,383	12,764,397
Property, building and equipment (note 3)	-	4,471,053	-	4,471,053	4,025,117
	$ 9,041,121	$ 7,336,070	$ 139,245	$ 16,516,436	$ 16,789,514
Liabilities and Fund Balances					
Current liabilities:					
Accounts payable and accrued liabilities	$ 686,160	$ -	$ 2,098	$ 688,258	$ 869,529
Child support and gifts payable	4,449,175	-	-	4,449,175	5,428,468
	5,135,335	-	2,098	5,137,433	6,297,997
Deferred contributions (note 4)	2,692,942	-	-	2,692,942	2,801,145
	7,828,277	-	2,098	7,830,375	9,099,142
Fund balances:					
Equity in property, building & equipment, internally restricted	-	4,890,992	-	4,890,992	4,821,289
Externally restricted	-	1,850,000	75,000	1,925,000	1,951,000
Internally restricted	244,133	595,078	62,147	901,358	601,571
Accumulated operating surplus	968,711	-	-	968,711	316,512
	1,212,844	7,336,070	137,147	8,686,061	7,690,372
	$ 9,041,121	$ 7,336,070	$ 139,245	$ 16,516,436	$ 16,789,514

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, 2015, with comparative figures for 2014

	Operating Fund	Capital Fund	Planned Giving Funds	2015 Total	2014 Total
Revenue:					
Child development program	$ 54,826,104	$ -	$ -	$ 54,826,104	$ 52,054,211
Complementary interventions	4,582,366	-	-	4,582,366	5,185,540
Child survival program	2,021,849	-	-	2,021,849	1,457,016
Leadership development program	1,013,799	-	-	1,013,799	1,165,607
Investment income (note 2)	237,307	95,634	1,854	334,795	327,856
Other revenue	12,305	-	-	12,305	1,379,122
	62,693,730	95,634	1,854	62,791,218	61,569,352
Expenditures:					
Ministry activities:					
Child development program	46,375,578	-	-	46,375,578	45,044,725
Complementary interventions	3,724,217	-	-	3,724,217	4,303,870
Child survival program	1,740,785	-	-	1,740,785	1,221,233
Leadership development program	992,257	-	-	992,257	1,048,084
	52,832,837	-	-	52,832,837	51,617,912
Support services:					
Fundraising	5,372,889	-	-	5,372,889	5,534,316
Administration	3,629,872	(40,069)	-	3,589,803	3,110,916
	9,002,761	(40,069)	-	8,962,692	8,645,232
	61,835,598	(40,069)	-	61,795,529	60,263,144
Excess of revenue over expenditures	$ 858,132	$ 135,703	$ 1,854	$ 995,689	$ 1,306,208
Fund balances, beginning of year	316,512	6,708,289	665,571	7,690,372	6,384,164
Interfund transfers	38,200	492,078	(530,278)	-	-
Fund balances, end of year	$ 1,212,844	$ 7,336,070	$ 137,147	$ 8,686,061	$ 7,690,372

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

COMPASSION CANADA

Statement of Cash Flows

For the year ended June 30, 2015, with comparative figures for 2014

	Operating Fund	Capital Fund	Planned Giving Funds	2015 Total	2014 Total
Cash provided by (used in):					
Operating activities:					
Excess of revenue over expenditures	$ 858,132	$ 135,703	$ 1,854	$ 995,689	$ 1,306,208
Adjustments for:					
Transfers among funds	38,200	492,078	(530,278)	-	-
Amortization of property, building and equipment	-	319,931	-	319,931	313,066
Net change in non-cash operating working capital (Note 5)	(1,104,391)	(536,409)	504,278	(1,136,522)	(95,665)
	(208,059)	411,303	(24,146)	179,098	1,523,609
Investing activities:					
Purchase of property, building and equipment	-	(765,867)	-	(765,867)	(409,281)
Decrease (increase) in investments	118,236	354,564	(43,206)	429,594	(337,059)
	118,236	(411,303)	(43,206)	(336,273)	(746,340)
Net increase (decrease) in cash	(89,823)	-	(67,352)	(157,175)	777,269
Cash, beginning of year	2,977,025	-	72,683	3,049,708	2,272,439
Cash, end of year	$ 2,887,202	$ -	$ 5,331	$ 2,892,533	$ 3,049,708

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* (Canada) and, accordingly, is exempt from income taxes, provided certain requirements of the *Income Tax Act* (Canada) 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 Planned Giving.

(i) Operating Fund:

Operating Fund is composed of four main programs: Child Development through Sponsorship, Complementary Interventions, Child Survival and Leadership Development.

(ii) Capital Fund:

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

(iii) Planned Giving:

The Planned Giving Fund consists of the Annuity Fund, which is closed and contains seven annuities totalling $75,000. The organization receives any excess funds remaining upon the death of the annuitant.

Former funds of a Planned Giving nature included Living Sponsorship, Child Survival Program and Leadership Development Program. The organization no longer receives donations to these restricted funds and the Board of Directors has released these funds to support Operating fund expenditures, with the final releases occurring in the current fiscal year.

1. Significant accounting policies (continued):

(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. Contributions toward capital assets are recognized as revenue to the Capital 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.

(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.

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

(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 expenditures:

Expenditures are recorded and reported by program and support services. Certain officers and employees perform a combination of program, fundraising and administrative activities; as a result, compensation expenditures are allocated based on time dedicated to the activity. Other operating and general expenditures, including professional and consulting fees, human resource support, technology support, occupancy expenditures and asset use fees, have been allocated based on the level of benefit received by each program and support service.

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:

	2015		2014	
	Cost	Fair value	Cost	Fair value
Government and Corporate Bonds	$ 7,609,545	$ 8,095,277	$ 7,506,417	$ 7,844,967
Guaranteed Investment Certificate	852,637	852,637	984,010	984,010
Mutual Funds	197,201	197,201	598,550	597,966
	$ 8,659,383	$ 9,145,115	$ 9,088,977	$ 9,426,943

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 2.38% to 8.64% (2014 – 2.42% to 8.64%) and mature between 2015 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 2.35% to 2.60% (2014 – 2.35% to 3.25%) and mature between 2016 and 2019.

Mutual Funds have an effective interest rate of 1% (2014 – 1.25%) with no fixed maturity date.

3. Property, building and equipment:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,433,934	$ -	$ 1,433,934	$ 1,433,934
Building	2,744,820	732,183	2,012,637	1,979,156
Vehicle	13,002	11,700	1,302	3,901
Office and computer equipment, software	1,772,301	749,121	1,023,180	608,126
	$ 5,964,057	$ 1,493,004	$ 4,471,053	$ 4,025,117

Amortization charges for the year are $319,931 (2014 - $313,066). Included in Office and computer equipment, software are costs of $519,063 for software under development that is not being amortized. The asset use fees, net of other general capital expenses, for the year are $360,000 (2014 - $360,000).

4. Deferred contributions:

Deferred contributions related to expenses of future periods represent unspent donor restricted donations for the Child Development program and Complementary Interventions.

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

Contributions received for Complementary Interventions are deferred until the related expense is incurred in future periods.

	2015	2014
Child and sponsorship plus deferred contributions	$ 2,692,942	$ 2,695,699
Complementary Interventions deferred contributions	-	105,446
	$ 2,692,942	$ 2,801,145

5. Net Change in Non-Cash Operating Working Capital

	2015	2014
Prepaid expenses and taxes recoverable	$ 132,245	$ (14,583)
Accounts payable and accrued liabilities	(181,271)	(49,993)
Child support and gifts payable	(979,293)	158,767
Deferred contributions	(108,203)	(189,856)
	$ (1,136,522)	$ (95,665)

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 $173,932 (2014 - $120,775). These transactions are measured at the exchange values agreed upon with Compassion International.

The Community Development portion of the Response 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.

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 $320,198 (2014 - $318,254) for current, and $8,752 (2014 - $9,047) for past service contributions. In addition, $17,505 (2014 - $26,257) of past service contributions will be paid out over the next 2 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.