

Financial Statements of



Year ended June 30, 2016

Financial Statements of

**COMPASSION  
CANADA**

Year ended June 30, 2016

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## INDEPENDENT AUDITORS' 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, 2016, 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.

### Auditors' 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 auditors' 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 auditors consider 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, the financial statements present fairly, in all material respects, the financial position of **Compassion Canada** as at June 30, 2016, and results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Exeter, Ontario  
September 9, 2016

*PTMG LLP*

Chartered Professional Accountants  
Licensed Public Accountants

# COMPASSION CANADA


## Statement of Financial Position


As at June 30, 2016, with comparative figures for June 30, 2015

	Operating Fund	Capital Fund	Planned Giving Funds	2016 Total	2015 Total
<b>Assets</b>					
Current assets:					
Cash	\$ 2,600,075	\$ -	\$ 6,318	\$ 2,606,393	\$ 2,892,533
Investments (note 2)	6,181,469	2,395,773	139,123	8,716,365	8,659,383
Prepaid expenses and taxes recoverable	587,705	-	-	587,705	493,467
Interfund balances	(433,607)	443,308	(9,701)	-	-
	8,935,642	2,839,081	135,740	11,910,463	12,045,383
Property, building and equipment (note 3)	-	5,210,973	-	5,210,973	4,471,053
	\$ 8,935,642	\$ 8,050,054	\$ 135,740	\$ 17,121,436	\$ 16,516,436
<b>Liabilities and Fund Balances</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 726,352	\$ -	\$ 1,963	\$ 728,315	\$ 688,258
Child support and gifts payable	4,385,349	-	-	4,385,349	4,449,175
	5,111,701	-	1,963	5,113,664	5,137,433
Deferred contributions (note 4)	2,171,795	-	-	2,171,795	2,692,942
	7,283,496	-	1,963	7,285,459	7,830,375
Fund balances:					
Equity in property, building & equipment	-	4,960,182	-	4,960,182	4,890,992
Externally restricted	-	1,900,000	70,000	1,970,000	1,925,000
Internally restricted	208,119	1,189,872	63,777	1,461,768	901,358
Accumulated operating surplus	1,444,027	-	-	1,444,027	968,711
	1,652,146	8,050,054	133,777	9,835,977	8,686,061
	\$ 8,935,642	\$ 8,050,054	\$ 135,740	\$ 17,121,436	\$ 16,516,436

The accompanying 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

For the year ended June 30, 2016, with comparative figures for 2015

	Operating Fund	Capital Fund	Planned Giving Funds	2016 Total	2015 Total
<b>Revenue:</b>					
Child development program	\$ 56,955,406	\$ -	\$ -	\$ 56,955,406	\$ 54,826,104
Complementary interventions	5,037,056	-	-	5,037,056	4,582,366
Child survival program	1,580,588	-	-	1,580,588	2,021,849
Leadership development program	651,139	-	-	651,139	1,013,799
Investment income (note 2)	233,181	89,005	1,630	323,816	334,795
Other revenue	16,748	50,000	-	66,748	12,305
	<u>64,474,118</u>	<u>139,005</u>	<u>1,630</u>	<u>64,614,753</u>	<u>62,791,218</u>
<b>Expenditures:</b>					
<b>Ministry activities:</b>					
Child development program	48,296,643	-	-	48,296,643	46,375,578
Complementary interventions	3,853,800	-	-	3,853,800	3,724,217
Child survival program	1,270,340	-	-	1,270,340	1,740,785
Leadership development program	742,065	-	-	742,065	992,257
	<u>54,162,848</u>	<u>-</u>	<u>-</u>	<u>54,162,848</u>	<u>52,832,837</u>
<b>Support services:</b>					
Fundraising	5,584,822	-	-	5,584,822	5,372,889
Administration	3,781,742	(64,575)	-	3,717,167	3,589,803
	<u>9,366,564</u>	<u>(64,575)</u>	<u>-</u>	<u>9,301,989</u>	<u>8,962,692</u>
	<u>63,529,412</u>	<u>(64,575)</u>	<u>-</u>	<u>63,464,837</u>	<u>61,795,529</u>
<b>Excess of revenue over expenditures</b>	<b>\$ 944,706</b>	<b>\$ 203,580</b>	<b>\$ 1,630</b>	<b>\$ 1,149,916</b>	<b>\$ 995,689</b>
Fund balances, beginning of year	1,212,844	7,336,070	137,147	8,686,061	7,690,372
Interfund transfers	(505,404)	510,404	(5,000)	-	-
<b>Fund balances, end of year</b>	<b>\$ 1,652,146</b>	<b>\$ 8,050,054</b>	<b>\$ 133,777</b>	<b>\$ 9,835,977</b>	<b>\$ 8,686,061</b>

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

# COMPASSION CANADA

## Statement of Cash Flows

For the year ended June 30, 2016, with comparative figures for 2015

	Operating Fund	Capital Fund	Planned Giving Funds	2016 Total	2015 Total
Cash provided by (used in):					
Operating activities:					
Excess of revenue over expenditures	\$ 944,706	\$ 203,580	\$ 1,630	\$ 1,149,916	\$ 995,689
Adjustments for:					
Transfers among funds	(505,404)	510,404	(5,000)	-	-
Amortization of property, building and equipment	-	295,425	-	295,425	319,931
Net change in non-cash operating working capital (Note 5)	(730,520)	81,800	9,566	(639,154)	(1,136,522)
	(291,218)	1,091,209	6,196	806,187	179,098
Investing activities:					
Purchase of property, building and equipment	-	(1,035,345)	-	(1,035,345)	(765,867)
Decrease (increase) in investments	4,091	(55,864)	(5,209)	(56,982)	429,594
	4,091	(1,091,209)	(5,209)	(1,092,327)	(336,273)
Net increase (decrease) in cash	(287,127)	-	987	(286,140)	(157,175)
Cash, beginning of year	2,887,202	-	5,331	2,892,533	3,049,708
Cash, end of year	\$ 2,600,075	\$ -	\$ 6,318	\$ 2,606,393	\$ 2,892,533

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

# COMPASSION CANADA

## Notes to Financial Statements

Year ended June 30, 2016

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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 \$70,000. The organization receives any excess funds remaining upon the death of the annuitant.

#### (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.

# COMPASSION CANADA

## Notes to Financial Statements

Year ended June 30, 2016

### 1. Significant accounting policies (continued):

(d) Financial instruments (continued):

(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, 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.



# COMPASSION CANADA

## Notes to Financial Statements

Year ended June 30, 2016

### 2. Investments:

	2016		2015	
	Cost	Fair value	Cost	Fair value
Government and Corporate Bonds	\$ 7,739,503	\$ 8,176,118	\$ 7,609,545	\$ 8,095,277
Guaranteed Investment Certificate	826,162	826,162	852,637	852,637
Mutual Funds	150,700	150,700	197,201	197,201
	\$ 8,716,365	\$ 9,152,980	\$ 8,659,383	\$ 9,145,115

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 1.50% to 8.64% (2015 – 2.38% to 8.64%) and mature between 2016 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 2.35% to 2.60% (2015 – 2.35% to 2.60%) and mature later in 2016.

Mutual Funds have an effective interest rate of about .80% (2015 – 1.00%) with no fixed maturity date.

### 3. Property, building and equipment:

	2016		2015	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,433,934	\$ -	\$ 1,433,934	\$ 1,433,934
Building	2,800,949	826,377	1,974,572	2,012,637
Office and computer equipment, software	2,546,698	744,231	1,802,467	1,023,181
Vehicle	13,002	13,002	-	1,301
	\$ 6,794,583	\$ 1,583,610	\$ 5,210,973	\$ 4,471,053

Amortization charges for the year are \$295,425 (2015 - \$319,931). Included in Office and computer equipment, software are costs of \$1,491,090 for software under development that is not being amortized until it is in use starting in 2017. The asset use fees, net of other general capital expenses, for the year are \$360,000 (2015 - \$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.

	2016	2015
Child and sponsorship plus deferred contributions	\$ 1,865,661	\$ 2,692,942
Complementary Interventions deferred contributions	306,134	-
	\$ 2,171,795	\$ 2,692,942

# COMPASSION CANADA

## Notes to Financial Statements

Year ended June 30, 2016

### 5. Net Change in Non-Cash Operating Working Capital

	2016	2015
Prepaid expenses and taxes recoverable	\$ (94,238)	\$ 132,245
Accounts payable and accrued liabilities	40,057	(181,271)
Child support and gifts payable	(63,826)	(979,293)
Deferred contributions	(521,147)	(108,203)
	<u>\$ (639,154)</u>	<u>\$ (1,136,522)</u>

### 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 \$145,978 (2015 - \$173,932). 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 \$352,096 (2015 - \$320,198) for current, and \$9,052 (2015 - \$8,752) for past service contributions. In addition, \$8,453 (2015 - \$17,505) of past service contributions will be paid out over the next year 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.