Financial Statements of

Compassion Canada

Year ended June 30, 2019

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COMPASSION CANADA

Year ended June 30, 2019

Contents

PTMG

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Independent Auditors' Report

To the Members of

Compassion Canada

Opinion
We have audited the financial statements of **Compassion Canada**, which comprise the statement of financial position as at June 30, 2019, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Compassion Canada** as at June 30, 2019, and results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organization, 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.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Auditors' Responsibilities for the Audit of the Financial Statements

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

September 19, 2019
Exeter, Ontario

***PTMG** LLP*
Chartered Professional Accountants
Licensed Public Accountants

COMPASSION CANADA

Statement of Financial Position

As at June 30, 2019 with comparative figures for June 30, 2018

	Operating Fund	Capital Fund	Planned Giving Funds	2019 Total	2018 Total
Assets					
Current assets:					
Cash	$ 3,964,261	$ -	$ -	$ 3,964,261	$ 2,766,389
Investments (note 2)	4,153,540	4,812,739	33,381	8,999,660	8,730,456
Prepaid expenses and taxes recoverable	513,065	-	-	513,065	417,237
Interfund balances	(472,116)	474,059	(1,943)	-	-
	8,158,750	5,286,798	31,438	13,476,986	11,914,082
Other assets	-	-	250,000	250,000	250,000
Property, building and equipment (note 3)	-	4,610,730	-	4,610,730	4,644,616
	$ 8,158,750	$ 9,897,528	$ 281,438	$ 18,337,716	$ 16,808,698
Liabilities and Fund Balances					
Current liabilities:					
Accounts payable and accrued liabilities	$ 1,031,230	$ -	$ 812	$ 1,032,042	$ 556,492
Program support and gifts payable	4,913,199	-	-	4,913,199	3,870,591
Deferred contributions (note 4)	1,230,269	-	-	1,230,269	1,385,635
	7,174,698	-	812	7,175,510	5,812,718
Fund balances:					
Equity in property, building & equipment	-	4,914,408	-	4,914,408	4,908,124
Externally restricted	-	1,900,000	280,000	2,180,000	2,180,000
Internally restricted	-	3,083,120	626	3,083,746	2,421,937
Accumulated operating surplus	984,052	-	-	984,052	1,485,919
	984,052	9,897,528	280,626	11,162,206	10,995,980
	$ 8,158,750	$ 9,897,528	$ 281,438	$ 18,337,716	$ 16,808,698

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, 2019, with comparative figures for 2018

	Operating Fund	Capital Fund	Planned Giving Funds	2019 Total	2018 Total
Revenue:					
Child development program	$ 61,953,038	$ -	$ -	$ 61,953,038	$ 57,440,435
Complementary interventions	4,002,334	-	-	4,002,334	6,148,860
Child survival program	1,710,017	-	-	1,710,017	1,623,625
Leadership development program	52,650	-	-	52,650	138,442
Investment income (note 2)	215,340	141,872	409	357,621	332,681
Other revenue	24,279	-	-	24,279	23,124
	67,957,658	141,872	409	68,099,939	65,707,167
Expenditures:					
Ministry activities:					
Child development program	51,710,137	-	-	51,710,137	48,971,257
Complementary interventions	3,226,528	-	-	3,226,528	4,943,088
Child survival program	1,368,014	-	-	1,368,014	1,298,900
Leadership development program	42,120	-	-	42,120	110,754
	56,346,799	-	-	56,346,799	55,323,999
Support services:					
Fundraising	7,167,851	-	-	7,167,851	6,337,287
Administration	4,415,975	3,088	-	4,419,063	3,660,611
	11,583,826	3,088	-	11,586,914	9,997,898
	67,930,625	3,088	-	67,933,713	65,321,897
Excess of revenue over expenditures	$ 27,033	$ 138,784	$ 409	$ 166,226	$ 385,270
Fund balances, beginning of year	1,485,919	9,229,844	280,217	10,995,980	10,610,710
Interfund transfers	(528,900)	528,900	-	-	-
Fund balances, end of year	$ 984,052	$ 9,897,528	$ 280,626	$ 11,162,206	$ 10,995,980

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

COMPASSION CANADA

Statement of Cash Flows

For the year ended June 30, 2019, with comparative figures for 2018

	Operating Fund	Capital Fund	Planned Giving Funds	2019 Total	2018 Total
Cash provided by (used in):					
Operating activities:					
Excess of revenue over expenditures	$ 27,033	$ 138,784	$ 409	$ 166,226	$ 385,270
Adjustments for:					
Transfers among funds	(528,900)	528,900	-	-	-
Amortization of property, building and equipment	-	423,088	-	423,088	451,412
Net change in non-cash operating working capital (Note 5)	1,180,388	84,741	1,835	1,266,964	(591,605)
Donated life insurance policy	-	-		-	-
	678,521	1,175,513	2,244	1,856,278	245,077
Investing activities:					
Purchase of property, building and equipment	-	(389,202)	-	(389,202)	(193,379)
Decrease (increase) in investments	519,351	(786,311)	(2,244)	(269,204)	323,770
	519,351	(1,175,513)	(2,244)	(658,406)	130,391
Net increase (decrease) in cash	1,197,872	-	-	1,197,872	375,468
Cash, beginning of year	2,766,389	-	-	2,766,389	2,390,921
Cash, end of year	$ 3,964,261	$ -	$ -	$ 3,964,261	$ 2,766,389

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 Fund:

The Planned Giving Fund consists of annuities and a fully funded universal life insurance policy. The Organization receives any excess funds remaining upon the death of the annuitant, and all of the proceeds on the death of the life insured.

(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.

Donations in-kind consist of life insurance policies and marketable securities. The donation of a life insurance policy is recognized as revenue in the period in which the Organization is named owner and beneficiary and the policy is fully funded. Donations of marketable securities are recognized as revenue in the period in which the organization receives the securities, based on the quoted market value of the securities at that time.

(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, software	3 – 10 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, technology support, occupancy expenditures and asset use fees, have been allocated based on the level of benefit received by each program and support service.

1. Significant accounting policies (continued):

The costs of the Organization's property, building, 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:

		2019		2018
	Cost	Fair value	Cost	Fair value
Government and Corporate Bonds	$ 8,935,954	$ 9,129,853	$ 8,729,425	$ 8,794,052
Mutual Funds	63,706	63,706	1,031	1,031
	$ 8,999,660	$ 9,193,559	$ 8,730,456	$ 8,795,083

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% (2018 – 1.50% to 8.64%) and mature between 2019 and 2028.

Mutual Funds have an effective interest rate of about 1.54% (2018 – 0.93%) with no fixed maturity date.

3. Property, building and equipment:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,433,934	$ -	$ 1,433,934	$ 1,433,934
Building	3,101,217	1,138,091	1,963,126	1,889,141
Office and computer equipment, software	2,210,971	997,301	1,213,670	1,321,541
	$ 6,746,122	$ 2,135,392	$ 4,610,730	$ 4,644,616

Amortization charges for the year are $423,088 (2018 - $451,412). The asset use fees, net of other general capital expenses, for the year are $420,000 (2018 - $420,000).

4. Deferred contributions:

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

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

5. Net Change in Non-Cash Operating Working Capital

	2019	2018
Prepaid expenses and taxes recoverable	$ (95,828)	$ (76,206)
Accounts payable and accrued liabilities	475,550	27,725
Program support and gifts payable	1,042,608	(702,600)
Deferred contributions	(155,366)	159,476
	$ 1,266,964	$ (591,605)

6. International Ministry Agreements:

The Organization conducts its childcare ministry overseas under a Master Agency Agreement with Compassion International of Colorado Springs, Colorado.

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 $363,901 (2018 - $379,522) for current year contributions.

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.