Financial Statements of

# Compassion Canada

Year ended June 30, 2018

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# COMPASSION CANADA

Year ended June 30, 2018

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# PTMG

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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, 2018, 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, 2018, and results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*P T M G LLP*

Exeter, Ontario
September 11, 2018

Chartered Professional Accountants
Licensed Public Accountants

# COMPASSION CANADA

Statement of Financial Position

**As at June 30, 2018, with comparative figures for June 30, 2017**

| | Operating Fund | Capital Fund | Planned Giving Funds | 2018 Total | 2017 Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash | $ 2,766,389 | $ - | $ - | $ 2,766,389 | $ 2,390,920 |
| Investments (note 2) | 4,672,891 | 4,026,428 | 31,137 | 8,730,456 | 9,054,226 |
| Prepaid expenses and taxes recoverable | 417,237 | - | - | 417,237 | 341,031 |
| Interfund balances | (558,692) | 558,800 | (108) | - | - |
| | 7,297,825 | 4,585,228 | 31,029 | 11,914,082 | 11,786,177 |
| Other assets | - | - | 250,000 | 250,000 | 250,000 |
| Property, building and equipment (note 3) | - | 4,644,616 | - | 4,644,616 | 4,902,649 |
| | $ 7,297,825 | $ 9,229,844 | $ 281,029 | $ 16,808,698 | $ 16,938,826 |
| **Liabilities and Fund Balances** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $ 555,680 | $ - | $ 812 | $ 556,492 | $ 528,767 |
| Program support and gifts payable | 3,870,591 | - | - | 3,870,591 | 4,573,191 |
| Deferred contributions (note 4) | 1,385,635 | - | - | 1,385,635 | 1,226,159 |
| | 5,811,906 | - | 812 | 5,812,718 | 6,328,117 |
| Fund balances: | | | | | |
| Equity in property, building & equipment | - | 4,908,124 | - | 4,908,124 | 4,925,342 |
| Externally restricted | - | 1,900,000 | 280,000 | 2,180,000 | 2,210,000 |
| Internally restricted | - | 2,421,720 | 217 | 2,421,937 | 2,060,781 |
| Accumulated operating surplus | 1,485,919 | - | - | 1,485,919 | 1,414,586 |
| | 1,485,919 | 9,229,844 | 280,217 | 10,995,980 | 10,610,709 |
| | $ 7,297,825 | $ 9,229,844 | $ 281,029 | $ 16,808,698 | $ 16,938,826 |

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, 2018, with comparative figures for 2017**

| | Operating Fund | Capital Fund | Planned Giving Funds | 2018 Total | 2017 Total |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Child development program | $ 57,440,435 | $ - | $ - | $ 57,440,435 | $ 56,072,231 |
| Complementary interventions | 6,148,860 | - | - | 6,148,860 | 5,643,668 |
| Child survival program | 1,623,625 | - | - | 1,623,625 | 1,449,118 |
| Leadership development program | 138,442 | - | - | 138,442 | 352,595 |
| Investment income (note 2) | 211,170 | 121,294 | 217 | 332,681 | 306,803 |
| Other revenue | 13,124 | 10,000 | - | 23,124 | 290,181 |
| | 65,575,656 | 131,294 | 217 | 65,707,167 | 64,114,596 |
| Expenditures: | | | | | |
| Ministry activities: | | | | | |
| Child development program | 48,971,257 | - | - | 48,971,257 | 47,434,254 |
| Complementary interventions | 4,943,088 | - | - | 4,943,088 | 4,514,935 |
| Child survival program | 1,298,900 | - | - | 1,298,900 | 1,167,294 |
| Leadership development program | 110,754 | - | - | 110,754 | 282,076 |
| | 55,323,999 | - | - | 55,323,999 | 53,398,559 |
| Support services: | | | | | |
| Fundraising | 6,337,287 | - | - | 6,337,287 | 6,172,922 |
| Administration | 3,629,199 | 31,412 | - | 3,660,611 | 3,768,383 |
| | 9,966,486 | 31,412 | - | 9,997,898 | 9,941,305 |
| | 65,290,485 | 31,412 | - | 65,321,897 | 63,339,864 |
| Excess of revenue over expenditures | $ 285,171 | $ 99,882 | $ 217 | $ 385,270 | $ 774,732 |
| Fund balances, beginning of year | 1,618,706 | 8,616,162 | 375,842 | 10,610,710 | 9,835,977 |
| Interfund transfers | (417,958) | 513,800 | (95,842) | - | - |
| Fund balances, end of year | $ 1,485,919 | $ 9,229,844 | $ 280,217 | $ 10,995,980 | $ 10,610,709 |

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

**COMPASSION CANADA**
Statement of Cash Flows

**For the year ended June 30, 2018, with comparative figures for 2017**

| | Operating Fund | Capital Fund | Planned Giving Funds | 2018 Total | 2017 Total |
|---|---|---|---|---|---|
| Cash provided by (used in): | | | | | |
| Operating activities: | | | | | |
| Excess of revenue over expenditures | $ 285,171 | $ 99,882 | $ 217 | $ 385,270 | $ 774,732 |
| Adjustments for: | | | | | |
| Transfers among funds | (417,958) | 513,800 | (95,842) | - | - |
| Amortization of property, building and equipment | - | 451,412 | - | 451,412 | 466,840 |
| Net change in non-cash operating working capital (Note 5) | (535,702) | (31,113) | (24,790) | (591,605) | (710,668) |
| Donated life insurance policy | - | - | | - | (250,000) |
| | (668,489) | 1,033,981 | (120,415) | 245,077 | 280,904 |
| Investing activities: | | | | | |
| Purchase of property, building and equipment | - | (193,379) | - | (193,379) | (158,516) |
| Decrease (increase) in investments | 1,043,957 | (840,602) | 120,415 | 323,770 | (337,861) |
| | 1,043,957 | (1,033,981) | 120,415 | 130,391 | (496,377) |
| Net increase (decrease) in cash | 375,468 | - | - | 375,468 | (215,473) |
| Cash, beginning of year | 2,390,921 | - | - | 2,390,921 | 2,606,393 |
| Cash, end of year | $ 2,766,389 | $ - | $ - | $ 2,766,389 | $ 2,390,920 |

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:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | Cost | Fair value | Cost | Fair value |
| Government and Corporate Bonds | $ 8,729,425 | $ 8,794,052 | $ 8,712,289 | $ 8,979,343 |
| Mutual Funds | 1,031 | 1,031 | 341,937 | 341,937 |
| | $ 8,730,456 | $ 8,795,083 | $ 9,054,226 | $ 9,321,280 |

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% (2017 – 1.50% to 8.64%) and mature between 2018 and 2028.

Mutual Funds have an effective interest rate of about 0.93% (2017 – 0.75%) with no fixed maturity date.

## 3. Property, building and equipment:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land | $ 1,433,934 | $ - | $ 1,433,934 | $ 1,433,934 |
| Building | 2,901,049 | 1,011,908 | 1,889,141 | 1,906,059 |
| Office and computer equipment, software | 2,372,690 | 1,051,149 | 1,321,541 | 1,562,656 |
| | $ 6,707,673 | $ 2,063,057 | $ 4,644,616 | $ 4,902,649 |

Amortization charges for the year are $451,412 (2017 - $466,840). The asset use fees, net of other general capital expenses, for the year are $420,000 (2017 - $432,000).

## 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

| | 2018 | 2017 |
|---|---|---|
| Prepaid expenses and taxes recoverable | $ (76,206) | $ 246,674 |
| Accounts payable and accrued liabilities | 27,725 | (199,548) |
| Program support and gifts payable | (702,600) | (118,292) |
| Deferred contributions | 159,476 | (639,502) |
| | $ (591,605) | $ (710,668) |

## 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 did not participate in transactions with Compassion International. In the previous year, computer service costs were incurred totalling $61,321. These transactions are measured at the exchange values agreed upon with Compassion International.

## 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 $379,522 (2017 - $359,581) for current, and nil (2017 - $7,472) for past service 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.