Financial Statements of

COMPASSION CANADA

Year ended June 30, 2012

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 statement of financial position as at June 30, 2012, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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, 2012 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

London, Ontario
November 1, 2012

COMPASSION CANADA

Statement of Financial Position

As at June 30, 2012 with comparative figures for 2011

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2012 Total	2011 Total
Assets						
Current assets:						
Cash	$ 2,651,403	$ -	$ 2,428	$ -	$ 2,653,831	2,784,465
Investments (note 2)	6,710,740	1,110,781	177,909	759,007	8,758,437	8,169,258
Prepaid expenses and taxes recoverable	679,531	-	-	-	679,531	490,332
Interfund balances	116,674	-	(899)	(115,775)	-	-
	10,158,348	1,110,781	179,438	643,232	12,091,799	11,444,055
Property, building and equipment (note 3)	-	-	-	3,991,832	3,991,832	3,709,503
	$ 10,158,348	$ 1,110,781	$ 179,438	$ 4,635,064	$ 16,083,631	15,153,558
Liabilities and Fund Balances						
Current liabilities:						
Accounts payable and accrued liabilities	$ 906,756	$ -	$ 2,098	$ -	$ 908,854	462,893
Child support and gifts payable	4,907,022	-	-	-	4,907,022	3,934,894
	5,813,778	-	2,098	-	5,815,876	4,397,787
Deferred contributions (note 4)	2,978,211	-	-	-	2,978,211	3,199,024
	8,791,989	-	2,098	-	8,794,087	7,596,811
Fund balances:						
Equity in property, building and equipment	-	-	-	4,635,064	4,635,064	4,534,082
Externally restricted	-	295,901	101,000	-	396,901	485,311
Internally restricted	-	814,880	76,340	-	891,220	1,322,385
Funds for future ministries	1,366,359	-	-	-	1,366,359	1,214,969
	1,366,359	1,110,781	177,340	4,635,064	7,289,544	7,556,747
	$ 10,158,348	$ 1,110,781	$ 179,438	$ 4,635,064	$ 16,083,631	15,153,558

The accompanying summary of significant accounting policies and 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

Year ended June 30, 2012, with comparative figures for 2011

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2012 Total	2011 Total (note 9)
Revenues:						
Child sponsorships	$ 45,429,769	$ (6,561)	$ -	$ -	$ 45,423,208	42,136,451
LDP, CSP & CIV support	4,845,088	-	-	-	4,845,088	3,642,053
General programs	8,376	-	-	-	8,376	386,865
Investment income (note 2)	395,643	-	8,751	48,014	452,408	266,113
Unrealized investment gains	78,392	13,528	3,277	10,101	105,298	102,917
	50,757,268	6,967	12,028	58,115	50,834,378	46,534,399
Expenditures:						
Ministry activities:						
Child development program	39,280,734	-	-	-	39,280,734	36,375,909
LDP, CSP & CIV programs	4,278,761	-	-	-	4,278,761	3,210,739
General programs	-	-	15,015	-	15,015	41,214
	43,559,495	-	15,015	-	43,574,510	39,627,862
Excess of revenue over expenses before support services	7,197,773	6,967	(2,987)	58,115	7,259,868	6,906,537
Support services:						
Fundraising	4,919,743	-	-	-	4,919,743	3,926,724
General and administration	2,650,195	-	-	(42,867)	2,607,328	2,472,299
	7,569,938	-	-	(42,867)	7,527,071	6,399,023
Excess (deficiency) of revenues over expenses	(372,165)	6,967	(2,987)	100,982	(267,203)	507,514
Fund balances, beginning of year	1,214,969	1,627,369	180,327	4,534,082	7,556,747	7,049,233
Interfund transfers	523,555	(523,555)	-	-	-	-
Fund balances, end of year	$ 1,366,359	$ 1,110,781	$ 177,340	$ 4,635,064	$ 7,289,544	7,556,747

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

COMPASSION CANADA

Statement of Cash Flows

Year ended June 30, 2012, with comparative figures for 2011

	Operating Fund	Restricted Funds	Planned Giving Funds	Capital Fund	2012 Total	2011 Total
Cash provided by (used in):						
Operating activities:						
Excess of revenue over expenditures	$ (372,165)	$ 6,967	$ (2,987)	$ 100,982	$ (267,203)	507,514
Adjustments for:						
Transfers among funds	523,555	(523,555)	-	-	-	-
Amortization of property, building and equipment	-	-	-	257,133	257,133	221,713
Net change in non-cash operating working capital (Note 5)	831,885	-	615	175,577	1,008,077	(1,099,095)
	983,275	(516,588)	(2,372)	533,692	998,007	(369,868)
Financing and investing activities:						
Purchase of property, building and equipment	-	-	-	(539,462)	(539,462)	(149,766)
Proceeds from disposal of property, building and equipment	-	-	-	-	-	1,483
Decrease (increase) in investments	(1,114,166)	516,588	2,629	5,770	(589,179)	(515,716)
	(1,114,166)	516,588	2,629	(533,692)	(1,128,641)	(663,999)
Net increase (decrease) in cash	(130,891)	-	257	-	(130,634)	(1,033,867)
Cash, beginning of year	2,782,294	-	2,171	-	2,784,465	3,818,332
Cash, end of year	$ 2,651,403	$ -	$ 2,428	$ -	$ 2,653,831	2,784,465
Supplementary information						
Interest income received					$ 335,497	296,684
Dividend income received					$ 12,991	17,516

The accompanying summary of significant accounting policies and 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 Corporations Act as a not-for-profit organization. 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 generally accepted accounting principles.

(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 four funds: Operating, Restricted, Planned Giving and Capital.

(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) Restricted Funds:

Restricted Funds include Living Sponsorship, Child Survival (CSP) and Leadership Development (LDP). All restricted funds are invested in marketable securities.

Living Sponsorship primarily receives donor gifts, but has been augmented by directives from the Board of Directors. Investment income provides Child Sponsorship (CDSP) support to a child designated by the donor and for any subsequent children assigned to replace the original child.

Child Survival (CSP) could receive donor gifts, but all funds have been directives by the Board of Directors. Investment income earned provides support for CSP initiatives.

Leadership Development (LDP) receives donor gifts, but funds have primarily been directed by the Board of Directors. Investment income earned provides LDP support.

1. Significant accounting policies (continued):

(a) Restricted fund accounting (continued):

(iii) Planned Giving Fund:

Planned Giving Fund includes Annuity and Managed.

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.

(iv) Capital Fund:

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

(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 or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

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:

All transactions related to financial instruments are recorded on a settlement date basis.

The organization classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The organization's accounting policy for each category is as follows:

Held for trading

This category is comprised of cash, fixed income and equity investments. They are carried on the balance sheet at fair value with changes in fair value recognized in the statement of operations. Transaction costs related to instruments classified as held for trading are expensed as incurred.

Other financial liabilities

Other financial liabilities include accounts payable and accrued liabilities, and child support and gifts payable. The fair value is considered the same as the carrying value due to the short-term nature of the liability.

Fair values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

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
Office and computer equipment	3 – 10 years
Vehicle	5 years

(f) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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:

	2012		2011	
	Cost	Fair value	Cost	Fair value
Held-for-trading				
Government and Corporate Bonds	$ 7,647,742	$ 7,883,876	$ 6,322,883	$ 6,411,034
Guaranteed Investment Certificates	874,595	874,561	1,019,226	1,019,243
Canadian Equities	-	-	705,123	738,981
	$ 8,522,337	$ 8,758,437	$ 8,047,232	$ 8,169,258

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 3.00% to 8.64% (2011 – 2.72% to 11.5%) and mature between 2012 and 2028.

Guaranteed Investment Certificates have an effective interest rate of 2.45% to 3.45% (2011 – 1.90% to 3.45%) and mature between 2012 and 2016.

3. Property, building and equipment:

			2012	2011
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,433,934	$ -	$ 1,433,934	$ 1,421,588
Building	2,537,361	484,026	2,053,335	1,857,251
Vehicle	13,002	3,900	9,102	11,701
Office and computer equipment	1,131,785	636,324	495,461	418,963
	$ 5,116,082	$ 1,124,250	$ 3,991,832	$ 3,709,503

Amortization charges for the year are $257,133 (2011 - $221,713). The asset use fees, net of other general capital expenses, for the year are $300,000 (2011- $293,826).

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.

	2012	2011
Deferred child support	$ 1,949,609	$ 1,862,801
Complementary intervention deferred contributions	2,657	304,064
Long-term donor funding	1,025,945	1,032,159
	$ 2,978,211	$ 3,199,024

5. Net Change in Non-Cash Operating Working Capital

	2012	2011
Prepaid expenses and taxes recoverable	$ (189,199)	$ (232,469)
Accounts payable and accrued liabilities	445,961	(1,479,438)
Child support and gifts payable	972,128	556,067
Deferred contributions	(220,813)	56,745
	$ 1,008,077	$ (1,099,095)

6. International Ministry Agreements:

The Organization conducts its childcare ministry overseas under an International Ministry 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 $263,032 (2011 - $159,143). 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 $213,667 (2011 - $188,446) for current, and $19,185 (2011 - $20,616) for past service contributions. In addition, $45,580 (2011 - $64,765) of past service contributions will be paid out over the next 5 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.

9. Comparative Information:

The comparative information presented in the financial statements has been restated to conform to the current year presentation.