

Financial Statements of

CHILDREN BELIEVE

And Independent Auditors' Report thereon

Year ended March 31, 2021



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INDEPENDENT AUDITORS' REPORT

To the Members of Children Believe

Opinion

We have audited the financial statements of Children Believe (the Entity), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2021, and its 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 auditors' report.

We are independent of the Entity 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 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.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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 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.



Page 3

- 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 Entity'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 Entity'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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 28, 2021

CHILDREN BELIEVE

Statement of Financial Position
(In thousands of dollars)

March 31, 2021, with comparative information for 2020

	2021	2020
Assets		
Current assets:		
Cash	\$ 3,162	\$ 3,982
Accounts receivable	1,021	529
Prepaid expenses and other	249	202
	<u>4,432</u>	<u>4,713</u>
Investments (note 3)	6,786	5,834
Capital assets (note 4)	3,949	3,973
Intangible assets (note 5)	664	738
	<u>\$ 15,831</u>	<u>\$ 15,258</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,461	\$ 3,984
Deferred contributions (note 6)	3,870	3,409
Demand loan (note 7)	—	201
	<u>6,331</u>	<u>7,594</u>
Deferred contributions (note 6)	145	145
	<u>6,476</u>	<u>7,739</u>
Net assets:		
Unrestricted	4,742	3,009
Invested in capital assets	4,613	4,510
	<u>9,355</u>	<u>7,519</u>
Commitments (note 8)		
	<u>\$ 15,831</u>	<u>\$ 15,258</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

CHILDREN BELIEVE

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Revenue:		
Sponsorship support for children, families and communities	\$ 15,928	\$ 16,628
Donated goods	3,161	6,664
Special gifts for children	2,245	2,059
Contributions from Global Affairs Canada	5,154	6,160
General contributions	890	742
Special project appeals	1,952	2,182
Grants	3,047	1,399
Bequests	1,249	1,526
Investment	89	183
Government assistance (note 12)	1,018	—
	<u>34,733</u>	<u>37,543</u>
Expenditures:		
Program services:		
Education	12,104	10,640
Health and nutrition	8,760	13,389
Strengthening community organizations	2,904	3,526
Emergency response	1,703	19
Sustainable economic development	699	1,141
Water, sanitation and hygiene	198	574
Fundraising (note 10)	4,289	5,247
Administration (note 11)	2,991	3,723
	<u>33,648</u>	<u>38,259</u>
Excess (deficiency) of revenue over expenditures before the undernoted	1,085	(716)
Change in fair value of foreign exchange contracts	(80)	125
Change in fair value of investments	831	(139)
<u>Excess (deficiency) of revenue over expenditures</u>	<u>\$ 1,836</u>	<u>\$ (730)</u>

See accompanying notes to financial statements.

CHILDREN BELIEVE

Statement of Changes in Net Assets
(In thousands of dollars)

Year ended March 31, 2021, with comparative information for 2020

			2021	2020
	Unrestricted	Invested in capital assets	Total	Total
Net assets, beginning of year	\$ 3,009	\$ 4,510	\$ 7,519	\$ 8,249
Excess (deficiency) of revenue over expenditures	2,432	(596)	1,836	(730)
Purchase of capital assets	(498)	498	–	–
Payment of obligations - mortgage	(201)	201	–	–
Net assets, end of year	\$ 4,742	\$ 4,613	\$ 9,355	\$ 7,519

See accompanying notes to financial statements.

CHILDREN BELIEVE

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenditures	\$ 1,836	\$ (730)
Items not involving cash:		
Donated goods	3,161	6,664
Support and contributions to affiliated programs	(3,161)	(6,664)
Amortization of capital and intangible assets (note 11)	596	567
Change in fair value of investments	(831)	139
Change in non-cash operating working capital:		
Accounts receivable	(492)	(177)
Prepaid expenses and other	(47)	83
Accounts payable and accrued liabilities	(1,523)	105
Deferred contributions, net	461	(873)
	—	(886)
Financing activities:		
Payment of obligations - mortgage	(201)	(202)
Investing activities:		
Purchase of investments, net	(121)	(179)
Purchase of capital assets and intangible assets	(498)	(362)
	(619)	(541)
Decrease in cash	(820)	(1,629)
Cash, beginning of year	3,982	5,611
Cash, end of year	\$ 3,162	\$ 3,982

See accompanying notes to financial statements.

CHILDREN BELIEVE

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2021

1. Purpose of organization:

Children Believe creates a future of hope for children, families and communities by helping them develop the skills and resources to overcome poverty and pursue justice.

For 60 years, Children Believe has followed the example of Christ by serving the poor regardless of their faith, cultural and ethnic background.

As a member of ChildFund Alliance, Children Believe is part of a global association of 12 child-focused organizations working in more than 50 countries.

Children Believe is incorporated under the laws of the Province of Ontario as a not-for-profit organization and is registered as a charity under the Income Tax Act (Canada).

2. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO"), Part III of the Chartered Professional Accountants of Canada Handbook. The more significant of the accounting policies are outlined below.

(a) Revenue:

Significant sources of revenue are as follows:

(i) Sponsorship support for children, families and communities:

Sponsorship support received that is considered to be prepayments of monthly sponsorship support for children, families and communities is included in deferred contributions on the statement of financial position and is recognized monthly as revenue throughout the year.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

2. Significant accounting policies (continued):

(ii) Donated goods:

Donated goods are valued at their estimated fair value. The recognition of donated goods is limited to donations where Children Believe takes possession or constructive title of the donated goods and Children Believe was the original recipient of the goods, was involved in a partnership with the end-user agency or the goods were used in Children Believe programs. Donated goods are recorded as revenue at such time when the goods are deployed for charitable purposes to the end-user agencies.

(iii) General contributions, investment income and undesignated bequests:

General contributions and undesignated bequests are recognized as revenue when received or receivable provided the amount to be received can be reasonably estimated and collection is reasonably assured.

Investment income is recorded on an accrual basis.

(iv) Restricted contributions:

Contributions that are restricted for a designated purpose are recognized in the financial statements using the deferral method, whereby contributions relating to expenditures of future years are deferred and recognized as revenue in the year in which the related expenditures are incurred. These contributions include special gifts for children, special project appeals, contributions from Global Affairs Canada, designated bequests and grants.

(v) Government assistance:

Children Believe applies for financial assistance under available government incentive programs and is included in the determination of excess of revenues over expenditures for the year.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

2. Significant accounting policies (continued):

(b) Allocation of expenditures:

Children Believe engages in the following program services: health and nutrition, education, strengthening community organizations, sustainable economic development, water, sanitation and hygiene, and emergency response. Program services expenditures, initially recorded by the appropriate expenditures classification, are reclassified to the program service categories based on information provided by end-users. The costs of each program include the costs of personnel, premises and other expenditures directly related to providing the program services.

In addition, Children Believe allocates certain of the fundraising and administration expenditures that benefits individual program services on the following bases:

(i) Fundraising:

Expenditures relating to the semi-annual publication, ChildVoice, are allocated to program services based on the total costs times the percentage of content relating to each of the individual program service categories.

(ii) Administration:

General support personnel costs are allocated to program services based on the percentage of the relevant employees' time involved in supporting program services.

Premises costs are allocated to program services based on the head count of program services over the total head count of Children Believe.

Other shared costs including information technology, human resources management, insurance and equipment rental are allocated to program services based on head count and other bases deemed to be appropriate.

(c) Capital and intangible assets:

Capital assets are recorded at cost, less accumulated amortization. Maintenance and repair costs that do not significantly extend or improve the useful lives of the respective assets are expensed when incurred.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

2. Significant accounting policies (continued):

Capital assets are amortized using the straight-line method over the following periods:

Canada office:	
Building	50 years
Leasehold improvements	Term of lease
Computer equipment	5 to 10 years
Office equipment and furniture	5 to 10 years
Equipment under capital leases	Term of lease
International field offices:	
Computer and field program vehicles	3 to 5 years

Intangible assets are amortized using the straight-line method over the following periods:

Software development	5 years
Website development	5 years
Children Believe trademark	10 years

Children Believe reviews the carrying amounts of its capital assets and intangible assets regularly. Where the capital assets or intangible assets no longer have any long-term service potential to Children Believe, the excess of the net carrying amount over any residual value is recognized as an expense in the statement of operations.

(d) Net assets:

(i) Unrestricted:

The balance of unrestricted funds represents the accumulated excess of unrestricted contributions over related expenditures, less the amount invested in capital assets.

(ii) Invested in capital assets:

Net assets invested in capital assets represent the amount of previously unrestricted net assets allocated to investments in capital assets.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

2. Significant accounting policies (continued):

(e) Financial instruments:

Children Believe initially measures all of its financial assets and financial liabilities at fair value and subsequently at amortized cost, except for investments and foreign exchange forward contracts that are subsequently recorded at fair value. Change in fair value of investments consists of net realized and unrealized gains and losses and is recognized in the statement of operations. Financial assets are tested for impairment at the end of each reporting year when there are indicators the assets may be impaired.

Investments consist of a portfolio of money market, bond and equity investments managed by Children Believe. The fair value of securities traded in an active market is the closing price.

Transaction costs are recorded on a settlement date basis and are expensed as incurred.

(f) Leases:

Leases are classified as either capital or operating. Those leases that transfer substantially all the benefits and risks of ownership of property to Children Believe are accounted for as capital leases. Assets under capital lease are amortized over the useful lives of the assets. All other leases are accounted for as operating, with rental payments expensed on a straight-line basis over the term of the lease.

(g) Use of estimates:

The preparation of financial statements in accordance with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the year. Actual results could differ from those estimates.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

3. Investments and foreign exchange forward contracts:

The fair values of investments as at March 31 are as follows:

	2021	2020
Money market	\$ 166	\$ 304
Bonds	3,756	3,514
Canadian equities	1,761	1,170
Foreign equities	1,103	846
	<u>\$ 6,786</u>	<u>\$ 5,834</u>

Foreign exchange forward contracts:

Children Believe entered into various foreign exchange forward contracts in the normal course of operations. As at March 31, 2021, Children Believe had no outstanding contracts. All derivative gains or losses have been included in fair value change of foreign exchange contracts in the statement of operations.

4. Capital assets:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 1,093	\$ –	\$ 1,093	\$ 1,093
Building	3,724	1,173	2,551	2,639
Leasehold improvements	10	10	–	4
Computer equipment	302	193	109	79
Office equipment and furniture	228	121	107	62
Equipment under capital leases	85	85	–	–
Field program vehicles	655	566	89	96
	<u>\$ 6,097</u>	<u>\$ 2,148</u>	<u>\$ 3,949</u>	<u>\$ 3,973</u>

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

5. Intangible assets:

			2021	2020
	Cost	Accumulated amortization	Net book value	Net book value
Software development	\$ 1,223	\$ 915	\$ 308	\$ 498
Website development	481	200	281	175
Children Believe trademark	81	6	75	65
	<u>\$ 1,785</u>	<u>\$ 1,121</u>	<u>\$ 664</u>	<u>\$ 738</u>

6. Deferred contributions:

Deferred contributions include unspent sponsorship funds and restricted contributions, including special gifts for children, specific project appeals, designated bequests, grants and contributions from Global Affairs Canada, as set out below:

	2021	2020
Balance, beginning of year	\$ 3,554	\$ 4,427
Amounts received	15,472	9,873
Amounts recognized as revenue	(15,011)	(10,746)
Balance, end of year	4,015	3,554
Less long-term portion	145	145
	<u>\$ 3,870</u>	<u>\$ 3,409</u>

7. Bank credit facility:

Children Believe has the following credit facilities:

- overdraft facility of up to \$1,000 with interest on any borrowing calculated at the prime bank lending rate; no amount (2020 - nil) has been drawn as at March 31, 2021;
- credit card facility of \$250;
- forward exchange contract facility with contract terms of up to one year; and

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

7. Bank credit facility (continued):

- a demand loan of up to \$1,007, repayable in monthly principal payments of \$17 and bears interest at the bank's prime lending rate, secured by a collateral mortgage on the head office property and a general security agreement. Children Believe has the option to repay in full at any time without penalty. As at March 31, 2021, the outstanding balance is nil (2020 - \$201).

Interest expense included in administration expense amounted to \$42 (2020 - \$29) for the year.

8. Commitments:

The minimum annual rental payments for premises and equipment under operating leases are as follows:

2022	\$	194
2023		64
2024		36

9. Risk management:

(a) Credit risk:

Credit risk arises from one party to a financial instrument causing a financial loss for the other party by failing to discharge an obligation. Children Believe is exposed to credit risk on accounts receivable. Children Believe's credit risk is considered to be low as accounts receivable are primarily HST recoveries receivable from the government and accrued interest on investments. There has been no change to the risk exposures from 2020.

(b) Liquidity risk:

Liquidity risk is the risk an organization will encounter difficulty in meeting obligations associated with financial liabilities. Children Believe believes it has low liquidity risk given the makeup of its accounts payable and accrued liabilities. Children Believe manages its cash flows regularly to ensure reasonably prompt liquidation of its obligations.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

9. Risk management (continued):

Children Believe's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient cash flows to fund its operations and to meet its liabilities when due, under both normal and stressed conditions. Under the unusual situation in the current year related to COVID-19, management took actions to minimize the liquidity risk by cutting unnecessary spendings.

(c) Market risk:

Children Believe's market risk comprises foreign currency risk and other price risk:

- Foreign currency risk:

Children Believe's cash flows involve Canadian funds received from Canadian donors that are sent to Children Believe's countries of operation where foreign currencies are then used to complete program activities. Foreign currency risk arises as a result of the possibility of cash flows fluctuating because of changes in foreign exchange rates. Children Believe manages the foreign currency risk through its foreign exchange forward contracts and as a result, Children Believe's foreign exchange risk is considered to be low. In the current year, foreign exchange loss was \$80 (2020 - gain of \$125). There has been no change to the risk exposures from 2020.

- Other price risk:

Other price risk refers to the risk the fair value of financial assets and liabilities or future cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk). Children Believe is exposed to other price risk through its investments and foreign exchange forward contracts. There has been no change to the risk exposures from 2020.

10. Alberta fundraising expenditures:

During the year, Children Believe incurred \$42 (2020 - \$19) of remuneration costs paid to employees based on the estimated time spent on fundraising in the Province of Alberta and nil (2020 - \$44) in direct expenditures for the purposes of soliciting contributions in the Province of Alberta. This disclosure is required to comply with the Charitable Fund-raising Regulation Section 7(2) of the Government of Alberta.

CHILDREN BELIEVE

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2021

11. Allocation of expenditures:

As described in note 2, certain expenditures are allocated from administration to program service.

Administration expenditures are stated after the allocation of the following amounts:

	2021	2020
Program services:		
Health and nutrition	\$ 273	\$ 353
Education	610	572
Strengthening community organizations	144	194
Sustainable economic development	35	61
Water and sanitation	10	37
Emergency response	85	—
	\$ 1,157	\$ 1,217

Administration expenditures include the following amounts for amortization:

	2021	2020
Amortization expense:		
Capital assets	\$ 204	\$ 196
Intangible assets	392	371
	\$ 596	\$ 567

12. Government assistance:

Due to the COVID-19 pandemic, the Canadian government introduced the Canada Emergency Wage Subsidy and Temporary Wage Subsidy to assist organizations who had lost a certain percentage of their eligible revenue. During the year ended March 31, 2021, Children Believe filed eligible claims totalling \$1,018 (2020 - nil) which have been recognized as government subsidies on the statement of operations. As at March 31, 2021, \$500 (2020 - nil) is included in accounts receivable.