



COMPASSION INTERNATIONAL, INCORPORATED

Financial Statements

June 30, 2007 and 2006

(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INCORPORATED

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KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

Independent Auditors' Report

The Board of Directors
Compassion International, Incorporated:

We have audited the accompanying statements of financial position of Compassion International, Incorporated (Compassion) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Compassion's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Compassion's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Compassion International, Incorporated as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado
September 14, 2007

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Financial Position

June 30, 2007 and 2006

Assets	2007	2006
Current assets:		
Cash and cash equivalents	\$ 39,462,503	26,049,240
Investments	8,531,227	7,388,331
Receivables from affiliated organizations	4,333,197	3,302,818
Accounts receivable	353,932	433,130
Prepaid expenses and supplies	3,205,345	2,993,802
Total current assets	55,886,204	40,167,321
Noncurrent assets:		
Receivable from affiliated organization	—	470,000
Property, plant, and equipment, net	61,351,016	56,482,567
Total noncurrent assets	61,351,016	56,952,567
Restricted assets:		
Investments restricted for trust and annuity obligations	4,853,494	4,719,176
Investments restricted for long-term purposes	5,728,780	5,569,556
Total restricted assets	10,582,274	10,288,732
Total assets	\$ 127,819,494	107,408,620
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,073,254	5,558,977
Funds committed to sponsorship projects	19,825,237	14,587,854
Accrued severance/retirement benefits for national employees	392,227	329,029
Trust obligation	60,073	57,338
Gift annuities payable	19,765	17,144
Revocable trust agreements	1,030,753	950,002
Total current liabilities	27,401,309	21,500,344
Long-term liabilities:		
Accrued severance/retirement benefits for national employees, less current portion	3,534,040	2,570,685
Trust obligation, less current portion	1,609,908	1,626,685
Gift annuities payable, less current portion	496,637	565,593
Custodial funds held	319,187	251,730
Total long-term liabilities	5,959,772	5,014,693
Total liabilities	33,361,081	26,515,037
Net assets:		
Unrestricted	46,295,702	39,921,058
Temporarily restricted	42,339,951	35,583,527
Permanently restricted	5,822,760	5,388,998
Total net assets	94,458,413	80,893,583
Commitments and contingencies (notes 5, 6, 10, and 11)		
Total liabilities and net assets	\$ 127,819,494	107,408,620

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Activities

Years ended June 30, 2007 and 2006

	2007				2006			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 2,237,486	237,982,913	—	240,220,399	1,917,959	201,341,422	—	203,259,381
Gifts in kind	—	57,963	—	57,963	—	86,935	—	86,935
Contributions from affiliated organizations	10,789,267	59,163,093	—	69,952,360	7,829,992	44,581,333	—	52,411,325
Interest and dividends	937,962	131,931	—	1,069,893	740,970	106,531	—	847,501
Net realized and unrealized gains on investments	907,048	349,062	200,000	1,456,110	141,023	246,879	—	387,902
Bequests	866,414	3,872	233,762	1,104,048	785,581	63,779	114,702	964,062
Royalty income and net sales	9,383	—	—	9,383	—	—	—	—
Changes in value of split-interest agreements	48,109	116,612	—	164,721	(11,201)	50,385	—	39,184
Net assets released from restrictions in satisfaction of program restrictions	291,049,022	(291,049,022)	—	—	242,593,996	(242,593,996)	—	—
Total revenue, gains, and other support	<u>306,844,691</u>	<u>6,756,424</u>	<u>433,762</u>	<u>314,034,877</u>	<u>253,998,320</u>	<u>3,883,268</u>	<u>114,702</u>	<u>257,996,290</u>
Expenses:								
Program services:								
Child development program	228,940,136	—	—	228,940,136	190,264,992	—	—	190,264,992
Sponsor/donor ministries	21,826,713	—	—	21,826,713	16,634,638	—	—	16,634,638
Total program services	<u>250,766,849</u>	<u>—</u>	<u>—</u>	<u>250,766,849</u>	<u>206,899,630</u>	<u>—</u>	<u>—</u>	<u>206,899,630</u>
Support services:								
Fundraising	27,000,461	—	—	27,000,461	20,955,636	—	—	20,955,636
Administration	22,702,737	—	—	22,702,737	18,948,999	—	—	18,948,999
Total support services	<u>49,703,198</u>	<u>—</u>	<u>—</u>	<u>49,703,198</u>	<u>39,904,635</u>	<u>—</u>	<u>—</u>	<u>39,904,635</u>
Total expenses	<u>300,470,047</u>	<u>—</u>	<u>—</u>	<u>300,470,047</u>	<u>246,804,265</u>	<u>—</u>	<u>—</u>	<u>246,804,265</u>
Change in net assets	6,374,644	6,756,424	433,762	13,564,830	7,194,055	3,883,268	114,702	11,192,025
Net assets, beginning of year	39,921,058	35,583,527	5,388,998	80,893,583	32,727,003	31,700,259	5,274,296	69,701,558
Net assets, end of year	<u>\$ 46,295,702</u>	<u>42,339,951</u>	<u>5,822,760</u>	<u>94,458,413</u>	<u>39,921,058</u>	<u>35,583,527</u>	<u>5,388,998</u>	<u>80,893,583</u>

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2007

	Program services			Support services			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total support services	
Direct payments to field	\$ 197,362,916	606,197	197,969,113	—	—	—	197,969,113
Salaries and related taxes	13,091,701	6,507,717	19,599,418	5,764,149	7,059,036	12,823,185	32,422,603
Employee benefits	3,925,741	1,565,235	5,490,976	1,453,856	2,077,753	3,531,609	9,022,585
Travel and training	4,771,369	980,695	5,752,064	2,534,359	495,335	3,029,694	8,781,758
Data processing services	2,237,008	5,220,998	7,458,006	2,862,653	4,868,903	7,731,556	15,189,562
Professional fees	1,535,112	2,122,581	3,657,693	4,641,429	2,886,703	7,528,132	11,185,825
Occupancy	2,329,341	889,438	3,218,779	748,003	1,521,947	2,269,950	5,488,729
Postage and shipping	168,217	1,727,722	1,895,939	1,443,820	1,571,655	3,015,475	4,911,414
Office equipment and supplies	2,919,526	1,014,200	3,933,726	915,393	1,883,503	2,798,896	6,732,622
Photos and printing	233,934	1,058,298	1,292,232	1,764,629	298,017	2,062,646	3,354,878
Media	17,739	119,697	137,436	3,545,146	21,826	3,566,972	3,704,408
International expansion grants	—	—	—	1,295,743	—	1,295,743	1,295,743
Miscellaneous	347,532	13,935	361,467	31,281	18,059	49,340	410,807
Total	\$ 228,940,136	21,826,713	250,766,849	27,000,461	22,702,737	49,703,198	300,470,047

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2006

	Program services			Support services			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total support services	
Direct payments to field	\$ 163,954,019	511,142	164,465,161	—	—	—	164,465,161
Salaries and related taxes	10,995,443	5,489,472	16,484,915	4,644,611	6,529,823	11,174,434	27,659,349
Employee benefits	3,276,462	1,334,483	4,610,945	1,250,686	2,048,036	3,298,722	7,909,667
Travel and training	4,303,742	875,384	5,179,126	1,994,410	482,446	2,476,856	7,655,982
Data processing services	1,972,144	3,305,480	5,277,624	1,706,763	3,351,170	5,057,933	10,335,557
Professional fees	1,195,403	1,533,770	2,729,173	3,328,955	2,612,529	5,941,484	8,670,657
Occupancy	1,786,705	577,322	2,364,027	478,810	1,018,881	1,497,691	3,861,718
Postage and shipping	161,097	1,464,043	1,625,140	1,319,107	1,317,357	2,636,464	4,261,604
Office equipment and supplies	2,252,012	784,297	3,036,309	601,678	1,368,729	1,970,407	5,006,716
Photos and printing	159,359	711,800	871,159	1,627,113	202,442	1,829,555	2,700,714
Media	765	36,183	36,948	2,846,518	14,156	2,860,674	2,897,622
International expansion grants	—	—	—	1,144,154	—	1,144,154	1,144,154
Miscellaneous	207,841	11,262	219,103	12,831	3,430	16,261	235,364
Total	\$ 190,264,992	16,634,638	206,899,630	20,955,636	18,948,999	39,904,635	246,804,265

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Cash Flows

Years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$ 13,564,830	11,192,025
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,893,615	3,317,112
Net loss (gain) on disposition of equipment	1,892	(24,106)
Net realized and unrealized gains on investments	(1,458,003)	(363,796)
Changes in value of split-interest agreements	(164,721)	(39,184)
Contributions restricted for investment in endowment	(433,762)	(114,702)
Changes in assets and liabilities:		
Increase in receivables	(481,181)	(228,662)
Increase in prepaid expenses and supplies	(211,543)	(709,469)
Increase in accounts payable and accrued liabilities	520,691	1,320,021
Increase in funds committed to sponsorship projects	5,237,383	250,199
Increase in accrued severance/retirement benefits for national employees	1,026,553	457,887
Net cash provided by operating activities	22,495,754	15,057,325
Cash flows from investing activities:		
Purchases of investments	(12,535,254)	(33,798,360)
Proceeds from sales of investments	12,721,540	45,593,036
Proceeds from sales of property and equipment	29,639	93,666
Purchases of property and equipment	(9,793,595)	(23,717,387)
Net cash used in investing activities	(9,577,670)	(11,829,045)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(6,414)	(36,572)
Contributions restricted for investment in endowment	433,762	114,702
Decrease in gift annuities payable	(66,335)	(33,611)
Increase in revocable trust agreements	80,751	30,196
Decrease in trust obligations	(14,042)	(51,784)
Increase in custodial funds held	67,457	16,491
Net cash provided by financing activities	495,179	39,422
Net increase in cash and cash equivalents	13,413,263	3,267,702
Cash and cash equivalents, beginning of year	26,049,240	22,781,538
Cash and cash equivalents, end of year	\$ 39,462,503	26,049,240

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2007 and 2006

(1) Organization

General

Compassion International, Incorporated (Compassion), an Illinois not-for-profit corporation with headquarters in Colorado Springs, Colorado, is a Christian organization that exists as an advocate for children to release them from their spiritual, economic, social, and physical poverty, and enable them to become responsible and fulfilled Christian adults. Compassion's principal services provide life-changing opportunities for education and skills training, social development, health and nutrition, and most importantly, to learn about Christ and develop a life-long relationship with God. Compassion's program services are concentrated in certain countries of Africa, Asia, Central America, and South America.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The accompanying financial statements have been prepared using the accrual basis of accounting.

The net assets, revenue, gains, and other support and expenses in the accompanying financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Compassion and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated by the board of directors for specific purposes at any time.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met either with actions of Compassion and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets represent resources subject to donor-imposed stipulations to be invested in perpetuity, and only the income may be available for program operations. The income realized from the permanently restricted net assets is temporarily restricted for use in the child development and leadership development programs.

(b) *Cash and Cash Equivalents*

Cash and short-term investments with maturities of three months or less from the date of acquisition are considered cash and cash equivalents.

(c) *Investments*

Investments are recorded at fair value. Any gains or losses, whether realized or unrealized, are recognized when they occur.

The majority of Compassion's investments are reflected at fair value based on quoted market prices. However, the valuation of certain investments totaling approximately \$322,550 and \$450,000 at June 30, 2007 and 2006, respectively is determined based on appraisals performed by an independent third party.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2007 and 2006

(d) *Property, Plant, and Equipment*

Land, building, and equipment are recorded at cost when purchased or at estimated fair value if received by donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, with no salvage value. Buildings and building improvements are depreciated over five to thirty years, furniture and equipment are depreciated over three to ten years, and vehicles are depreciated over three to five years. Equipment purchased under capital lease is amortized using the straight-line method over the life of the lease.

(e) *Contributions*

Contributions are recorded as received. Compassion reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The majority of Compassion's contributions are received from individuals.

(f) *Gift Annuities Payable*

Under gift annuity contracts, Compassion receives irrevocable title to contributed assets and agrees to make fixed period payments to the donor(s) for life. Contributed assets are recorded at fair value at the date of receipt and a liability is established for the present value of future annuity payments based on the current rates in the Internal Revenue Service (IRS) actuarial tables for annuities. The excess of contributed assets over the annuity liability is recorded as unrestricted revenue. Any actuarial gain or loss resulting from the computation of the liability for the present value of future annuity payments is recorded as an unrestricted change in value of split-interest agreements. Upon the donor's death, the remaining liability is recognized as revenue.

(g) *Revocable Trust Agreements*

Assets received and held under revocable trust agreements are recorded at fair value at the date of receipt and as corresponding liabilities. Investment income is paid to the income beneficiaries and is not recorded as revenue or expense by Compassion. Upon the donor's death, the assets are distributed to the beneficiaries of the trust, which may include Compassion. Assets of revocable trusts in which Compassion is named as a beneficiary but that are not held or controlled by Compassion are not recorded in the statements of financial position.

(h) *Irrevocable Trust Agreements*

Under irrevocable trust agreements, Compassion receives contributed investments and agrees to maintain the principal of the investment during the life of the donor(s) or other named beneficiary and make annual payments to the donor(s) or other named beneficiary for life. The annual payments are based on a fixed rate of return or on related investment income, as stipulated in the trust agreement. Amounts received under irrevocable trust agreements net of the present value of future payments to beneficiaries are recorded as temporarily restricted support upon receipt. Investment income and payments made to donors in accordance with the terms of the trust agreements are recorded as increases and decreases to the liability for trust obligations, respectively. A liability for

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2007 and 2006

trust obligations is recorded for the present value of future payments to beneficiaries based on a risk free rate of return appropriate for the expected term of the promise to give. Any actuarial gain or loss resulting from the computation of the liability for the present value of future payments to beneficiaries is recorded as temporarily restricted changes in value of split-interest agreements. Upon the death of the donor, the assets are transferred from temporarily restricted net assets as designated by the board of directors or the trust agreement. Certain trusts name other charitable organizations as partial remaindermen.

(i) *Functional Expense Allocation*

The cost of providing the various programs and supporting services has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Child development program represents costs to assist over 880,000 (unaudited) and 775,000 (unaudited) children in 2007 and 2006, respectively, through grants that engage these children in activities to develop them spiritually, socially, physically, and emotionally. Other grants are provided for specific program interventions such as Bibles, disaster relief, medical and educational needs, education for project leadership, and others. Compassion also uses funds to oversee and enhance the program effectiveness, and develop and train personnel at new projects.

Sponsor/donor ministry represents costs used to enhance the sponsor/child relationship. Funds are used to gather and disseminate information to sponsors concerning their sponsored child, process correspondence between the sponsor and child, and educate sponsors on the challenges of child growth in the environment in which the child lives. Some funds are also used to challenge and motivate the Christian public to expand their mission and activities to include ministry to children.

(j) *Long-Lived Assets*

Compassion accounts for the impairment of long-lived assets under the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS No. 144 establishes standards for recognizing and measuring impairment of long-lived assets including property and equipment and certain identifiable intangibles. Assets subject to the provisions of SFAS No. 144 are reviewed for impairment and, if such impairment is identified, written down to their fair value. Identified impairment losses are charged to operations in the statement of activities.

(k) *Income Taxes*

Compassion has been recognized as exempt from federal income taxes on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code of 1986 (IRC) as an organization described in Section 501(c)(3) of the IRC. Compassion has generated no unrelated business income during the years ended June 30, 2007 and 2006. As a publicly supported organization, Compassion is classified as a public charity and not a private foundation under Section 509(a)(2) of the IRC.

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Notes to Financial Statements

June 30, 2007 and 2006

(l) Foreign Currency

Substantially all assets and liabilities of foreign field offices are translated at exchange rates in effect when purchased or incurred. Revenue and expenses are translated at the rate received for the last exchange of the period. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, gains and other support, and expenses during the reporting period. Actual results could differ significantly from those estimates.

(3) Investments

Investments held as of June 30 are as follows:

	2007		2006	
	Fair value	Cost	Fair value	Cost
Corporate bonds and government obligations	\$ 4,960,938	5,017,534	4,889,422	5,008,341
Corporate stocks	10,031,093	8,318,672	9,038,330	7,651,717
Mutual funds	3,709,967	2,624,356	3,225,035	2,480,816
Other	411,503	166,655	524,276	157,066
Total	<u>\$ 19,113,501</u>	<u>16,127,217</u>	<u>17,677,063</u>	<u>15,297,940</u>

Investments are restricted as follows as of June 30:

	2007		2006	
	Fair value	Cost	Fair value	Cost
Gift annuities and revocable and irrevocable trusts	\$ 4,853,494	3,331,512	4,719,176	3,379,155
Childcare endowments	2,653,502	2,443,857	2,549,760	2,357,262
Leadership development program endowments	3,075,278	2,752,127	3,019,796	2,785,224
Total	<u>\$ 10,582,274</u>	<u>8,527,496</u>	<u>10,288,732</u>	<u>8,521,641</u>

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Notes to Financial Statements

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(4) Property, Plant, and Equipment

Property, plant, and equipment consist of the following as of June 30:

	2007	2006
Land	\$ 7,178,277	6,755,605
Building and building improvements	50,263,506	29,719,318
Furniture and equipment	19,484,525	15,285,864
Vehicles	3,299,786	2,890,347
Construction in process	21,513	16,058,628
Assets in progress	705,370	1,537,364
	80,952,977	72,247,126
Less accumulated depreciation and amortization	(19,601,961)	(15,764,559)
Property, plant, and equipment, net	\$ 61,351,016	56,482,567

Depreciation expense was \$4,893,615 and \$3,317,112 for the years ended June 30, 2007 and 2006, respectively.

(5) Funds Committed to Sponsorship Projects

Funds committed to sponsorship projects represent grants that are payable in future periods to program beneficiaries who are unaffiliated church groups. The vast majority of these amounts are funds that were remitted to field offices at year-end (June) and distributed to sponsorship projects in July. Amounts committed to sponsorship projects but undistributed as of June 30, 2007 and 2006 were \$19,825,237 and \$14,587,854, respectively. These committed program funds are accrued at year-end in the statements of financial position in accordance with the social and moral obligation to transfer resources described in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*.

(6) Affiliated Organizations

Compassion is affiliated with organizations in Australia, Canada, France, Great Britain, South Korea, New Zealand, Italy, the Netherlands, and Switzerland. Compassion maintains children's files, selects and monitors projects, provides field supervision, and distributes funds on behalf of these organizations for those activities that are jointly conducted. Compassion is reimbursed for the costs incurred in providing these services. Because Compassion has control over the ultimate distribution of amounts received from affiliated organizations, such amounts are included as revenue and related program payments are included as expenses in the accompanying financial statements. The affiliated organizations have separate fundraising and administrative expenses that are not reflected in the accompanying financial statements. Receivables from affiliated organizations were \$4,333,197 and \$3,772,818 as of June 30, 2007 and 2006, respectively. Contributions from affiliated organizations totaled \$69,952,360 and \$52,411,325 for the years ended June 30, 2007 and 2006, respectively.

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Notes to Financial Statements

June 30, 2007 and 2006

Contributions from affiliated organizations were reported as follows for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Great Britain (1975)	\$ 2,419,152	2,514,471
Great Britain (1999)	12,816,596	9,053,165
Australia	20,922,180	16,996,789
Canada	15,128,639	11,475,532
The Netherlands	4,773,400	3,491,646
New Zealand	2,380,836	2,026,800
France	1,817,800	1,503,567
Italy	4,181,464	3,274,443
Switzerland	1,061,137	719,994
South Korea	4,451,156	1,354,918
	<u>\$ 69,952,360</u>	<u>52,411,325</u>

In May 1999, Compassion entered into an agreement with the affiliated organization in Great Britain (1975) to allow that organization to separate its affiliation with Compassion starting in September 1999 (Great Britain (1999)). The agreement calls for Great Britain (1975) to continue to manage the existing sponsorships until the sponsorship ends (due to either a sponsor-initiated termination or a child departing the program). Once the number of sponsorships remaining reaches a minimal level, the remaining sponsors will be given a choice to continue their sponsorship with Great Britain (1999) or to support a child program through a separate organization. Sponsorship contributions received will go 80% to Compassion with the remainder going to Great Britain (1975) and Great Britain (1999). The transition period (until the sponsorships remaining reach a minimal level) is expected to take several years. Management believes this agreement will have no significant impact on the financial position or results of activities of Compassion due to the revenue and corresponding expense from Great Britain (1975) being gradually reduced over future years. The revenue and expenses are being replaced by Great Britain (1999).

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	<u>2007</u>	<u>2006</u>
Child development programs:		
Child sponsorship program	\$ 25,508,762	24,073,610
Other child programs	15,151,026	9,935,192
Irrevocable trust agreements	1,680,163	1,574,725
	<u>\$ 42,339,951</u>	<u>35,583,527</u>

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(8) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the following as of June 30:

	2007	2006
Investments in perpetuity, the income from which is expendable to support:		
Child development programs	\$ 2,786,206	2,602,444
Leadership development program	3,036,554	2,786,554
	\$ 5,822,760	5,388,998

The net assets for child development and leadership development programs are invested to provide a long-term total return sufficient to support a number of sponsorships in third-world countries. Investment income is accumulated in temporarily restricted net assets and used to cover the annual cost of the sponsorships, including gifts.

(9) Net Assets Released from Restrictions

Net assets were released from donor restrictions by meeting time requirements or by incurring expenses satisfying the following program restrictions for the years ended June 30:

	2007	2006
Purpose restrictions accomplished:		
Child sponsorship program	\$ 236,585,791	202,695,334
Other child programs	54,037,602	39,447,972
Software licenses used	57,963	86,935
Child development endowment earnings used	220,629	224,427
Leadership development endowment earnings used	147,037	139,328
	\$ 291,049,022	242,593,996

(10) U.S. Pension Plan

Compassion has a defined contribution pension plan covering substantially all U.S. paid employees. Contributions are equal to 10% of each covered employee's qualifying compensation. Pension contribution expense was \$2,441,585 and \$2,319,324 for the years ended June 30, 2007 and 2006, respectively.

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(11) Severance/Retirement Benefits for National Employees

Compassion maintains a self-funded benefit plan for national employees in all countries. If an employee leaves the organization in good standing after five years of service, Compassion will pay an amount equal to one month's salary for each year worked. This plan fulfills and supplements payments required by local laws for severance, as needed. National severance/retirement contribution expense was \$1,530,767 and \$986,661 for the years ended June 30, 2007 and 2006, respectively.

(12) Concentration of Credit Risk

Compassion maintains cash balances in two financial institutions in excess of the federally insured amount. Management believes no significant risk exists as a result of these uninsured balances due to the size and financial wherewithal of the financial institutions.