



COMPASSION INTERNATIONAL, INCORPORATED

Financial Statements

June 30, 2006 and 2005

(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, 2006 and 2005, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2006 and 2005, 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 5, 2006

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Financial Position

June 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents	\$ 26,049,240	22,781,538
Investments	7,388,331	18,922,370
Receivables from affiliated organizations	3,302,818	3,027,340
Accounts and notes receivable	433,130	248,218
Prepaid expenses and supplies	2,993,802	2,284,333
Total current assets	40,167,321	47,263,799
Noncurrent assets:		
Receivable from affiliated organization	470,000	701,729
Property, plant, and equipment, net	56,482,567	36,104,469
Total noncurrent assets	56,952,567	36,806,198
Restricted assets:		
Investments restricted for trust and annuity obligations	4,719,176	4,737,592
Investments restricted for long-term purposes	5,569,556	5,408,796
Total restricted assets	10,288,732	10,146,388
Total assets	\$ 107,408,620	94,216,385
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,558,977	4,228,145
Funds committed to sponsorship projects	14,587,854	14,337,655
National pension payable	329,029	281,866
Trust obligation	57,338	59,514
Gift annuities payable	17,144	16,956
Revocable trust agreements	950,002	919,806
Total current liabilities	21,500,344	19,843,942
Long-term liabilities:		
National pension payable, less current portion	2,570,685	2,159,961
Trust obligation, less current portion	1,626,685	1,676,293
Gift annuities payable, less current portion	565,593	599,392
Custodial funds held	251,730	235,239
Total long-term liabilities	5,014,693	4,670,885
Total liabilities	26,515,037	24,514,827
Net assets:		
Unrestricted	39,921,058	32,727,003
Temporarily restricted	35,583,527	31,700,259
Permanently restricted	5,388,998	5,274,296
Total net assets	80,893,583	69,701,558
Commitments and contingencies (notes 6, 11, 12, and 13)		
Total liabilities and net assets	\$ 107,408,620	94,216,385

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Activities

Years ended June 30, 2006 and 2005

	2006			2005				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 1,917,959	201,341,422		203,259,381	2,462,675	168,885,390	—	171,348,065
Gifts in kind	—	86,935		86,935	—	111,482	—	111,482
Contributions from affiliated organizations	7,829,992	44,581,333		52,411,325	6,340,533	37,509,986	—	43,850,519
Interest and dividends	740,970	106,531		847,501	692,481	78,170	—	770,651
Net realized and unrealized gains on investments	141,023	246,879		387,902	101,879	130,188	—	232,067
Bequests	785,581	63,779	114,702	964,062	327,163	—	208,869	536,032
Royalty income	—	—		—	21,125	—	—	21,125
Changes in value of split-interest agreements	(11,201)	50,385		39,184	(41,121)	81,613	—	40,492
Net assets released from restrictions in satisfaction of program restrictions	242,593,996	(242,593,996)		—	201,424,374	(201,424,374)	—	—
Total revenue, gains, and other support	<u>253,998,320</u>	<u>3,883,268</u>	<u>114,702</u>	<u>257,996,290</u>	<u>211,329,109</u>	<u>5,372,455</u>	<u>208,869</u>	<u>216,910,433</u>
Expenses:								
Program services:								
Child development program	190,264,992			190,264,992	158,371,465	—	—	158,371,465
Sponsor/donor ministries	16,634,638			16,634,638	15,075,883	—	—	15,075,883
Total program services	<u>206,899,630</u>	<u>—</u>	<u>—</u>	<u>206,899,630</u>	<u>173,447,348</u>	<u>—</u>	<u>—</u>	<u>173,447,348</u>
Support services:								
Fundraising	20,955,636			20,955,636	19,095,014	—	—	19,095,014
Administration	18,948,999			18,948,999	16,007,252	—	—	16,007,252
Total support services	<u>39,904,635</u>	<u>—</u>	<u>—</u>	<u>39,904,635</u>	<u>35,102,266</u>	<u>—</u>	<u>—</u>	<u>35,102,266</u>
Total expenses	<u>246,804,265</u>	<u>—</u>	<u>—</u>	<u>246,804,265</u>	<u>208,549,614</u>	<u>—</u>	<u>—</u>	<u>208,549,614</u>
Change in net assets	7,194,055	3,883,268	114,702	11,192,025	2,779,495	5,372,455	208,869	8,360,819
Net assets, beginning of year	32,727,003	31,700,259	5,274,296	69,701,558	29,947,508	26,327,804	5,065,427	61,340,739
Net assets, end of year	<u>\$ 39,921,058</u>	<u>35,583,527</u>	<u>5,388,998</u>	<u>80,893,583</u>	<u>32,727,003</u>	<u>31,700,259</u>	<u>5,274,296</u>	<u>69,701,558</u>

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	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

Statement of Functional Expenses

Year ended June 30, 2005

	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	\$ 136,804,000	385,325	137,189,325	—	—	—	137,189,325
Salaries and related taxes	9,263,561	4,855,439	14,119,000	4,215,644	5,499,609	9,715,253	23,834,253
Employee benefits	2,822,386	1,222,889	4,045,275	1,066,992	1,749,248	2,816,240	6,861,515
Travel	3,247,361	722,580	3,969,941	1,492,284	369,147	1,861,431	5,831,372
Data processing services	1,458,650	3,077,790	4,536,440	1,369,528	2,929,051	4,298,579	8,835,019
Professional fees	952,463	1,338,500	2,290,963	3,965,934	1,722,496	5,688,430	7,979,393
Occupancy	1,400,196	551,945	1,952,141	450,934	908,954	1,359,888	3,312,029
Postage and shipping	163,548	1,450,459	1,614,007	1,184,857	1,196,709	2,381,566	3,995,573
Office equipment and supplies	2,014,688	762,905	2,777,593	677,948	1,422,698	2,100,646	4,878,239
Photos and printing	124,038	639,322	763,360	1,469,846	182,355	1,652,201	2,415,561
Media	—	57,580	57,580	2,110,368	23,391	2,133,759	2,191,339
International expansion grants	—	—	—	1,081,546	—	1,081,546	1,081,546
Miscellaneous	120,574	11,149	131,723	9,133	3,594	12,727	144,450
Total	\$ 158,371,465	15,075,883	173,447,348	19,095,014	16,007,252	35,102,266	208,549,614

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Cash Flows

Years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 11,192,025	8,360,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,317,112	2,915,297
Net gain on disposition of equipment	(24,106)	(58,595)
Net realized and unrealized gains on investments	(363,796)	(173,472)
Changes in value of split-interest agreements	(39,184)	(40,492)
Contributions restricted for investment in endowment	(114,702)	(208,869)
Changes in assets and liabilities:		
Increase in receivables	(228,661)	(501,270)
Increase in prepaid expenses and supplies	(709,469)	(563,177)
Increase in accounts payable and accrued liabilities	1,320,021	718,803
Increase in funds committed to sponsorship projects	250,199	1,974,963
Increase in national pension payable	457,887	610,078
Net cash provided by operating activities	15,057,326	13,034,085
Cash flows from investing activities:		
Purchases of investments	(33,798,360)	(21,872,631)
Proceeds from sales of investments	45,593,036	13,942,001
Proceeds from sales of property and equipment	93,666	24,527
Purchases of property and equipment	(23,717,387)	(4,379,218)
Net cash used in investing activities	(11,829,045)	(12,285,321)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(36,572)	—
Contributions restricted for investment in endowment	114,702	208,869
Decrease in gift annuities payable	(33,611)	(6,027)
Increase (decrease) in revocable trust agreements	30,196	(32,693)
(Decrease) increase in trust obligations	(51,784)	97
Increase in custodial funds held	16,491	18,898
Net cash provided by financing activities	39,422	189,144
Net increase in cash and cash equivalents	3,267,703	937,908
Cash and cash equivalents, beginning of year	22,781,538	21,843,630
Cash and cash equivalents, end of year	\$ 26,049,241	22,781,538

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2006 and 2005

(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 \$450,000 at both June 30, 2006 and 2005 is determined based on appraisals performed by an independent third party.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2006 and 2005

(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 30 years, furniture and equipment are depreciated over three to 10 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 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 which 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, 2006 and 2005

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 775,000 (unaudited) and 690,000 (unaudited) children in 2006 and 2005, 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, 2006 and 2005. 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, 2006 and 2005

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(m) Reclassifications

Certain 2005 amounts have been reclassified to conform with the 2006 financial statement presentation.

(3) Investments

Investments held as of June 30 are as follows:

	2006		2005	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Corporate bonds and government obligations	\$ 4,889,422	5,008,341	16,026,059	16,177,725
Corporate stocks	9,038,330	7,651,717	8,912,097	7,523,445
Mutual funds	3,225,035	2,480,816	3,056,448	2,443,537
Other	524,276	157,066	1,074,154	693,288
Total	<u>\$ 17,677,063</u>	<u>15,297,940</u>	<u>29,068,758</u>	<u>26,837,995</u>

Investments are restricted as follows as of June 30:

	2006		2005	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Gift annuities and revocable and irrevocable trusts	\$ 4,719,176	3,379,155	4,737,592	3,453,162
Childcare endowments	2,549,760	2,357,262	2,485,225	2,204,372
Leadership development program endowments	3,019,796	2,785,224	2,923,571	2,674,052
Total	<u>\$ 10,288,732</u>	<u>8,521,641</u>	<u>10,146,388</u>	<u>8,331,586</u>

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Notes to Financial Statements

June 30, 2006 and 2005

(4) Property, Plant, and Equipment

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

	2006	2005
Land	\$ 6,755,605	6,336,512
Building and building improvements	29,719,318	26,147,750
Furniture and equipment	15,285,864	12,168,887
Vehicles	2,890,347	2,408,743
Construction in process	16,058,628	1,479,216
Assets in progress	1,537,364	1,640,203
	72,247,126	50,181,311
Less accumulated depreciation and amortization	(15,764,559)	(14,076,842)
Property, plant, and equipment, net	\$ 56,482,567	36,104,469

Depreciation expense was \$3,317,112 and \$2,915,297 for the years ended June 30, 2006 and 2005, 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, 2006 and 2005 were \$14,587,854 and \$14,337,655, 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 \$3,772,818 and \$3,729,069 as of June 30, 2006 and 2005, respectively. Contributions from affiliated organizations totaled \$52,411,325 and \$43,850,519 for the years ended June 30, 2006 and 2005, respectively.

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Notes to Financial Statements

June 30, 2006 and 2005

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

	2006	2005
Great Britain (1975)	\$ 2,514,471	3,294,918
Great Britain (1999)	9,053,165	8,005,544
Australia	16,996,789	13,404,536
Canada	11,475,532	9,065,305
The Netherlands	3,491,646	2,903,978
New Zealand	2,026,800	1,797,797
France	1,503,567	1,484,444
Italy	3,274,443	2,763,245
Switzerland	719,994	557,090
South Korea	1,354,918	573,662
	\$ 52,411,325	43,850,519

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 (either due to 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:

	2006	2005
Child development programs:		
Child sponsorship program	\$ 24,073,610	22,492,009
Other child programs	9,935,192	7,736,488
Irrevocable trust agreements	1,574,725	1,471,762
	\$ 35,583,527	31,700,259

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Notes to Financial Statements

June 30, 2006 and 2005

(8) Permanently Restricted Net Assets

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

	2006	2005
Investments in perpetuity, the income from which is expendable to support:		
Child development programs	\$ 2,602,444	2,487,742
Leadership development program	2,786,554	2,786,554
	\$ 5,388,998	5,274,296

The net assets for child development programs are invested to provide a long-term total return sufficient to support a number of children 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:

	2006	2005
Purpose restrictions accomplished:		
Child sponsorship program	\$ 202,695,334	164,697,223
Other child programs	39,447,972	36,295,702
Software licenses used	86,935	111,482
Child development endowment earnings used	224,427	183,312
Leadership development endowment earnings used	139,328	136,655
	\$ 242,593,996	201,424,374

(10) Letter of Credit

Compassion has a revolving letter of credit for up to \$12,000,000 as of June 30, 2006, to fund costs associated with the construction of the Phase II Office Tower at the Colorado Springs headquarters. Funds may be drawn on the letter of credit at LIBOR plus 0.50%. Interest is payable monthly in arrears. As of June 30, 2006, construction has commenced, but no funds have been drawn on the letter of credit.

Compassion is required to pledge investments equal to 80% of the principal balance outstanding on the letter of credit. As of June 30, 2006, no collateral has been pledged since no funds have been drawn on the letter of credit.

(11) 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 \$2,319,324 and \$1,935,318 for the years ended June 30, 2006 and 2005, respectively.

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(12) National Pension Plan

Compassion maintains a self-funded pension 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 pension contribution expense was \$986,661 and \$866,832 for the years ended June 30, 2006 and 2005, respectively.

(13) 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.