



**COMPASSION INTERNATIONAL, INCORPORATED**

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

# COMPASSION INTERNATIONAL, INCORPORATED

## Table of Contents

	<b>Page</b>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	6
Notes to Financial Statements	7



**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, 2008 and 2007, 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, 2008 and 2007, 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 13, 2008

**COMPASSION INTERNATIONAL, INCORPORATED**

Statements of Financial Position

June 30, 2008 and 2007

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Current assets:		
Cash and cash equivalents	\$ 46,010,895	38,716,951
Investments	8,221,314	8,531,227
Receivables from affiliated organizations	6,488,940	4,333,197
Accounts receivable	1,296,607	353,932
Prepaid expenses and supplies	3,966,713	3,205,345
Total current assets	<u>65,984,469</u>	<u>55,140,652</u>
Noncurrent assets:		
Property, plant, and equipment, net	65,798,108	61,351,016
Total noncurrent assets	<u>65,798,108</u>	<u>61,351,016</u>
Restricted assets:		
Investments restricted for trust and annuity obligations	4,475,482	5,241,626
Investments restricted for long-term purposes	5,919,640	6,086,200
Total restricted assets	<u>10,395,122</u>	<u>11,327,826</u>
Total assets	<u>\$ 142,177,699</u>	<u>127,819,494</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,865,275	6,073,254
Funds committed to sponsorship projects	23,281,487	19,825,237
Accrued severance/retirement benefits for national employees	555,399	392,227
Trust obligation	56,446	60,073
Gift annuities payable	13,422	19,765
Revocable trust agreements	964,779	1,030,753
Total current liabilities	<u>36,736,808</u>	<u>27,401,309</u>
Long-term liabilities:		
Accrued severance/retirement benefits for national employees, less current portion	4,847,055	3,534,040
Trust obligation, less current portion	1,298,473	1,609,908
Gift annuities payable, less current portion	446,913	496,637
Custodial funds held	294,735	319,187
Total long-term liabilities	<u>6,887,176</u>	<u>5,959,772</u>
Total liabilities	<u>43,623,984</u>	<u>33,361,081</u>
Net assets:		
Unrestricted	49,822,162	46,295,702
Temporarily restricted	42,663,043	42,339,951
Permanently restricted	6,068,510	5,822,760
Total net assets	<u>98,553,715</u>	<u>94,458,413</u>
Total liabilities and net assets	<u>\$ 142,177,699</u>	<u>127,819,494</u>

See accompanying notes to financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED**

Statements of Activities

Years ended June 30, 2008 and 2007

	2008				2007			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 2,122,082	265,809,262	—	267,931,344	2,237,486	237,982,913	—	240,220,399
Gifts in kind	—	328,238	—	328,238	—	57,963	—	57,963
Contributions from affiliated organizations	14,809,170	83,314,406	—	98,123,576	10,789,267	59,163,093	—	69,952,360
Interest and dividends	1,137,846	139,047	—	1,276,893	937,962	131,931	—	1,069,893
Net realized and unrealized gains (losses) on investments and disposition of assets	(790,928)	(96,755)	—	(887,683)	907,048	349,062	200,000	1,456,110
Bequests and other income	1,590,945	3,700	245,750	1,840,395	875,797	3,872	233,762	1,113,431
Changes in value of split-interest agreements	(27,631)	(212,293)	—	(239,924)	48,109	116,612	—	164,721
Net assets released from restrictions in satisfaction of program restrictions	348,962,513	(348,962,513)	—	—	291,049,022	(291,049,022)	—	—
Total revenue, gains, and other support	<u>367,803,997</u>	<u>323,092</u>	<u>245,750</u>	<u>368,372,839</u>	<u>306,844,691</u>	<u>6,756,424</u>	<u>433,762</u>	<u>314,034,877</u>
Expenses:								
Program services:								
Child development program	277,360,616	—	—	277,360,616	228,940,136	—	—	228,940,136
Sponsor/donor ministries	25,375,107	—	—	25,375,107	21,826,713	—	—	21,826,713
Total program services	<u>302,735,723</u>	<u>—</u>	<u>—</u>	<u>302,735,723</u>	<u>250,766,849</u>	<u>—</u>	<u>—</u>	<u>250,766,849</u>
Support services:								
Fundraising	32,292,461	—	—	32,292,461	27,000,461	—	—	27,000,461
Administration	29,249,353	—	—	29,249,353	22,702,737	—	—	22,702,737
Total support services	<u>61,541,814</u>	<u>—</u>	<u>—</u>	<u>61,541,814</u>	<u>49,703,198</u>	<u>—</u>	<u>—</u>	<u>49,703,198</u>
Total expenses	<u>364,277,537</u>	<u>—</u>	<u>—</u>	<u>364,277,537</u>	<u>300,470,047</u>	<u>—</u>	<u>—</u>	<u>300,470,047</u>
Change in net assets	3,526,460	323,092	245,750	4,095,302	6,374,644	6,756,424	433,762	13,564,830
Net assets, beginning of year	46,295,702	42,339,951	5,822,760	94,458,413	39,921,058	35,583,527	5,388,998	80,893,583
Net assets, end of year	<u>\$ 49,822,162</u>	<u>42,663,043</u>	<u>6,068,510</u>	<u>98,553,715</u>	<u>46,295,702</u>	<u>42,339,951</u>	<u>5,822,760</u>	<u>94,458,413</u>

See accompanying notes to financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED**

Statement of Functional Expenses

Year ended June 30, 2008

	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	\$ 235,859,467	816,221	236,675,688	—	—	—	236,675,688
Salaries and related taxes	18,490,273	6,955,896	25,446,169	8,416,471	8,035,567	16,452,038	41,898,207
Employee benefits	5,228,088	1,778,678	7,006,766	2,091,605	2,224,073	4,315,678	11,322,444
Travel and training	6,687,203	1,045,164	7,732,367	3,201,829	618,343	3,820,172	11,552,539
Data processing services	1,860,559	7,506,578	9,367,137	3,150,914	8,331,019	11,481,933	20,849,070
Professional fees	1,624,626	2,356,549	3,981,175	4,487,200	3,545,525	8,032,725	12,013,900
Occupancy	3,006,528	691,484	3,698,012	1,049,826	1,580,355	2,630,181	6,328,193
Postage and shipping	159,304	1,954,980	2,114,284	1,624,009	1,783,905	3,407,914	5,522,198
Office equipment and supplies	3,701,701	1,229,827	4,931,528	1,207,662	2,578,703	3,786,365	8,717,893
Photos and printing	296,813	915,156	1,211,969	1,685,138	448,756	2,133,894	3,345,863
Media	9,865	88,065	97,930	4,297,502	93,559	4,391,061	4,488,991
International expansion grants	—	—	—	1,031,167	—	1,031,167	1,031,167
Miscellaneous	436,189	36,509	472,698	49,138	9,548	58,686	531,384
<b>Total</b>	<b>\$ 277,360,616</b>	<b>25,375,107</b>	<b>302,735,723</b>	<b>32,292,461</b>	<b>29,249,353</b>	<b>61,541,814</b>	<b>364,277,537</b>

See accompanying notes to financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED**

Statement of Functional Expenses

Year ended June 30, 2007

	<b>Program services</b>			<b>Support services</b>			<b>Total expenses</b>
	<b>Child development program</b>	<b>Sponsor/donor ministries</b>	<b>Total program expenses</b>	<b>Fund-raising</b>	<b>Administration</b>	<b>Total support services</b>	
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
<b>Total</b>	<b>\$ 228,940,136</b>	<b>21,826,713</b>	<b>250,766,849</b>	<b>27,000,461</b>	<b>22,702,737</b>	<b>49,703,198</b>	<b>300,470,047</b>

See accompanying notes to financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED**

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Change in net assets	\$ 4,095,302	13,564,830
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,811,375	4,893,615
Net (gain) loss on disposition of equipment	(42,225)	1,892
Net realized and unrealized losses (gains) on investments	845,457	(1,458,003)
Changes in value of split-interest agreements	239,924	(164,721)
Contributions restricted for investment in endowment	(245,750)	(433,762)
Changes in assets and liabilities:		
Increase in receivables	(3,098,418)	(481,181)
Increase in prepaid expenses and supplies	(761,368)	(211,543)
Increase in accounts payable and accrued liabilities	4,190,567	325,191
Increase in funds committed to sponsorship projects	3,456,250	5,237,383
Increase in accrued severance/retirement benefits for national employees	1,476,187	1,026,553
Net cash provided by operating activities	15,967,301	22,300,254
Cash flows from investing activities:		
Purchases of investments	(14,805,952)	(12,580,801)
Proceeds from sales of investments	14,963,188	12,721,540
Proceeds from sales of property and equipment	98,403	29,639
Purchases of property and equipment	(8,705,645)	(9,598,095)
Net cash used in investing activities	(8,450,006)	(9,427,717)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(7,546)	(6,414)
Contributions restricted for investment in endowment	245,750	433,762
Decrease in gift annuities payable	(56,067)	(66,335)
(Decrease) increase in revocable trust agreements	(65,974)	80,751
Decrease in trust obligations	(315,062)	(14,042)
(Decrease) increase in custodial funds held	(24,452)	67,457
Net cash (used in) provided by financing activities	(223,351)	495,179
Net increase in cash and cash equivalents	7,293,944	13,367,716
Cash and cash equivalents, beginning of year	38,716,951	25,349,235
Cash and cash equivalents, end of year	\$ 46,010,895	38,716,951
Noncash transactions:		
Capital purchases acquired on credit	\$ (1,609,000)	(195,500)

See accompanying notes to financial statements.

# COMPASSION INTERNATIONAL, INCORPORATED

## Notes to Financial Statements

June 30, 2008 and 2007

### (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 with either 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 \$135,219 and \$322,550 at June 30, 2008 and 2007, respectively, is determined based on appraisals performed by an independent third party.

## COMPASSION INTERNATIONAL, INCORPORATED

### Notes to Financial Statements

June 30, 2008 and 2007

**(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 the 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 statement 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, 2008 and 2007

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 the 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Child development program represents costs to assist over 1,062,000 (unaudited) and 880,000 (unaudited) children in 2008 and 2007, 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 the 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 its 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, 2008 and 2007. 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.

## COMPASSION INTERNATIONAL, INCORPORATED

### Notes to Financial Statements

June 30, 2008 and 2007

**(l) Self-funded Medical Insurance**

As of January 1, 2008, Compassion established a plan for self-funding medical claims of employees in the United States of America. Through its broker Compassion has contracted with a third-party administrator. Compassion has also purchased stop-loss coverage which provides for an annual specific deductible per individual of \$150,000 and an annual aggregate deductible of \$4,779,336 for its combined population. Compassion has estimated incurred but not reported claims at June 30, 2008 to be approximately \$887,000, which has been accrued in the accompanying financial statements.

**(m) 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.

**(n) 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.

**(o) Reclassifications**

Certain 2007 amounts have been reclassified to conform with the 2008 financial statement presentation.

**(p) Future Accounting Pronouncement**

In August 2008, the Financial Accounting Standards Board (FASB) issued Staff Position No. FSP FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and expands disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds), whether or not an organization is subject to UPMIFA. FSP FAS 117-1 is effective for fiscal years ending after December 15, 2008. The impact of adopting this statement is not expected to have a material impact on Compassion's financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED**

Notes to Financial Statements

June 30, 2008 and 2007

**(3) Investments**

Investments held as of June 30 are as follows:

	<b>2008</b>		<b>2007</b>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Restricted cash and cash equivalents	\$ 1,213,274	1,213,274	745,552	745,552
Corporate bonds and government obligations	5,596,223	5,528,847	4,960,938	5,017,534
Corporate stocks	8,301,865	8,207,399	10,031,093	8,318,672
Mutual funds	3,273,756	2,735,405	3,709,967	2,624,356
Other	231,318	231,318	411,503	166,655
Total	<u>\$ 18,616,436</u>	<u>17,916,243</u>	<u>19,859,053</u>	<u>16,872,769</u>

Investments are restricted as follows as of June 30:

	<b>2008</b>		<b>2007</b>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Gift annuities and revocable and irrevocable trusts	\$ 4,475,482	3,878,924	5,241,625	3,719,644
Childcare endowments	2,783,545	2,773,968	2,785,950	2,576,304
Leadership development program endowments	3,136,095	3,137,963	3,300,251	2,977,100
Total	<u>\$ 10,395,122</u>	<u>9,790,855</u>	<u>11,327,826</u>	<u>9,273,048</u>

**(4) Property, Plant, and Equipment**

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

	<u><b>2008</b></u>	<u><b>2007</b></u>
Land	\$ 7,189,084	7,178,277
Building and building improvements	51,873,741	50,263,506
Furniture and equipment	22,904,251	19,484,525
Vehicles	3,523,618	3,299,786
Construction in process	1,901,724	21,513
Assets in progress	2,997,101	705,370
	90,389,519	80,952,977
Less accumulated depreciation and amortization	<u>(24,591,411)</u>	<u>(19,601,961)</u>
Property, plant, and equipment, net	<u>\$ 65,798,108</u>	<u>61,351,016</u>

**COMPASSION INTERNATIONAL, INCORPORATED**

Notes to Financial Statements

June 30, 2008 and 2007

Depreciation expense was \$5,811,375 and \$4,893,615 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 were \$23,281,487 and \$19,825,237, respectively. These committed program funds are accrued at year-end in the statement 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, Germany, 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 \$6,488,940 and \$4,333,197 as of June 30, 2008 and 2007, respectively. Contributions from affiliated organizations totaled \$98,123,576 and \$69,952,360 for the years ended June 30, 2008 and 2007, respectively.

The start-up and operating costs for the organization in Germany were funded by Compassion and recorded in fundraising expenses in the statements of activities in the amount of \$1,018,177 for the year ended June 30, 2008. The organization in Germany became a separate entity in February 2008.

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

	<u>2008</u>	<u>2007</u>
Great Britain (1975)	\$ 2,055,251	2,419,152
Great Britain (1999)	18,957,784	12,816,596
Australia	27,603,063	20,922,180
Canada	20,919,452	15,128,639
The Netherlands	7,631,626	4,773,400
New Zealand	3,078,608	2,380,836
France	2,053,868	1,817,800
Italy	5,337,365	4,181,464
Switzerland	1,478,959	1,061,137
South Korea	8,973,701	4,451,156
Germany	33,899	—
	<u>\$ 98,123,576</u>	<u>69,952,360</u>

**COMPASSION INTERNATIONAL, INCORPORATED**

Notes to Financial Statements

June 30, 2008 and 2007

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 end in fiscal year 2009. 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. 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:

	<b>2008</b>	<b>2007</b>
Child development programs:		
Child sponsorship program	\$ 28,034,907	25,508,762
Other child programs	13,160,730	15,151,026
Irrevocable trust agreements	1,467,406	1,680,163
	<b>\$ 42,663,043</b>	<b>42,339,951</b>

**(8) Permanently Restricted Net Assets**

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

	<b>2008</b>	<b>2007</b>
Investments in perpetuity, the income from which is expendable to support:		
Child development programs	\$ 3,031,956	2,786,206
Leadership development program	3,036,554	3,036,554
	<b>\$ 6,068,510</b>	<b>5,822,760</b>

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.

## COMPASSION INTERNATIONAL, INCORPORATED

### Notes to Financial Statements

June 30, 2008 and 2007

#### (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:

	<u>2008</u>	<u>2007</u>
Purpose restrictions accomplished:		
Child sponsorship program	\$ 276,352,177	236,585,791
Other child programs	71,945,409	54,037,602
Software licenses used	328,238	57,963
Child development endowment earnings used	235,086	220,629
Leadership development endowment earnings used	101,603	147,037
	<u>\$ 348,962,513</u>	<u>291,049,022</u>

#### (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 \$2,959,463 and \$2,441,585 for the years ended June 30, 2008 and 2007, respectively.

#### (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 \$1,976,772 and \$1,530,767 for the years ended June 30, 2008 and 2007, 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.