



COMPASSION INTERNATIONAL, INCORPORATED

Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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 23, 2009

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Financial Position

June 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 50,806,070	45,897,827
Investments	6,885,388	8,221,314
Receivables from affiliated organizations	7,947,171	6,488,940
Accounts receivable	145,346	1,260,805
Prepaid expenses and supplies	3,483,105	3,966,713
Total current assets	69,267,080	65,835,599
Noncurrent assets:		
Property, plant, and equipment, net	67,690,411	65,798,108
Total noncurrent assets	67,690,411	65,798,108
Restricted assets:		
Investments restricted for trust and annuity obligations	3,215,139	4,475,482
Investments restricted for long-term purposes	6,139,305	6,068,510
Total restricted assets	9,354,444	10,543,992
Total assets	\$ 146,311,935	142,177,699
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,104,665	11,865,275
Funds committed to sponsorship projects	23,200,401	23,281,487
Accrued severance/retirement benefits for national employees	664,643	555,399
Trust obligation	40,135	56,446
Gift annuities payable	16,249	13,422
Revocable trust agreements	317,146	964,779
Total current liabilities	33,343,239	36,736,808
Long-term liabilities:		
Accrued severance/retirement benefits for national employees, less current portion	6,272,096	4,847,055
Trust obligation, less current portion	969,095	1,298,473
Gift annuities payable, less current portion	404,562	446,913
Custodial funds held	240,166	294,735
Total long-term liabilities	7,885,919	6,887,176
Total liabilities	41,229,158	43,623,984
Net assets:		
Unrestricted	49,636,472	49,822,162
Temporarily restricted	49,307,000	42,663,043
Permanently restricted	6,139,305	6,068,510
Total net assets	105,082,777	98,553,715
Total liabilities and net assets	\$ 146,311,935	142,177,699

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Activities

Years ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 2,708,203	295,519,299	70,795	298,298,297	3,716,316	265,812,962	245,750	269,775,028
Gifts in kind	—	143,367	—	143,367	—	328,238	—	328,238
Contributions from affiliated organizations	17,104,375	88,919,062	—	106,023,437	14,809,170	83,314,406	—	98,123,576
Interest, dividends and other income	568,349	134,862	—	703,211	1,134,557	139,047	—	1,273,604
Net realized and unrealized gains (losses) on investments and disposition of assets	(2,712,152)	140,690	—	(2,571,462)	(790,928)	(96,755)	—	(887,683)
Changes in value of split-interest agreements	(91,865)	(201,423)	—	(293,288)	(27,631)	(212,293)	—	(239,924)
Net assets released from restrictions in satisfaction of program restrictions	378,011,900	(378,011,900)	—	—	348,962,513	(348,962,513)	—	—
Total revenue, gains, and other support	<u>395,588,810</u>	<u>6,643,957</u>	<u>70,795</u>	<u>402,303,562</u>	<u>367,803,997</u>	<u>323,092</u>	<u>245,750</u>	<u>368,372,839</u>
Expenses:								
Program services:								
Child development program	296,967,987	—	—	296,967,987	277,360,616	—	—	277,360,616
Sponsor/donor ministries	26,333,520	—	—	26,333,520	25,375,107	—	—	25,375,107
Total program services	<u>323,301,507</u>	<u>—</u>	<u>—</u>	<u>323,301,507</u>	<u>302,735,723</u>	<u>—</u>	<u>—</u>	<u>302,735,723</u>
Support services:								
Fundraising	38,938,535	—	—	38,938,535	32,292,461	—	—	32,292,461
Administration	33,534,458	—	—	33,534,458	29,249,353	—	—	29,249,353
Total support services	<u>72,472,993</u>	<u>—</u>	<u>—</u>	<u>72,472,993</u>	<u>61,541,814</u>	<u>—</u>	<u>—</u>	<u>61,541,814</u>
Total expenses	<u>395,774,500</u>	<u>—</u>	<u>—</u>	<u>395,774,500</u>	<u>364,277,537</u>	<u>—</u>	<u>—</u>	<u>364,277,537</u>
Change in net assets	(185,690)	6,643,957	70,795	6,529,062	3,526,460	323,092	245,750	4,095,302
Net assets, beginning of year	49,822,162	42,663,043	6,068,510	98,553,715	46,295,702	42,339,951	5,822,760	94,458,413
Net assets, end of year	<u>\$ 49,636,472</u>	<u>49,307,000</u>	<u>6,139,305</u>	<u>105,082,777</u>	<u>49,822,162</u>	<u>42,663,043</u>	<u>6,068,510</u>	<u>98,553,715</u>

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2009

	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	\$ 251,009,818	824,235	251,834,053	—	—	—	251,834,053
Salaries and related taxes	22,487,996	8,017,449	30,505,445	11,162,595	11,336,613	22,499,208	53,004,653
Employee benefits	5,931,649	1,757,300	7,688,949	2,661,213	3,029,731	5,690,944	13,379,893
Travel and training	6,071,829	630,991	6,702,820	4,039,435	907,653	4,947,088	11,649,908
Data processing services	2,613,373	6,880,157	9,493,530	4,533,311	7,605,054	12,138,365	21,631,895
Professional fees	1,785,608	3,110,894	4,896,502	6,410,881	4,093,890	10,504,771	15,401,273
Occupancy	3,313,305	739,952	4,053,257	1,176,127	1,913,072	3,089,199	7,142,456
Postage and shipping	230,082	2,295,291	2,525,373	1,914,197	1,557,358	3,471,555	5,996,928
Office equipment and supplies	2,767,737	930,589	3,698,326	1,216,495	2,553,383	3,769,878	7,468,204
Photos and printing	291,539	860,772	1,152,311	1,706,125	445,825	2,151,950	3,304,261
Media	5,949	277,361	283,310	3,446,584	72,923	3,519,507	3,802,817
International expansion grants	—	—	—	645,846	—	645,846	645,846
Miscellaneous	459,102	8,529	467,631	25,726	18,956	44,682	512,313
Total	\$ 296,967,987	26,333,520	323,301,507	38,938,535	33,534,458	72,472,993	395,774,500

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
Total	\$ 277,360,616	25,375,107	302,735,723	32,292,461	29,249,353	61,541,814	364,277,537

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 6,529,062	4,095,302
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,273,796	5,811,375
Net loss (gain) on disposition of equipment	374,769	(42,225)
Net realized and unrealized losses on investments	2,196,692	929,908
Changes in value of split-interest agreements	293,288	239,924
Contributions restricted for investment in endowment	(70,795)	(245,750)
Changes in assets and liabilities:		
Increase in receivables	(342,772)	(3,062,616)
Decrease (increase) in prepaid expenses and supplies	483,608	(761,368)
(Decrease) increase in accounts payable and accrued liabilities	(2,752,805)	4,190,567
(Decrease) increase in funds committed to sponsorship projects	(81,086)	3,456,250
Increase in accrued severance/retirement benefits for national employees	1,534,285	1,476,187
Net cash provided by operating activities	15,438,042	16,087,554
Cash flows from investing activities:		
Purchases of investments	(14,992,642)	(12,739,261)
Proceeds from sales of investments	15,028,136	12,663,176
Proceeds from sales of property and equipment	61,679	98,403
Purchases of property and equipment	(9,602,546)	(8,705,645)
Net cash used in investing activities	(9,505,373)	(8,683,327)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(7,806)	(7,546)
Contributions restricted for investment in endowment	70,795	245,750
Decrease in gift annuities payable	(39,524)	(56,067)
Decrease in revocable trust agreements	(647,633)	(65,974)
Decrease in trust obligations	(345,689)	(315,062)
Decrease in custodial funds held	(54,569)	(24,452)
Net cash used in financing activities	(1,024,426)	(223,351)
Net increase in cash and cash equivalents	4,908,243	7,180,876
Cash and cash equivalents, beginning of year	45,897,827	38,716,951
Cash and cash equivalents, end of year	\$ 50,806,070	45,897,827
Noncash transactions:		
Capital purchases acquired on credit	\$ —	(1,609,000)

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

(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 restrictions 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. 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 balances due to the size and financial wherewithal of the financial institutions.

(c) *Investments*

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

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

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 at June 30, 2008 was determined based on appraisals performed by an independent third party. This investment was sold during 2009; therefore, no investments were valued based on an appraisal from a third party as of June 30, 2009.

(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 5 to 30 years, furniture and equipment are depreciated over 3 to 10 years, and vehicles are depreciated over 3 to 5 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-imposed restrictions that limit the use of the donated assets. When a donor-imposed 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.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

(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 trust obligations is recorded for the present value of future payments to beneficiaries based on a 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 1,142,000 (unaudited) and 1,062,000 (unaudited) children in 2009 and 2008, respectively, through grants that engage these children in activities to develop them spiritually, economically, socially, and physically. 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. Compassion recorded \$224,162 and \$0 of impairment losses for the years ended June 30, 2009 and 2008, respectively.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

(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 generated no unrelated business income during the years ended June 30, 2009 and 2008. 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.

(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 to be approximately \$771,000 and \$887,000 for the years ended June 30, 2009 and 2008, respectively, which have 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 2008 amounts have been reclassified to conform with the 2009 financial statement presentation.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

(3) Investments

Investments held as of June 30 are as follows:

	2009		2008	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Restricted cash and cash equivalents	\$ 1,897,822	1,897,822	1,362,144	1,362,144
Corporate bonds	2,448,802	2,482,208	2,754,789	3,498,503
Government obligations	2,392,097	2,188,867	2,841,434	2,030,344
Corporate stocks	6,814,417	7,284,793	8,301,865	8,207,399
Mutual funds	2,585,228	2,757,428	3,273,756	2,735,405
Other	101,466	101,466	231,318	231,318
Total	<u>\$ 16,239,832</u>	<u>16,712,584</u>	<u>18,765,306</u>	<u>18,065,113</u>

Investments are restricted as follows as of June 30:

	2009		2008	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Gift annuities and revocable and irrevocable trusts	\$ 3,215,139	3,256,910	4,475,482	3,878,924
Childcare endowments	3,102,751	3,107,955	3,031,956	3,022,378
Leadership development program endowments	3,036,554	3,273,287	3,036,554	3,038,423
Total	<u>\$ 9,354,444</u>	<u>9,638,152</u>	<u>10,543,992</u>	<u>9,939,725</u>

(4) Property, Plant, and Equipment

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

	<u>2009</u>	<u>2008</u>
Land	\$ 9,188,462	7,189,084
Building and building improvements	55,811,616	51,873,741
Furniture and equipment	29,225,495	22,904,251
Vehicles	3,762,423	3,523,618
Construction in process	13,802	1,901,724
Assets in progress	729,744	2,997,101
	<u>98,731,542</u>	<u>90,389,519</u>
Less accumulated depreciation and amortization	<u>(31,041,131)</u>	<u>(24,591,411)</u>
Property, plant, and equipment, net	<u>\$ 67,690,411</u>	<u>65,798,108</u>

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2009 and 2008

Depreciation and amortization expense was \$7,273,796 and \$5,811,375 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008 were \$23,200,401 and \$23,281,487, 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 \$7,947,171 and \$6,488,940 as of June 30, 2009 and 2008, respectively. Contributions from affiliated organizations totaled \$106,023,437 and \$98,123,576 for the years ended June 30, 2009 and 2008, respectively.

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

	<u>2009</u>	<u>2008</u>
Great Britain	\$ 20,708,747	21,013,035
Australia	28,541,357	27,603,063
Canada	22,374,539	20,919,452
The Netherlands	8,604,797	7,631,626
New Zealand	3,223,592	3,078,608
France	2,308,283	2,053,868
Italy	4,945,018	5,337,365
Switzerland	1,578,704	1,478,959
South Korea	13,381,759	8,973,701
Germany	356,641	33,899
	<u>\$ 106,023,437</u>	<u>98,123,576</u>

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June 30, 2009 and 2008

(7) Restricted Net Assets

During the year ended June 30, 2009, the State of Colorado passed the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA or the Act). The Act was effective September 1, 2008, and provides statutory guidance for the management, investment, and expenditure of endowment funds held by not-for-profit organizations. Amongst other provisions, the Act eliminates the “historical dollar value” rule for endowment funds, in favor of guidelines regarding what constitutes prudent spending and explicitly requires consideration of the following factors (if relevant):

1. Duration and preservation of the fund
2. Purposes of Compassion and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Restricted net assets

For the year ended June 30, 2009, Compassion adopted Financial Accounting Standards Board (FASB) Staff Position 117-1, *Endowments of Not-for-Profit Organizations – Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). Initial application had no impact on Compassion’s previously reported total net assets.

As of June 30, 2009 Compassion has two donor-restricted funds. All permanently restricted endowment funds have donor-imposed restrictions which classifies the original value of gifts donated as permanently restricted net assets. A portion of the earnings from the donor-restricted endowment funds may be used to keep the endowment principal at adequate levels to ensure perpetuity of funding. These endowments allow for 100% of annual investment earnings to be appropriated for expenditure in accordance with the donor’s stipulations.

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The Child Sponsorship Endowment Fund is established for the purpose of providing ongoing support for children participating in Compassion's Child Sponsorship Program. The Leadership Development Endowment Fund is established for the purpose of providing ongoing support for students participating in Compassion's Leadership Development Program. For the year ended June 30, 2009, changes in temporarily restricted net assets by program consisted of the following:

	Child development	Leadership development	Total
Changes in temporarily restricted endowment net assets:			
Endowment net assets, beginning of year	\$ —	2,391	2,391
Total investment return	239,691	36,689	276,380
Appropriation of endowment assets	(239,691)	(39,080)	(278,771)
Endowment net assets, end of year	\$ —	—	—

(8) Temporarily Restricted Net Assets

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

	2009	2008
Child development programs:		
Child sponsorship program	\$ 29,946,696	28,034,907
Other child programs	18,112,034	13,160,730
Irrevocable trust agreements	1,248,270	1,467,406
	\$ 49,307,000	42,663,043

(9) Permanently Restricted Net Assets

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

	2009	2008
Investments in perpetuity, the income from which is expendable to support:		
Child development programs	\$ 3,102,751	3,031,956
Leadership development program	3,036,554	3,036,554
	\$ 6,139,305	6,068,510

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.

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(10) Net Assets Released from Restrictions

Net assets were released from donor-imposed restrictions by meeting time and purpose restrictions for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Purpose restrictions accomplished:		
Child sponsorship program	\$ 296,330,816	276,352,177
Other child programs	81,258,946	71,945,409
Software licenses used	143,367	328,238
Child development endowment earnings used	239,691	235,086
Leadership development endowment earnings used	39,080	101,603
	<u>\$ 378,011,900</u>	<u>348,962,513</u>

(11) Fair Value Measurements

Effective July 1, 2008, Compassion International adopted Statement of Financial Accounting Standards (SFAS), *Fair Value Measurements*. SFAS 157 defines and establishes a framework for measuring fair value and establishes a fair value hierarchy. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value: Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. Compassion's investments as of June 30, 2009 are Level 1 investments within the fair value hierarchy, except for \$10,001 of investments, which fall within Level 3 of the hierarchy.

(12) 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 \$4,085,942 and \$2,959,463 for the years ended June 30, 2009 and 2008, respectively.

(13) 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 \$2,145,107 and \$1,976,772 for the years ended June 30, 2009 and 2008, respectively.

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(14) Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. This statement is intended to establish general standards of accounting for the disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. This statement is effective and was adopted by Compassion for the fiscal year ended June 30, 2009. Compassion has evaluated subsequent events through September 23, 2009, the date the financial statements were available to be issued.