



COMPASSION INTERNATIONAL, INCORPORATED

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INCORPORATED

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KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202-3499

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, 2011 and 2010, 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, 2011 and 2010, 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 16, 2011

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Financial Position

June 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Cash and cash equivalents	\$ 78,269,231	99,305,428
Investments	69,242,880	7,432,043
Receivables from affiliated organizations	8,424,775	13,226,205
Accounts receivable	791,918	128,701
Foreign exchange contracts, at fair value	237,308	—
Prepaid expenses and supplies	4,152,280	3,381,929
Total current assets	161,118,392	123,474,306
Noncurrent assets:		
Property, plant, and equipment, net	61,617,388	64,302,156
Total noncurrent assets	61,617,388	64,302,156
Restricted assets:		
Investments restricted for trust and annuity obligations	3,362,523	3,434,172
Investments restricted for long-term purposes	7,654,710	6,787,361
Total restricted assets	11,017,233	10,221,533
Total assets	\$ 233,753,013	197,997,995
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,724,622	11,778,528
Funds committed to sponsorship projects	35,806,819	35,314,182
Accrued severance/retirement benefits for national employees	792,315	689,059
Trust obligation	35,632	43,175
Gift annuities payable	13,406	13,990
Revocable trust agreements	438,102	351,730
Total current liabilities	50,810,896	48,190,664
Long-term liabilities:		
Accrued severance/retirement benefits for national employees, less current portion	9,178,350	7,570,922
Trust obligation, less current portion	1,047,524	1,058,882
Gift annuities payable, less current portion	363,716	416,750
Custodial funds held	294,426	254,171
Total long-term liabilities	10,884,016	9,300,725
Total liabilities	61,694,912	57,491,389
Net assets:		
Unrestricted	66,025,702	54,250,172
Temporarily restricted	99,017,494	79,509,129
Permanently restricted	7,014,905	6,747,305
Total net assets	172,058,101	140,506,606
Total liabilities and net assets	\$ 233,753,013	197,997,995

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Activities

Years ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 2,658,776	372,808,930	267,600	375,735,306	2,754,037	355,762,309	608,000	359,124,346
Gifts in kind	—	428,909	—	428,909	—	220,391	—	220,391
Contributions from affiliated organizations	23,627,444	147,609,467	—	171,236,911	20,668,701	126,029,220	—	146,697,921
Interest, dividends, and other income	1,151,242	139,206	—	1,290,448	843,957	102,004	—	945,961
Net realized and unrealized gains (losses) on investments and disposition of assets	1,988,676	994,681	—	2,983,357	(46,271)	258,289	—	212,018
Change in cumulative unrealized gain on foreign exchange contracts	237,308	—	—	237,308	—	—	—	—
Changes in value of split-interest agreements	238,426	(186,488)	—	51,938	(60,164)	50,673	—	(9,491)
Net assets released from restrictions in satisfaction of program restrictions	502,286,340	(502,286,340)	—	—	452,220,757	(452,220,757)	—	—
Total revenue, gains, and other support	<u>532,188,212</u>	<u>19,508,365</u>	<u>267,600</u>	<u>551,964,177</u>	<u>476,381,017</u>	<u>30,202,129</u>	<u>608,000</u>	<u>507,191,146</u>
Expenses:								
Program services:								
Child development program	404,700,219	—	—	404,700,219	364,842,037	—	—	364,842,037
Sponsor/donor ministries	28,707,362	—	—	28,707,362	25,166,424	—	—	25,166,424
Total program services	<u>433,407,581</u>	<u>—</u>	<u>—</u>	<u>433,407,581</u>	<u>390,008,461</u>	<u>—</u>	<u>—</u>	<u>390,008,461</u>
Supporting activities:								
Fund-raising	49,430,298	—	—	49,430,298	45,932,098	—	—	45,932,098
Administration	37,574,803	—	—	37,574,803	35,826,758	—	—	35,826,758
Total supporting activities	<u>87,005,101</u>	<u>—</u>	<u>—</u>	<u>87,005,101</u>	<u>81,758,856</u>	<u>—</u>	<u>—</u>	<u>81,758,856</u>
Total expenses	<u>520,412,682</u>	<u>—</u>	<u>—</u>	<u>520,412,682</u>	<u>471,767,317</u>	<u>—</u>	<u>—</u>	<u>471,767,317</u>
Change in net assets	11,775,530	19,508,365	267,600	31,551,495	4,613,700	30,202,129	608,000	35,423,829
Net assets, beginning of year	54,250,172	79,509,129	6,747,305	140,506,606	49,636,472	49,307,000	6,139,305	105,082,777
Net assets, end of year	<u>\$ 66,025,702</u>	<u>99,017,494</u>	<u>7,014,905</u>	<u>172,058,101</u>	<u>54,250,172</u>	<u>79,509,129</u>	<u>6,747,305</u>	<u>140,506,606</u>

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2011

	Program services			Supporting activities			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	
Direct payments to field	\$ 343,345,254	771,411	344,116,665	—	—	—	344,116,665
Salaries and related taxes	28,264,223	9,182,320	37,446,543	14,805,595	13,913,154	28,718,749	66,165,292
Employee benefits	6,883,382	2,491,548	9,374,930	3,397,344	4,255,046	7,652,390	17,027,320
Travel and training	9,928,949	1,199,927	11,128,876	4,143,684	916,718	5,060,402	16,189,278
Data processing services	4,220,691	3,125,258	7,345,949	6,746,981	6,801,900	13,548,881	20,894,830
Professional fees	3,251,680	5,148,979	8,400,659	9,281,292	5,684,434	14,965,726	23,366,385
Occupancy	4,293,739	873,128	5,166,867	1,662,535	2,878,965	4,541,500	9,708,367
Postage and shipping	264,492	2,535,180	2,799,672	1,603,411	1,183,954	2,787,365	5,587,037
Office equipment and supplies	3,590,943	1,091,063	4,682,006	1,453,653	1,534,371	2,988,024	7,670,030
Photos and printing	263,812	1,094,853	1,358,665	1,590,180	338,982	1,929,162	3,287,827
Media	2,273	1,160,641	1,162,914	4,252,367	43,727	4,296,094	5,459,008
International expansion grants	—	—	—	414,629	—	414,629	414,629
Miscellaneous	390,781	33,054	423,835	78,627	23,552	102,179	526,014
Total	\$ 404,700,219	28,707,362	433,407,581	49,430,298	37,574,803	87,005,101	520,412,682

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2010

	Program services			Supporting activities			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	
Direct payments to field	\$ 309,341,263	690,878	310,032,141	—	—	—	310,032,141
Salaries and related taxes	25,295,407	8,378,428	33,673,835	13,307,404	12,770,569	26,077,973	59,751,808
Employee benefits	6,085,707	2,168,797	8,254,504	2,926,127	3,593,413	6,519,540	14,774,044
Travel and training	8,913,425	896,078	9,809,503	4,137,606	849,798	4,987,404	14,796,907
Data processing services	4,168,305	3,754,643	7,922,948	7,078,482	7,017,451	14,095,933	22,018,881
Professional fees	2,384,980	3,922,438	6,307,418	6,751,279	5,488,782	12,240,061	18,547,479
Occupancy	3,640,318	694,304	4,334,622	1,345,322	1,838,885	3,184,207	7,518,829
Postage and shipping	239,356	2,563,676	2,803,032	2,032,014	1,434,176	3,466,190	6,269,222
Office equipment and supplies	3,681,220	589,310	4,270,530	1,697,024	2,428,034	4,125,058	8,395,588
Photos and printing	307,527	1,027,572	1,335,099	1,794,896	322,718	2,117,614	3,452,713
Media	10,395	443,208	453,603	4,133,344	63,864	4,197,208	4,650,811
International expansion grants	—	—	—	662,461	—	662,461	662,461
Miscellaneous	774,134	37,092	811,226	66,139	19,068	85,207	896,433
Total	\$ 364,842,037	25,166,424	390,008,461	45,932,098	35,826,758	81,758,856	471,767,317

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ 31,551,495	35,423,829
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,256,658	7,010,424
Net (gain) loss on disposition of equipment	(18,409)	367,304
Net realized and unrealized gain on investments	(2,964,949)	(579,321)
Change in cumulative unrealized gain on foreign exchange contracts	(237,308)	—
Changes in value of split-interest agreements	(51,938)	9,491
Contributions restricted for investment in endowment	(267,600)	(608,000)
Changes in assets and liabilities:		
Decrease (increase) in receivables	4,138,213	(5,262,389)
(Increase) decrease in prepaid expenses and supplies	(770,351)	101,176
Increase in accounts payable and accrued liabilities	1,948,070	2,681,719
Increase in funds committed to sponsorship projects	492,637	12,113,781
Increase in accrued severance/retirement benefits for national employees	1,710,684	1,323,242
Net cash provided by operating activities	41,787,202	52,581,256
Cash flows from investing activities:		
Purchases of investments	(82,603,264)	(8,439,959)
Proceeds from sales of investments	23,013,614	7,596,045
Proceeds from sales of property and equipment	78,245	78,045
Purchases of property and equipment	(3,631,726)	(4,067,518)
Net cash used in investing activities	(63,143,131)	(4,833,387)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(1,976)	(7,856)
Contributions restricted for investment in endowment	267,600	608,000
(Decrease) increase in gift annuities payable	(53,618)	9,929
Increase in revocable trust agreements	86,372	34,584
(Decrease) increase in trust obligations	(18,901)	92,827
Increase in custodial funds held	40,255	14,005
Net cash provided by financing activities	319,732	751,489
Net (decrease) increase in cash and cash equivalents	(21,036,197)	48,499,358
Cash and cash equivalents, beginning of year	99,305,428	50,806,070
Cash and cash equivalents, end of year	\$ 78,269,231	99,305,428

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2011 and 2010

(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 four 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. As of June 30, 2011 and 2010, the vast majority of Compassion's investments are reflected at fair value based on quoted market prices.

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2011 and 2010

(d) *Property, Plant, and Equipment*

Land, buildings and building improvements, furniture, equipment and software 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, equipment and software 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 shorter of the life of the equipment or 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 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

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2011 and 2010

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 1,280,000 (unaudited) and 1,220,000 (unaudited) children in our child survival, child sponsorship, and leadership development programs in 2011 and 2010, 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, 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 Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*. ASC 360 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 ASC 360 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 \$0 and \$263,310 of impairment losses for the years ended June 30, 2011 and 2010, respectively.

(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, 2011 and 2010. 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, 2011 and 2010

(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 for the years ended June 30, 2011 and 2010, respectively. Compassion has estimated incurred but not reported claims to be approximately \$1,075,000 and \$895,000 for the years ended June 30, 2011 and 2010, respectively, which have been accrued in the accompanying financial statements.

(m) Foreign Currency

Substantially, all assets and liabilities of foreign field offices have been translated at foreign exchange rates in effect at June 30, 2011 and 2010. All foreign office revenue and expense amounts are converted at the rate in effect on the date of the transaction. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

(n) Foreign Exchange Contracts

To assist in the management of foreign currency risk, Compassion may enter into foreign exchange contracts, which provide for the future exchange of funds at agreed-upon rates. These contracts are recorded at fair value in the accompanying statement of financial position at June 30, 2011 and unrealized gains and losses are recognized in the accompanying statement of activities for the year ended June 30, 2011. There were no such contracts at June 30, 2010.

At June 30, 2011, Compassion had in place foreign exchange contracts for sale of U.S. dollars to buy foreign currencies with notional amounts totaling \$12,858,000.

(o) 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.

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Notes to Financial Statements

June 30, 2011 and 2010

(3) Investments

Investments held as of June 30 are as follows:

	2011		2010	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Restricted cash and cash equivalents	\$ 1,291,821	1,291,821	1,512,070	1,512,070
Corporate bonds	28,450,618	28,107,775	2,990,265	2,783,349
Government obligations	36,852,662	36,256,368	2,019,086	1,903,627
Corporate stocks	9,687,907	7,761,120	8,200,682	8,225,217
Mutual funds	3,819,935	3,662,814	2,842,169	2,767,079
Other	157,170	157,170	89,304	89,304
Total	<u>\$ 80,260,113</u>	<u>77,237,068</u>	<u>17,653,576</u>	<u>17,280,646</u>

Investments are restricted as follows as of June 30:

	2011		2010	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Gift annuities and revocable and irrevocable trusts	\$ 3,362,523	3,271,989	3,434,172	3,243,436
Child sponsorship endowments	3,438,263	3,042,206	3,114,751	3,007,901
Leadership development endowments	4,216,447	3,858,778	3,672,610	3,810,351
Total	<u>\$ 11,017,233</u>	<u>10,172,973</u>	<u>10,221,533</u>	<u>10,061,688</u>

(4) Property, Plant, and Equipment

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

	<u>2011</u>	<u>2010</u>
Land	\$ 9,557,197	9,492,413
Buildings and building improvements	56,290,971	55,894,241
Furniture, equipment and software	33,259,505	29,592,682
Vehicles	4,277,068	3,799,952
Construction in process	41,261	103,877
Assets in progress	1,313,212	2,526,096
	<u>104,739,214</u>	<u>101,409,261</u>
Less accumulated depreciation and amortization	<u>(43,121,826)</u>	<u>(37,107,105)</u>
Property, plant, and equipment, net	<u>\$ 61,617,388</u>	<u>64,302,156</u>

COMPASSION INTERNATIONAL, INCORPORATED

Notes to Financial Statements

June 30, 2011 and 2010

Depreciation and amortization expense was \$6,256,658 and \$7,010,424 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010 were \$35,806,819 and \$35,314,182, 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 (ASC 958-405).

(6) Affiliated Organizations

Compassion is affiliated with organizations in Australia, Canada, Great Britain, South Korea, The Netherlands, Italy, New Zealand, France, Switzerland, and Germany. 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 fund-raising and administrative expenses that are not reflected in the accompanying financial statements. Receivables from affiliated organizations were \$8,424,775 and \$13,226,205 as of June 30, 2011 and 2010, respectively. Contributions from affiliated organizations totaled \$171,236,911 and \$146,697,921 for the years ended June 30, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Australia	\$ 42,058,793	38,047,993
Canada	38,789,866	28,614,243
Great Britain	31,605,860	28,483,819
South Korea	30,986,505	25,044,105
The Netherlands	10,915,539	10,821,867
Italy	5,256,358	5,457,665
New Zealand	3,845,994	3,786,888
Switzerland	2,866,251	2,452,171
France	2,820,529	2,685,965
Germany	2,091,216	1,303,205
	<u>\$ 171,236,911</u>	<u>146,697,921</u>

(7) Restricted Net Assets

During the year ended June 30, 2009, Compassion adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA or the Act) passed by the state of Colorado. In accordance with UPMIFA, Compassion appropriates for expenditure or accumulates as much of an endowment fund as

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Compassion determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

As of June 30, 2011 and 2010, Compassion had two donor-restricted endowment funds. These 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.

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 years ended June 30, 2011 and 2010, changes in temporarily restricted net assets by program consisted of the following:

				2011		
				Child sponsorship	Leadership development	Total
Changes in temporarily restricted endowment net assets:						
Endowment net assets, beginning of year	\$	—		40,056		40,056
Total investment return		462,333		608,820		1,071,153
Appropriation of endowment assets		(285,821)		(185,583)		(471,404)
Endowment net assets, end of year	\$	176,512		463,293		639,805
				2010		
				Child sponsorship	Leadership development	Total
Changes in temporarily restricted endowment net assets:						
Endowment net assets, beginning of year	\$	—		—		—
Total investment return		272,588		86,676		359,264
Appropriation of endowment assets		(272,588)		(46,620)		(319,208)
Endowment net assets, end of year	\$	—		40,056		40,056

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(8) Temporarily Restricted Net Assets

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

	2011	2010
Child development programs:		
Child sponsorship program	\$ 54,378,325	40,796,839
Other child programs	43,469,452	37,416,815
Irrevocable trust agreements	1,169,717	1,295,475
	\$ 99,017,494	79,509,129

(9) Permanently Restricted Net Assets

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

	2011	2010
Investments in perpetuity, the income from which is expendable to support:		
Child sponsorship endowments	\$ 3,261,751	3,114,751
Leadership development endowments	3,753,154	3,632,554
	\$ 7,014,905	6,747,305

The net assets for child sponsorship and leadership development endowments 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.

(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:

	2011	2010
Purpose restrictions accomplished:		
Child sponsorship program	\$ 398,503,951	355,908,871
Other child programs	102,882,076	95,772,287
Gift-in-kind donations used	428,909	220,391
Child sponsorship endowment earnings used	285,821	272,588
Leadership development endowment earnings used	185,583	46,620
	\$ 502,286,340	452,220,757

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(11) Fair Value Measurements

Effective July 1, 2008, Compassion adopted ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 defines and establishes a framework for measuring fair value and establishes a fair value hierarchy. ASC 820 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. ASC 820 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 are Level 1 investments within the fair value hierarchy, except for \$81,219 and \$10,001 of investments, at June 30, 2011 and 2010, respectively, which fall within Level 3 of the hierarchy. Compassion's foreign exchange contracts are Level 2 financial instruments within the fair value 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 \$4,594,906 and \$4,520,379 for the years ended June 30, 2011 and 2010, 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 three 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 \$2,575,902 and \$2,040,610 for the years ended June 30, 2011 and 2010, respectively.

(14) Subsequent Events

ASC 855, *Subsequent Events*, 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. Compassion has evaluated subsequent events through September 16, 2011, the date the financial statements were available to be issued, and there were none to be reported.