COMPASSION INTERNATIONAL, INCORPORATED

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INCORPORATED

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KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

Independent Auditors' Report

The Board of Directors
Compassion International, Incorporated:

We have audited the accompanying financial statements of Compassion International, Incorporated (Compassion), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado
September 10, 2013

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Financial Position

June 30, 2013 and 2012

Assets		**2013**	**2012**
Current assets:			
Cash and cash equivalents	$	91,068,265	77,172,402
Investments		81,398,086	71,118,154
Receivables from affiliated organizations		11,185,125	9,934,503
Accounts receivable		584,220	638,533
Foreign exchange contracts, at fair value		—	657,204
Prepaid expenses and supplies		5,649,270	5,059,294
Total current assets		189,884,966	164,580,090
Noncurrent assets:			
Property, plant, and equipment, net		73,763,074	74,550,649
Total noncurrent assets		73,763,074	74,550,649
Restricted assets:			
Investments restricted for trust and annuity obligations		2,640,225	3,186,586
Investments restricted for long-term purposes		8,577,678	7,806,616
Total restricted assets		11,217,903	10,993,202
Total assets	$	274,865,943	250,123,941
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	16,326,256	12,208,579
Funds committed to sponsorship projects		43,121,339	38,336,709
Accrued severance/retirement benefits for national employees		1,090,691	902,665
Trust obligation		37,482	49,960
Gift annuities payable		12,315	10,205
Revocable trust agreements		66,101	431,411
Foreign exchange contracts, at fair value		1,353,157	—
Total current liabilities		62,007,341	51,939,529
Long-term liabilities:			
Accrued severance/retirement benefits for national employees, less current portion		12,811,745	10,889,263
Trust obligation, less current portion		880,608	969,275
Gift annuities payable, less current portion		414,102	398,257
Custodial funds held		332,277	291,162
Total long-term liabilities		14,438,732	12,547,957
Total liabilities		76,446,073	64,487,486
Net assets:			
Unrestricted		78,816,254	75,058,522
Temporarily restricted		111,643,768	103,149,049
Permanently restricted		7,959,848	7,428,884
Total net assets		198,419,870	185,636,455
Total liabilities and net assets	$	274,865,943	250,123,941

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Activities

Years ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	$ 1,889,916	449,251,325	300,657	451,441,898	1,815,488	408,614,417	413,979	410,843,884
Gifts in-kind	—	527,751	—	527,751	—	709,891	—	709,891
Contributions from affiliated organizations	33,593,064	171,140,240	—	204,733,304	26,833,295	157,459,350	—	184,292,645
Interest, dividends, and other income	2,014,581	38,296	39,889	2,092,766	2,335,647	117,542	—	2,453,189
Net realized and unrealized (losses) gains on investments and disposition of assets	(26,069)	711,321	190,418	875,670	(66,351)	31,515	—	(34,836)
Net unrealized (loss) gain on foreign exchange contracts	(2,010,361)	—	—	(2,010,361)	419,896	—	—	419,896
Changes in value of split-interest agreements	209,416	(121,698)	—	87,718	125,456	(136,470)	—	(11,014)
Net assets released from restrictions in satisfaction of program restrictions	613,052,516	(613,052,516)	—	—	562,664,690	(562,664,690)	—	—
Total revenue, gains, and other support	648,723,063	8,494,719	530,964	657,748,746	594,128,121	4,131,555	413,979	598,673,655
Expenses:								
Program services:								
Child development program	509,765,669	—	—	509,765,669	461,813,113	—	—	461,813,113
Sponsor/donor ministries	29,746,143	—	—	29,746,143	31,477,476	—	—	31,477,476
Total program services	539,511,812	—	—	539,511,812	493,290,589	—	—	493,290,589
Supporting activities:								
Fund-raising	62,606,835	—	—	62,606,835	52,527,975	—	—	52,527,975
Administration	42,846,684	—	—	42,846,684	39,276,737	—	—	39,276,737
Total supporting activities	105,453,519	—	—	105,453,519	91,804,712	—	—	91,804,712
Total expenses	644,965,331	—	—	644,965,331	585,095,301	—	—	585,095,301
Change in net assets	3,757,732	8,494,719	530,964	12,783,415	9,032,820	4,131,555	413,979	13,578,354
Net assets, beginning of year	75,058,522	103,149,049	7,428,884	185,636,455	66,025,702	99,017,494	7,014,905	172,058,101
Net assets, end of year	$ 78,816,254	111,643,768	7,959,848	198,419,870	75,058,522	103,149,049	7,428,884	185,636,455

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2013

	Program services			Supporting activities			
	Child development program	Sponsor/ donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	Total expenses
Program grants	$ 436,972,183	1,596,649	438,568,832	—	—	—	438,568,832
Salaries and related taxes	33,189,249	10,273,532	43,462,781	18,780,142	16,053,950	34,834,092	78,296,873
Employee benefits	8,252,929	2,418,858	10,671,787	4,388,858	4,408,821	8,797,679	19,469,466
Travel and training	11,509,367	1,137,275	12,646,642	4,322,898	1,165,949	5,488,847	18,135,489
Data processing services	6,400,467	3,215,307	9,615,774	8,734,438	7,777,152	16,511,590	26,127,364
Professional fees	4,797,876	4,458,243	9,256,119	12,735,325	7,146,698	19,882,023	29,138,142
Occupancy	4,420,339	788,645	5,208,984	2,177,646	3,166,451	5,344,097	10,553,081
Office equipment and supplies	3,052,947	850,680	3,903,627	1,606,768	1,414,978	3,021,746	6,925,373
Postage and shipping	232,799	2,993,448	3,226,247	1,969,320	976,897	2,946,217	6,172,464
Photos and printing	331,663	1,252,198	1,583,861	1,859,101	617,926	2,477,027	4,060,888
Media	2,565	694,264	696,829	5,180,196	52,696	5,232,892	5,929,721
International expansion	—	—	—	555,937	—	555,937	555,937
Miscellaneous	603,285	67,044	670,329	296,206	65,166	361,372	1,031,701
Total	$ 509,765,669	29,746,143	539,511,812	62,606,835	42,846,684	105,453,519	644,965,331

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statement of Functional Expenses

Year ended June 30, 2012

	Program services			Supporting activities			
	Child development program	Sponsor/ donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	Total expenses
Program grants	$ 393,824,598	1,749,079	395,573,677	—	—	—	395,573,677
Salaries and related taxes	31,062,976	9,735,248	40,798,224	16,251,465	15,264,214	31,515,679	72,313,903
Employee benefits	7,612,082	2,590,467	10,202,549	3,371,054	4,097,745	7,468,799	17,671,348
Travel and training	11,348,264	1,366,661	12,714,925	4,000,159	1,031,123	5,031,282	17,746,207
Data processing services	5,292,205	3,859,272	9,151,477	7,913,250	7,878,329	15,791,579	24,943,056
Professional fees	4,516,437	5,049,556	9,565,993	9,646,236	5,032,501	14,678,737	24,244,730
Occupancy	4,211,118	807,639	5,018,757	1,749,777	2,824,694	4,574,471	9,593,228
Office equipment and supplies	3,082,656	973,409	4,056,065	1,309,396	1,216,632	2,526,028	6,582,093
Postage and shipping	320,302	2,458,769	2,779,071	1,877,100	1,306,310	3,183,410	5,962,481
Photos and printing	303,466	1,094,164	1,397,630	1,714,811	402,707	2,117,518	3,515,148
Media	1,949	1,698,103	1,700,052	4,320,914	26,795	4,347,709	6,047,761
International expansion	—	—	—	273,976	—	273,976	273,976
Miscellaneous	237,060	95,109	332,169	99,837	195,687	295,524	627,693
Total	$ 461,813,113	31,477,476	493,290,589	52,527,975	39,276,737	91,804,712	585,095,301

See accompanying notes to financial statements.

COMPASSION INTERNATIONAL, INCORPORATED

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 12,783,415	13,578,354
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,693,993	5,733,933
Net gain on disposition of equipment	(81,741)	(19,698)
Net realized and unrealized (gain) loss on investments	(793,929)	54,533
Net unrealized loss (gain) on foreign exchange contracts	2,010,361	(419,896)
Change in value of split-interest agreements	(87,718)	11,014
Funds received restricted for endowments	(530,964)	(413,979)
Changes in assets and liabilities:		
Increase in receivables	(1,196,309)	(1,356,343)
Increase in prepaid expenses and supplies	(589,976)	(907,014)
Increase (decrease) in accounts payable and accrued liabilities	4,117,677	(1,516,043)
Increase in funds committed to sponsorship projects	4,784,630	2,529,890
Increase in accrued severance/retirement benefits for national employees	2,110,508	1,821,263
Net cash provided by operating activities	28,219,947	19,096,014
Cash flows from investing activities:		
Purchases of investments	(41,486,814)	(29,513,195)
Proceeds from sales of investments	31,863,828	27,596,405
Proceeds from sales of property and equipment	122,009	52,297
Purchases of property and equipment	(4,946,686)	(18,699,793)
Net cash used in investing activities	(14,447,663)	(20,564,286)
Cash flows from financing activities:		
Funds received restricted for endowments	530,964	413,979
Increase in gift annuities payable	17,955	31,340
Decrease in revocable trust agreements	(365,310)	(6,691)
Decrease in trust obligations	(101,145)	(63,921)
Increase (decrease) in custodial funds held	41,115	(3,264)
Net cash provided by financing activities	123,579	371,443
Net increase (decrease) in cash and cash equivalents	13,895,863	(1,096,829)
Cash and cash equivalents, beginning of year	77,172,402	78,269,231
Cash and cash equivalents, end of year	$ 91,068,265	77,172,402

See accompanying notes to financial statements.

(1) Organization

(a) 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 lifelong 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 in accordance with United States (U.S.) generally accepted accounting principles (GAAP).

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 accounts in the U.S. and internationally. Cash accounts in the U.S. may exceed federally insured amounts at times. Cash balances maintained internationally are not insured. Management believes no significant risk exists due to the size and financial wherewithal of the financial institutions where accounts are held.

(c) Investments

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

(d) Property, Plant, and Equipment

Land, buildings and building improvements, furniture, equipment, software, and vehicles 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.

(e) 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 a discount rate of approximately 5.6%. 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.

(f) 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.

(g) 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.

(h) Contributions and Contributed Services

Contributions are recorded as received and pledged. 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. The majority of Compassion's contributions are received from individuals and affiliates.

A substantial number of volunteer workers have donated significant amounts of time to Compassion's programs, administration, and fund-raising activities that are not reflected in the accompanying financial statements, as the services provided do not meet the required accounting criteria to be recognized.

(i) Functional Expense Allocation

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

The child development program represents costs to assist over 1,500,000 (unaudited) and 1,370,000 (unaudited) children in Compassion's child survival, child sponsorship, and leadership development programs in 2013 and 2012, 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 ministries represent costs used to enhance the sponsor/child relationship and advocate for children. 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. Advocacy funds are used to challenge and motivate the Christian public to expand their mission and activities to include ministry to children.

(j) Long-Lived Assets

Compassion accounts for the impairment of long-lived assets. Assets 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 statements of activities. Compassion recorded no impairment losses for the years ended June 30, 2013 and 2012.

(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, 2013 and 2012. 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 for the years ended June 30, 2013 and 2012. Compassion has estimated potential unreported claims to be approximately $925,000 and $850,000 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012. 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 statements of financial position at June 30, 2013 and 2012 and unrealized gains and losses are recognized in the accompanying statements of activities for the years ended June 30, 2013 and 2012.

At June 30, 2013 and 2012, Compassion had in place foreign exchange contracts for sale of U.S. dollars to buy foreign currencies with notional amounts totaling $56,716,000 and $42,174,000, respectively.

(o) Fair Value Measurement

Compassion evaluates fair value of assets and liabilities according to the following:

- **Cash and cash equivalents** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Investments** – Investments are recorded at fair value in accordance with the fair value hierarchy. See further discussion at note 3.
- **Receivables from affiliated organizations** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Accounts receivable** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Foreign exchange contracts** – Foreign exchange contracts are recorded at fair value in accordance with the fair value hierarchy. See further discussion at note 3.
- **Accounts payable and accrued liabilities** – Fair value is estimated to be the same as the carrying (book) value due to the short maturities of accounts payable; included in accrued

liabilities is the present value of future obligations, which is adjusted annually. The carrying (book) value approximates fair value.

- **Funds committed to sponsorship projects** – Fair value is estimated to be the same as the carrying (book) value due to the short maturities of funds committed to sponsorship projects.

(p) Use of Estimates

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

(3) Investments and Fair Value Measurements

Compassion applies the fair value measurements of assets and liabilities that are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Compassion has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by Compassion. Compassion considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to Compassion's perceived risk of that instrument.

In determining, the placement of an investment within the hierarchy, Compassion separates the investment portfolio into two categories: investments and foreign exchange contracts.

The following tables represent investments that are measured at fair value on a recurring basis at June 30, 2013:

		Cost basis June 30, 2013	Fair value June 30, 2013	Level 1	Level 2	Level 3
Investments:						
Corporate bonds	$	36,774,946	37,090,489	—	37,090,489	—
Government obligations		37,434,022	37,865,780	—	37,865,780	—
Corporate stocks		4,367,968	5,898,521	5,894,520	—	4,001
Mutual funds		347,480	469,930	469,930	—	—
Other		73,366	73,366	—	73,366	—
Total investments	$	78,997,782	81,398,086	6,364,450	75,029,635	4,001
Restricted investments:						
Gift annuities and revocable and irrevocable trusts	$	2,537,404	2,640,225	2,620,386	19,839	—
Child sponsorship endowments		3,322,422	3,662,656	1,954,628	1,708,028	—
Leadership development endowments		4,364,771	4,915,022	3,615,321	1,299,701	—
Total restricted investments	$	10,224,597	11,217,903	8,190,335	3,027,568	—
Current liabilities:						
Foreign exchange contracts	$	—	1,353,157	—	1,353,157	—

The following tables represent investments that are measured at fair value on a recurring basis at June 30, 2012:

		Cost basis June 30, 2012	Fair value June 30, 2012	Level 1	Level 2	Level 3
Investments:						
Corporate bonds	$	32,790,846	32,851,632	—	32,851,632	—
Government obligations		31,750,126	32,610,552	—	32,610,552	—
Corporate stocks		4,133,127	5,168,241	5,160,240	—	8,001
Mutual funds		347,480	419,504	419,504	—	—
Other		68,225	68,225	—	68,225	—
Total investments	$	69,089,804	71,118,154	5,579,744	65,530,409	8,001
Restricted investments:						
Gift annuities and revocable and irrevocable trusts	$	3,114,328	3,186,586	3,143,527	27,841	15,218
Child sponsorship endowments		3,100,966	3,464,977	1,769,945	1,695,032	—
Leadership development endowments		4,113,092	4,341,639	3,265,460	1,076,179	—
Total restricted investments	$	10,328,386	10,993,202	8,178,932	2,799,052	15,218
Current assets:						
Foreign exchange contracts	$	—	657,204	—	657,204	—

Investments whose values are based on quoted market prices in active markets, and are, therefore, classified within Level 1, include actively listed equities, and certain mutual funds.

Investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. The majority of these include government obligations, and investment grade corporate bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include certain corporate stocks.

Foreign exchange contracts (contracts) are negotiated over the counter. The contracts are valued by Compassion using available market pricing models and the value depends upon the contractual terms of the instrument. The model has observable inputs other than quoted prices that can be corroborated by market data. The contracts are, therefore, classified within Level 2.

(4) Affiliated Organizations

Compassion is affiliated with organizations in Australia, South Korea, Canada, Great Britain, The Netherlands, Italy, New Zealand, France, Switzerland, Germany, and Scandinavia. 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 consist of trade receivables and are carried at original invoice amount less an estimate made for doubtful receivables. Receivables from affiliated organizations were $11,185,125 and $9,934,503 as of June 30, 2013 and 2012, respectively. Management believes there are no uncollectible accounts for the years ended June 30, 2013 and 2012, respectively.

Compassion funded the start-up costs for Scandinavia's first year of operations in fiscal year 2013. The costs were recorded in the statements of activities as fund-raising expense in the amount of $847,253 for the year ended June 30, 2013.

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

		2013	2012
Australia	$	51,628,737	49,235,537
South Korea		45,511,090	32,048,439
Canada		43,500,509	40,640,648
Great Britain		33,105,244	31,942,627
The Netherlands		13,091,417	12,636,548
Italy		4,467,577	4,982,166
New Zealand		4,389,120	4,196,464
Switzerland		3,176,927	2,947,298
Germany		3,108,362	2,680,078
France		2,754,321	2,982,840
	$	204,733,304	184,292,645

(5) Property, Plant, and Equipment

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

		2013	2012
Land	$	11,928,683	11,928,683
Buildings and building improvements		71,145,923	69,695,068
Furniture, equipment, and software		38,441,192	36,014,181
Vehicles		5,215,982	4,840,090
Construction in process		292,795	91,698
Assets in progress		240,549	486,839
		127,265,124	123,056,559
Less accumulated depreciation and amortization		(53,502,050)	(48,505,910)
Property, plant, and equipment, net	$	73,763,074	74,550,649

Depreciation and amortization expense was $5,693,993 and $5,733,933 for the years ended June 30, 2013 and 2012, respectively.

(6) 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, 2013 and 2012 were $43,121,339 and $38,336,709, 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.

(7) 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:

		2013	2012
Purpose restrictions accomplished:			
Child sponsorship program	$	470,407,352	434,004,642
Other child programs		141,664,554	127,559,045
Gift in-kind donations used		474,165	709,891
Child sponsorship endowment earnings used		295,155	292,715
Leadership development endowment earnings used		211,290	98,397
	$	613,052,516	562,664,690

(8) Temporarily Restricted Net Assets

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

	2013	2012
Child development programs:		
Child sponsorship program	$ 71,253,116	60,559,616
Other child programs	39,493,312	41,538,554
Irrevocable trust agreements	897,340	1,050,879
	$ 111,643,768	103,149,049

(9) Permanently Restricted Net Assets

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

	2013	2012
Investments in perpetuity, the income from which is expendable to support:		
Child sponsorship endowments	$ 3,662,656	3,398,692
Leadership development endowments	4,297,192	4,030,192
	$ 7,959,848	7,428,884

(10) Endowment Funds

Compassion has 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 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, 2013 and 2012, 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. The net assets for child sponsorship and leadership development are invested to provide a long-term total return sufficient to support a number of sponsorships in third world countries. 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. The remaining endowment earnings can 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.

Compassion's net asset classifications by type of endowment and changes in endowment net assets as of June 30, 2013 are as follows:

		Temporarily restricted	Permanently restricted	Total
Donor-designated:				
Child sponsorship endowments	$	—	3,662,656	3,662,656
Leadership development endowments		617,830	4,297,192	4,915,022
	$	617,830	7,959,848	8,577,678
Changes in endowment net assets:				
Endowment net assets, beginning of year	$	377,732	7,428,884	7,806,616
Investment return:				
Investment income		52,569	39,889	92,458
Net realized and unrealized appreciation		693,974	190,418	884,392
Total investment return		746,543	230,307	976,850
Contributions		—	300,657	300,657
Appropriation of endowment assets		(506,445)	—	(506,445)
Endowment net assets, end of year	$	617,830	7,959,848	8,577,678

Compassion's net asset classifications by type of endowment and changes in endowment net assets as of June 30, 2012 are as follows:

		Temporarily restricted	Permanently restricted	Total
Donor-designated:				
Child sponsorship endowments	$	66,285	3,398,692	3,464,977
Leadership development endowments		311,447	4,030,192	4,341,639
	$	377,732	7,428,884	7,806,616

	Temporarily restricted	Permanently restricted	Total
Changes in endowment net assets:			
Endowment net assets, beginning of year	$ 639,805	7,014,905	7,654,710
Investment return:			
Investment income	94,354	—	94,354
Net realized and unrealized depreciation	34,685	—	34,685
Total investment return	129,039	—	129,039
Contributions	—	413,979	413,979
Appropriation of endowment assets	(391,112)	—	(391,112)
Endowment net assets, end of year	$ 377,732	7,428,884	7,806,616

(11) Commitments

Compassion has commitments related to operating leases for building facilities and equipment at June 30, 2013. All operating leases are noncancelable and expire on various dates through 2018. Lease and rent expenses for the years ended June 30, 2013 and 2012 were $2,110,607 and $2,007,797, respectively. Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more at June 30 are as follows:

2014	$ 1,715,400
2015	1,299,520
2016	892,268
2017	544,589
2018	232,534
	$ 4,684,311

(12) U.S. Pension Plan

Compassion has a defined-contribution pension plan covering substantially all U.S. paid employees. The plan is noncontributory for employees and has a five-year vesting period. Contributions are equal to 10% of each covered employee's qualifying compensation. Pension contribution expense was $5,459,533 and $5,188,459 for the years ended June 30, 2013 and 2012, 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 $3,194,729 and $3,152,969 for the years ended June 30, 2013 and 2012, respectively.

(14) Subsequent Events

Compassion has evaluated subsequent events through September 10, 2013, the date the financial statements were available to be issued and there were none to be reported.