Compassion Australia ACN 001 692 566
Annual report – 30 June 2012

Contents

Compassion Australia
Directors' report

Your directors present their report on the company for the year ended 30 June 2012.

Directors
The following persons were directors of the company at any time during the financial year and up to the date of this report:

Rev J Bond (Chairman)
Mr M Jeffs (Vice Chairman)
Mr J Horn (Secretary)
Mr I Moody
Ms A Jackson
Mr K Medwin
Dr R Sonderegger – Appointed October 2011
Mr J T McBride – Resigned October 2011

Directors' Meetings
The number of directors' meetings and number of meetings attended by each of the directors of the company during the financial year are:

Director	***No. of Meetings held ****	***No. of Meetings Attended***
Mr J T McBride	1	1
Mr M Jeffs	5	5
Rev J Bond	5	5
Mr J Horn	5	5
Mr I Moody	5	5
Ms A Jackson	5	2
Mr K Medwin	5	5
Dr R Sonderegger	5	4

* Reflects the number of meetings held whilst the director was in office.

Principal activities
The principal activity of the company during the course of the financial year was releasing children from poverty in developing countries.

There were no significant changes in the nature of the activities of the company during the year.

Review and result of operations

The Operating surplus amounted to $1,072,869 (2011 deficit $111,525).

The number of beneficiaries grew to 99,196 (2011: 95,350) which represents an increase of 4.03% (2011: 4.09%). This increase is the primary driver in income increasing by 3.64% (2011: 0.17% decrease). The commitment of our sponsors and donors is evidenced by a low cancellation rate of 6.66% (2011: 7.90%) for the year.

The Board appreciates the continuing dedication of staff and advice of consultants which has enabled the organisation to maintain a solid financial position.

Dividends
Clause 3 of the Memorandum of Association prohibits the payment of dividends.

Significant changes in the state of affairs
In the opinion of the Directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review.

Likely developments
In the opinion of the Directors, the company is likely to pursue its policy of releasing children from poverty in Jesus' name. It is expected that the company will continue to grow at its rate of ordinary growth.

Matters subsequent to the end of the financial year
There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and usual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Information on Directors

Mr J T McBride
Compassion Australia Director since November 1994 until October 2011
Experience and expertise
Self-employed company director, management consultant and teacher
BHA, Dip Ed, Dip TAS, Dip TAA
Other current directorships
Managing director, Trainup Pty Ltd
Board member, Ulladulla Coastal Church Inc
Former directorships in the last 3 years
Director of Ability Technology, ceased 2009
Special responsibilities
Chairman of the CEO committee

Mr M Jeffs
Compassion Australia Director since July 1995
Experience and expertise
Business involvement in either Management or Director roles for 36 years.
Other current directorships
Managing Director of the following Companies: Network Communications Pty Limited, Australian Christian Channel Pty Limited; and is a director in the following Companies: Southern Cross Institute Pty Limited,
Former directorships in the last 3 years
Immanuel College, ceased 2009
Special responsibilities
Vice Chairman
Chairman of the Finance Committee

Rev J Bond
Compassion Australia Director since June 2002
Experience and expertise
Minister of Religion – International experience in Governance & formation with Youth for Christ International, Motor Racing Outreach, Sports and Leisure Ministries and Dynamic Church Planting International.
Other current directorships
Founding Director, Sonlife Ministries Inc
Former directorships in the last 3 years
None
Special responsibilities
Chairman
Member of the CEO Support Committee

Mr J Horn
Compassion Australia Director since October 2005
Experience and expertise
Business owner and company director since 1998 with broad experience in Australian media and extensive experience in web-services and business systems
Other current directorships
Netstrategies Pty Ltd; Clarety Pty Ltd; HHBW Pty Ltd
Former directorships in the last 3 years
Hope Incorporated Pty Ltd, ceased 2009
Special responsibilities
Secretary
Chairman of the Operations Committee

Mr I Moody
Compassion Australia Director since October 2008
Experience and expertise
Chief Executive Officer - Easterfest
Other current directorships
Emily's Voice Ltd; Gospel Music Association Australia & New Zealand Ltd; Easterfest Ltd; PreTHINK Pty Ltd; Governor at St Andrews Hospital Toowoomba; Chairman of Family Week
Former directorships in the last 3 years
None
Special responsibilities
Member of the Constituents and Impact Committee

Ms A Jackson
Compassion Australia Director since October 2008
Experience and expertise
Campaigns and Advocacy Director, Micah Challenge International
Other current directorships
None
Former directorships in the last 3 years
None
Special responsibilities
Member of the Constituents and Impact Committee

Mr K Medwin
Compassion Australia Director since July 2010
Experience and expertise
Managing Director of Rock Property - a residential property investment adviser company. Director of Medkes Unit Trust.
Other current Directorships
Chairman, Live Free Tassie (Residential drug rehabilitation facility); Chairman of Ultra 106.5 community radio station. Vice Chair, Common Ground Tasmania
Former directorships in the last 3 years
None
Special responsibilities
Member of the Finance Committee.

Dr R Sonderegger
Compassion Australia Director since October 2011
Experience and expertise
Managing Director of Family Challenge Australia (Psychology Clinic and Charitable Trust)
Other current Directorships
None
Former directorships in the last 3 years
None
Special responsibilities
Member of the Culture and Capacity Committee

Environmental regulations
The company is subject to environmental regulation in respect to ownership of land and buildings. These regulations are those that apply to all land holding businesses and had no significant impact on the operation of the organisation during the financial year.

The directors are not aware of any breaches of environmental regulations.

Indemnification and Insurance of Officers
Indemnification
The company has agreed to indemnify the following current Directors of the company, Mr J T McBride, Mr M Jeffs, Rev J Bond, Mr J Horn, Mr I Moody, Ms A Jackson and Mr K Medwin and Dr R Sonderegger against all liabilities to another person (other than the company) that may arise from their position as Directors of the company, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

Insurance Premiums
Since the end of the previous financial year the company has paid insurance premiums under an Association Liability Policy. The Directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the Association Liability Policy, as such disclosure is prohibited under the terms of the contract.

Auditors' independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Additional information
Additional financial information is provided on pages 33 to 35 in relation to the company's financial position and performance.

Signed at Newcastle in accordance with a resolution of the Directors:

John Bond
Director
18 October 2012

Mike Jeffs
Director
18 October 2012

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Compassion Australia for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Compassion Australia during the period.

D A Turner

Darren Turner
Partner
PricewaterhouseCoopers

Newcastle
18 October 2012

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This financial report covers Compassion Australia as an individual entity. The financial report is presented in Australian currency.

Compassion Australia is a company limited by guarantee and not having share capital, incorporated and domiciled in Australia. Its registered office and principal place of business is:

> Compassion Australia
> 30 Warabrook Boulevard, Warabrook NSW 2304

A description of the nature of the company's operations and its principal activities is included in the directors' report on page 1, which is not part of this financial report.

The financial report was authorised for issue by the directors on 18 October 2012. The directors have the power to amend and reissue the financial statements.

Compassion Australia
Statement of comprehensive income
For the year ended 30 June 2012

	Notes	2012 $	2011 $
Revenue from continuing operations	2	64,578,495	62,310,006
Other income	2	326,473	355,690
Programme expenses		(41,846,918)	(40,331,174)
Programme support expenses		(6,136,616)	(6,594,831)
Local programme expenses		(1,580,936)	(1,376,791)
Administration expenses		(5,933,084)	(5,670,639)
Fundraising expenses		(7,157,513)	(7,793,930)
Advocacy expenses		(1,177,032)	(1,009,856)
Excess/(shortfall) of revenue over expenditure		1,072,869	(111,525)
Other comprehensive income		-	-
Total comprehensive income for the year		1,072,869	(111,525)
Total comprehensive income for the year is attributable to:			
Members of Compassion Australia		1,072,869	(111,525)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Compassion Australia
Balance sheet
As at 30 June 2012

	Notes	2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	5	8,316,012	6,853,173
Other receivables	6	636,416	384,478
Other financial assets at fair value through profit or loss	7	202,293	194,045
Total current assets		9,154,721	7,431,696
Non-current assets			
Property, plant and equipment	8	11,578,837	12,300,196
Investment properties	9	1,724,999	1,789,605
Total non-current assets		13,303,836	14,089,801
Total assets		22,458,557	21,521,497
LIABILITIES			
Current liabilities			
Trade and other payables	10	8,747,869	7,142,850
Borrowings	11	390,000	650,000
Provisions	12	36,464	372,785
Derivative financial instruments	13	-	1,257,373
Total current liabilities		9,174,333	9,423,008
Non-current liabilities			
Other payables	10	287,255	267,699
Provisions	12	270,056	176,746
Total non-current liabilities		557,311	444,445
Total liabilities		9,731,644	9,867,453
Net assets		12,726,913	11,654,044
Equity			
Retained earnings	14	12,726,913	11,654,044
Total equity		12,726,913	11,654,044

The above balance sheet should be read in conjunction with the accompanying notes.

Compassion Australia
Statement of changes in equity
For the year ended 30 June 2012

	Retained earnings $	Total equity $
Balance at 1 July 2010	11,765,569	11,765,569
Total comprehensive income for the year as reported in the 2011 financial statements	(111,525)	(111,525)
Balance at 30 June 2011	11,654,044	11,654,044
Total comprehensive income for the year	1,072,869	1,072,869
Balance at 30 June 2012	12,726,913	12,726,913

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Compassion Australia
Statement of cash flows
For the year ended 30 June 2011

	Notes	2012 $	2011 $
Cash flows from operating activities			
Receipts (inclusive of goods and services tax)		64,555,063	62,427,435
Payments in the course of operations (inclusive of goods and services tax)		(62,792,155)	(60,892,559)
Net cash inflow from operating activities	15	1,762,908	1,534,876
Cash flows from investing activities			
Interest received		314,709	324,119
Proceeds from sale of plant and equipment		33,551	385,894
Payments for property, plant and equipment		(358,656)	(602,309)
Net cash inflow (outflow) from investing activities		(10,394)	107,704
Cash flows from financing activities			
Repayment of borrowings		(260,000)	(260,000)
Interest paid		(29,675)	(40,074)
Net cash inflow (outflow) from financing activities		(289,675)	(300,074)
Net increase (decrease) in cash held		1,462,839	1,342,506
Cash at the beginning of the financial year		6,853,173	5,510,667
Cash at the end of the financial year	5	8,316,012	6,853,173

The above statement of cash flows should be read in conjunction with the accompanying notes.

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Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards-Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Changes to presentation – classification of expenses

Compassion Australia decided in the current financial year to change the classification of its expenses in the income statement from a classification by nature to a functional classification. This is to provide more relevant information to stakeholders and to bring classification in line with Compassion International and the industry. The comparative information has been reclassified accordingly.

Compliance with Australian Accounting Standards- Reduced Disclosure Requirements

The consolidated financial statements of Compassion Australia comply with the Australian Accounting Standards-Reduced Disclosure Requirements as issued by Australian Accounting Standards Board (AASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Going concern

The Income Statement for the year ended 30 June 2012 reflects a net profit of $1,072,869 (2011: loss $111,525) and the Balance Sheet as at that date reflects negative net current assets of $19,612 (2011: $1,991,312) and positive total net assets of $12,726,913 (2011: $11,654,044). The Cash flow Statement for the year reflects positive operating cash flows of $1,762,908 (2011: $1,534,876) and overall positive cash inflows of $1,462,839 (2011: $1,342,506).

The continuing viability of the organisation and its ability to continue as a going concern and meet its commitments as they fall due are dependent upon the organisation continuing to enjoy growing sponsorship revenues from good relationships with generous donors. Such revenues will provide sufficient cash flow to meet the organisations' forecast short term cash flow requirements and enable its obligations to be met.

The Directors believe that the organisation will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amounts at which it is recorded in the financial report as at 30 June 2012. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification at the asset carrying amounts or the amounts and classification of liabilities and commitments that might be necessary should the organisation not continue as a going concern.

(b) Taxation

The company, being a Public Benevolent Institution, is currently exempt from income tax under Section 50-5, Item 1.1 of the Income Tax Assessment Act 1997.

(c) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Note 1 Summary of significant accounting policies (continued)

(d) Acquisitions of assets

The historical cost method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the Australian Tax Office (ATO).

Sponsorships and donations
Sponsorship income is recognised in the month to which the sponsorship relates. Donation income is recognised in the period in which it is received.

Endowment operations and undesignated funds
Income from endowment operations and undesignated funds is recognised in the period in which it is received.

Gifting policies
Increases in the surrender value of gifting policies are recognised in the period to which they relate.

Sale of non-current assets
The net profit arising from non-current asset sales is included as other income at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Interest revenue
Interest revenue is recognised as it accrues.

(f) Investments

Life assurance policies included in the financial statements are based on the surrender value of the policies, as advised by the insurer.

(g) Property, plant and equipment

Land and buildings (except for investment properties – refer to note 1(h)) are shown at depreciated replacement cost, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between the depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset’s original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Note 1 Summary of significant accounting policies (continued)

(g) Property, plant and equipment

All other property, plant and equipment is stated at historical cost less depreciation.
Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives. The expected useful lives are as follows:

	2012
Buildings	100 years
Motor Vehicles	4.44 years
Office Furniture and equipment	10 years
Computer equipment	3 years
Fundraising equipment	3.3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.
Where items of plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

(h) Investment property
Investment property, principally comprising freehold land and buildings, is held for long-term rental yields and is not occupied by the company. Investment property is stated at historical cost less depreciation. Land is not depreciated. Depreciation is calculated using the straight-line method to allocate the cost over the useful life of the buildings. The expected life of the building is 10 years.

(i) Impairment of assets
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

(k) Employee benefits
Wages, salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave
The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with 'wages, salaries and annual leave' above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Note 1 Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), unless the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Derivatives

Compassion regularly enters into forward exchange contracts to make payments overseas for charitable purposes. For forward contracts, funds are transferred overseas either at the contracted exchange rate or the rate of exchange ruling at the date of the transaction, depending on whether certain conditions are satisfied under the forward exchange contract.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in the fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Compassion have not designed any derivative contracts as hedging instruments and as such changes in the fair value of the instruments are taken to the income statement.

(o) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are expected to be settled no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 1 Summary of significant accounting policies (continued)

(q) New accounting standards and UIG interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the entity's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the entity does not hold equity investments or available-for-sale debt investments. The entity has not yet decided when to adopt AASB 9.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(r) Incorporation

The company is limited by guarantee and each member of the company undertakes to contribute to the property of the company in the event of the same being wound up while he is a member or within one year after he ceases to be a member for payment of the debts and liabilities of the company contracted before he ceases to be a member and for the costs, charges and expenses of winding up for the adjustment of the rights of the contributories among themselves such amount as may be required not exceeding one hundred dollars ($100).

Number of members: 7 (2011: 7)

Note 2 Revenue and other income

	2012 $	2011 $
Revenue from continuing operations		
Sponsorships and donations	64,239,398	62,017,537
Interest received	339,097	292,469
	64,578,495	62,310,006
Other income		
Gifting policies	8,248	4,453
Other income	318,225	347,956
Profit on disposal of non-current assets	-	3,281
	326,473	355,690
Total Revenue and other income	64,904,968	62,665,696

Note 3 Expenses

	2012 $	2011 $
Profit before income tax includes the following specific expenses:		
Employee benefits expense	8,485,653	9,736,944
Interest expense	29,675	40,074
Depreciation expense	1,129,953	812,856
(Gain)/loss from derivative financial instruments	(1,257,373)	1,257,373

Note 4 Auditors' remuneration

During the year the following fees were paid or payable for services provided by the auditors:

	2012 $	2011 $
Audit services:		
Audit and review of financial reports	26,840	22,050
Audit related services	5,410	5,200
	32,250	27,250

Note 5 Cash and cash equivalents

	2012 $	2011 $
Cash on hand	26,959	17,736
Cash at bank	553,699	2,183,917
Deposits at call	7,735,354	3,309,014
	8,316,012	5,510,667

The company's exposure to interest rate risk is discussed in Note 19.

Note 6 Other receivables

	2012 $	2011 $
Other receivables	636,416	384,478

These amounts generally arise from transactions outside the usual operating activities of the Company. Collateral is not normally obtained. There were no impaired receivables for the Company in 2012 or 2011.

Note 7 Other financial assets at fair value through profit or loss

	2012 $	2011 $
Current		
Gifting policies, at surrender value	202,293	194,045

Other financial assets

These amounts arise from transactions outside the usual operating activities of the Compassion. Assets are non –interest bearing. Collateral is not obtained. Not considered to be past due or impaired. Compassion has not made a claim on the policies held as at 30 June 2012, therefore no payment is currently due.

Changes in fair values of financial assets at fair value through profit and loss are recorded in other income or other expense in the income statement.

Note 8 Property, plant and equipment

	2012 $	2011 $
Land and buildings		
Freehold land		
At cost	427,229	427,229
Buildings		
At cost	10,128,335	10,140,354
Less: Accumulated depreciation	(217,103)	(100,492)
	9,911,232	10,039,862
Total land and buildings	10,338,461	10,467,091
Motor vehicles		
At cost	531,312	517,968
Less: Accumulated depreciation	(227,478)	(208,466)
	303,834	309,502
Fundraising equipment		
At cost	-	336,109
Less: Accumulated depreciation	-	(299,038)
	-	37,071
Office furniture and equipment		
At cost	1,067,310	1,151,818
Less: Accumulated depreciation	(575,847)	(527,454)
	491,463	624,364
Computer equipment		
At cost	952,985	1,957,718
Less: Accumulated depreciation	(507,906)	(1,095,550)
	445,079	862,168
Total plant and equipment at net book value	**11,578,837**	**12,300,196**

Note 9 Investment properties

	2012 $	2011 $
At Cost		
Opening balance at 1 July	1,789,605	1,854,211
Depreciation	(64,606)	(64,606)
Closing balance at 30 June	1,724,999	1,789,605

(a) Valuation basis
Investment properties are valued at cost. However, at the end of each reporting period the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations, to ensure that this is not significantly different to the book value.

(b) Leasing arrangements
All of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:		
Within one year	144,697	185,617
Later than one year but not later than 5 years	-	-
Later than 5 years	-	-

Note 10 Trade and other payables

	2012 $	2011 $
Current		
Trade Creditors	223,363	63,542
Annual leave	713,721	695,397
Accruals	4,660,751	3,070,409
Holding fund	124,697	163,375
Child development liability	2,457,229	2,790,787
Child survival program liability	153,370	12,708
Sponsorship plus liability	240,062	242,521
Partners of Compassion liability	8,304	9,667
Leadership development program liability	166,372	94,444
	8,747,869	7,142,850
Non Current		
Child development liability	172,092	189,712
Child survival program liability	17,446	1,152
Sponsorship plus liability	49,805	37,942
Partners of Compassion liability	1,952	2,333
Leadership development program liability	45,960	36,560
	287,255	267,699

Information about the company’s exposure to foreign exchange risk is provided in Note 19.

Note 11 Borrowings

	2012 $	2011 $
Current		
Commercial Bills (secured)	390,000	650,000

The company’s exposure to interest rate risk is discussed in Note 19.

Note 12 Provisions

	2012 $	2011 $
Current		
Long service leave	36,464	89,679
Redundancy	-	283,106
	36,464	372,785
Non- Current		
Long service leave	270,056	176,746

Note 13 Derivative financial instruments

	2012 $	2011 $
Current liabilities		
Forward foreign exchange contracts	-	1,257,373

In order to protect against exchange movements, the company has entered into forward exchange contracts an participating forward exchange contracts to purchase US dollars.

The company's exposure to foreign exchange risk is discussed in Note 19.

Note 14 Retained earnings

	2012 $	2011 $
Retained earnings at the beginning of the financial year	11,654,044	11,765,569
Excess/(shortfall) of revenue over expenditure	1,172,869	(111,525)
Retained earnings at the end of the financial year	12,826,913	11,654,044

Note 15 Reconciliation of profit from ordinary activities to net cash inflow from operating activities

(a) Reconciliation of cash and cash equivalents
For the purposes of the Cash flow statement, cash includes cash on hand, cash at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Cash flow statement is reconciled in the Balance sheet as follows:

	2012 $	2011 $
Cash and cash equivalent assets (note 5)	8,316,012	6,853,173
Excess/(shortfall) of revenue over expenditure	1,072,869	(111,525)
Add/ (less) items classified as investing/financing activities:		
Interest received	(314,709)	(324,119)
Interest paid	29,675	40,074
Add/ (less) non-cash items:		
Net (Profit) on sale of non-current assets	(54,081)	(94,339)
Depreciation	1,129,953	812,856
Amounts set aside to provisions	(243,011)	368,189
Net cash provided by continuing activities before change in assets and liabilities	1,620,696	691,136
Change in assets and liabilities during the financial year:		
(Increase)/ decrease in receivables and derivative financial instruments	(1,474,114)	1,052,485
(Increase)/ decrease in surrender value of gifting policies	(8,248)	(4,453)
(Decrease)/increase in accounts payable	1,624,574	(204,292)
Net cash provided by operating activities	1,762,908	1,534,876

Note 16 Additional disclosures required by the Charitable Fundraising Act 1991 and the Charitable Fundraising Regulations 1993

Fundraising appeals

Fundraising appeals conducted during the year consisted of:
Promotion of sponsorship of needy children including:

- Public meetings
- Conventions
- Paid advertising
- Compassion magazine
- Concerts
- Advocates
- Internet

Details of aggregate gross income and total expenses of fundraising appeals

	2012 $	2011 $
Income from fundraising		
Donations and gifts- monetary & non-monetary	64,117,379	62,095,393
Legacies & bequests	192,369	43,993
	64,309,748	62,139,386
Less: Total cost of fundraising appeals		
Fundraising costs	(7,157,511)	(7,024,958)
Net surplus obtained from fundraising appeals	57,152,237	55,185,937
Other income		
Interest, life insurance and other income	595,217	526,310
Gross income	64,904,965	62,665,696
Statement showing how funds received were applied to charitable purposes		
This was applied to charitable purposes in the following manner:		
Programme expenditure	49,564,469	48,350,620
Administration	5,933,084	5,691,240
Advocacy	1,177,032	1,710,400
	56,674,585	55,420,141
Total expenditure	63,832,096	62,777,216
Surplus/(Loss)	1,072,869	(111,520)

Comparison of monetary figures and percentages:

2012		
Total cost of fundraising/ Gross income from fundraising	7,157,511/64,309,748	11%
Net surplus from fundraising/ Gross income from fundraising	57,152,237/64,309,748	89%
Total cost of services/ Total expenditure	49,564,469/63,832,096	78%
Total cost of services/ Total income received	49,564,469/64,904,968	76%
2011		
Total cost of fundraising/ Gross income from fundraising	7,024,958/62,139,386	11%
Net surplus from fundraising/ Gross income from fundraising	55,185,937/62,139,386	89%
Total cost of services/ Total expenditure	48,350,620/62,777,216	77%
Total cost of services/ Total income received	48,350,620/62,665,696	77%

Note 17 Related party transactions

Directors
The names of each person who held the position of Director of the company during the financial year are:

Mr John T McBride
Rev John Bond
Mr Michael Jeffs
Mr Mark Zschech
Mr J Horn
Mr Isaac Moody
Ms Amanda Jackson
Mr K Medwin

	2012 $	2011 $
There were transactions with directors during the year as follows:		
Mr J Horn - for internet development, hosting and maintenance services	103,439	208,136
Mr J Horn - rental income to Compassion	NIL	14,908
Mr M Jeffs – for televisison advertising	23,108	NIL
Mr I Moody – for Prethink project	18,058	NIL
Mr K Medwin – for radio advertising	6,989	NIL

The above transactions were performed on arms length commercial terms and conditions.

Note 18 Key management personnel compensation

Directors
The directors act in an honorary capacity and do not receive any remuneration from the company.

Key management personnel are those persons with the authority and responsibility for planning, directing and controlling the activities of the entity. Compensation includes the following staff:
Rev T Hanna (CEO)
Mrs B McQuillan (Director: Prayer)
Mr J Nagle (COO)
Mrs D Adams (Executive Director: Ministry Services)
Mr D Ward (Acting Executive Director: Ministry Services)
Mr K Wilson (Former CFO)
Mr B Dodd (Director: Finance)
Mr T Tibbs (Former Director: Finance)
Mr J Bynes (Acting Manager: Human Resources)
Mr D J Konz (Executive Director: Child Advocacy)
Mr P Mergard (National Director: Child Advocate Network)
Mr D Hogno (Former Director: Supporter Services)
Mr A Streat (Director: Marketing)
Mr C Zaarour (National Director of Church and Partner Relations)
Mr D Zammit (Director: Supporter Ministries)
Mr B Cannings (Acting National Director: Donor Relations)

	2012 $	2011 $
Short term employee benefits (including wages and superannuation)	1,536,114	1,650,038

Note 19 Financial Risk Management

The Company's activities expose it to interest rate and foreign currency risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The Company uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures.

Risk management is carried out by the Finance Director under policies approved by the Board of Directors. The Finance Director identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Credit risk
Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of AA are accepted.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

Refer note 6 for further credit risk disclosure.

(b) Liquidity risk
The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
The Company currently has no undrawn loan amounts or financing arrangements.

Maturities of financial liabilities
The tables below analyse the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2011	Less than 6 months	6 – 12 Months	Over 12 Months	Total contractual cash flows	Carrying amount (assets) / liabilities
Non interest bearing					
Trade payables	63,542	7,079,309	267,699	-	7,410,550
	63,542	7,079,309	267,699	-	7,410,550

At 30 June 2011	Less than 6 months	6 – 12 Months	Over 12 Months	Total contractual cash flows	Carrying amount (assets) / liabilities
Interest bearing					
Bill payable	130,000	520,000	-	-	650,000
	130,000	520,000	-	-	650,000

At 30 June 2012	Less than 6 months	6 – 12 Months	Over 12 Months	Total contractual cash flows	Carrying amount (assets) / liabilities
Non interest bearing					
Trade payables	223,363	8,237,251	287,255	-	8,747,869
	223,363	8,237,251	287,255	-	8,747,869

At 30 June 2012	Less than 6 months	6 – 12 Months	Over 12 Months	Total contractual cash flows	Carrying amount (assets) / liabilities
Interest bearing					
Bill payable		390,000			390,000
		390,000			390,000

Note 19 Financial Risk Management (continued)

(c) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The following table present the entity's assets and liabilities measured and recognised at fair value at 30 June 2011, no derivatives existed at 30 June 2012.

At 30 June 2011	Level 1	Level 2	Level 3	Total
Total assets	-	-	-	-
Derivatives used for hedging	-	1,257.373	-	1,257.373
Total liabilities	-	1,257.373	-	1,257.373

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments.

(d) Market risk

(i) Foreign exchange risk
Foreign exchange risk arises when future transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Company remits funds to a key partner in the United States in $US however the nature of the obligation is such that foreign exchange risk is borne by the recipient.

To achieve certainty on these cash outflows for the service provider, Compassion has entered into and used foreign exchange contracts and derivatives whereby Compassion Australia are obligated to purchase $US at pre arranged prices with different maturities.

Foreign exchange gains and losses are taken up in the profit and loss statement as unrealised gains at balance date and realised gains on settlement.

(ii) Interest rate risk
The Company's exposure to interest rate risk and the effective average interest rate for classes of financial assets and financial liabilities are as follows:

Financial Assets
Cash Assets
Investment accounts are subject to floating interest rates. The weighted average interest rate was 4.5% (2011: 4.3%)

The Company's main interest rate risk arises from cash equivalents and loans payable with variable interest rates. At 30 June 2012, if interest rates had changed by -/+ 100 basis points from the year-end rates with all other variables held constant, profit and equity would have been $78,991 lower/higher (2011: $68,291 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

Borrowings
The Company has a commercial bill facility with fixed interest of 4.5% pa.

All other financial liabilities as at 30 June 2012 are non interest bearing.

Net fair values
Gifting policies are held at surrender value. The company's financial assets and liabilities included in the balance sheet are carried at amounts that approximate net fair value.

Note 20 Commitments

(a) Capital commitments
Capital expenditure contract for at the report date but not recognised as liabilities is as follows:

	2012 $	2011 $
Future Lease Commitments		
Lease Payable:		
Within one year	84,561	76,737
Greater than one year, less than five years	0	83,679
	84,561	160,416

Compassion Australia
Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 26 are in accordance with the *Corporations Act 2001*, including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

John Bond
Director

Mike Jeffs
Director

Newcastle
18 October 2012

Independent auditor's report to the members of Compassion Australia

Report on the financial report

We have audited the accompanying financial report of Compassion Australia (the company), which comprises the balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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Auditor's Opinion

In our opinion the financial report of Compassion Australia is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

Darren Turner
Partner

Newcastle
18 October 2012

Compassion Australia
Declaration by Chief Executive Officer
30 June 2012

Declared Opinion

I, Timothy Hanna, Chief Executive Officer of Compassion Australia declare, in my opinion:

(a) the financial report, set out on pages 7 to 26, gives a true and fair view of all income and expenditure of Compassion Australia with respect to fundraising appeals;

(b) the balance sheet gives a true and fair view of the state of affairs with respect to fundraising appeals conducted by Compassion Australia;

(c) the provisions of the Charitable Fundraising Act 1991 and the Regulations under that Act and the conditions attached to the authority have been complied with for the year 1 July 2011 to 30 June 2012; and

(d) the internal controls exercised by Compassion Australia are appropriate and effective in accounting for all income received and applied by Compassion Australia from all of its fundraising appeals.

Timothy Hanna
Chief Executive Officer

18 October 2012