



COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Financial Statements
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7



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

Independent Auditors' Report

The Board of Directors
Compassion International, Inc.:

We have audited the accompanying consolidated financial statements of Compassion International, Inc. and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Compassion International, Inc. and its affiliates as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado
August 26, 2020

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2020 and 2019
(Amounts in thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 194,856	\$ 161,846
Investments	71,954	71,308
Receivables from Global Partner Alliance	7,183	8,612
Accounts receivable	1,600	3,558
Prepaid expenses and other	14,279	12,292
Foreign exchange contracts, at fair value	6,478	7,739
Total current assets	<u>296,350</u>	<u>265,355</u>
Noncurrent assets:		
Property and equipment, net	72,239	79,672
Intangibles, net	788	986
Total noncurrent assets	<u>73,027</u>	<u>80,658</u>
Restricted assets:		
Cash and investments restricted for split-interest agreements	3,795	3,935
Cash and investments restricted for long-term purposes	13,285	14,180
Total restricted assets	<u>17,080</u>	<u>18,115</u>
Total assets	<u>\$ 386,457</u>	<u>\$ 364,128</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 24,437	\$ 24,550
Funds committed to sponsorship projects	77,002	63,526
Split-interest agreements	625	159
Foreign exchange contracts, at fair value	7,609	1,647
Total current liabilities	<u>109,673</u>	<u>89,882</u>
Long-term liabilities:		
Accrued liabilities, less current portion	1,965	1,600
Funds committed to sponsorship projects, less current portion	2,452	1,885
Split-interest agreements, less current portion	1,641	2,055
Total long-term liabilities	<u>6,058</u>	<u>5,540</u>
Total liabilities	<u>115,731</u>	<u>95,422</u>
Net assets:		
Without donor restrictions	244,316	242,527
With donor restrictions	26,410	26,179
Total net assets	<u>270,726</u>	<u>268,706</u>
Total liabilities and net assets	<u>\$ 386,457</u>	<u>\$ 364,128</u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Activities
Fiscal year ended June 30, 2020
(Amounts in thousands)

	2020		
	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support:			
Contributions	\$ 651,094	\$ 117,537	\$ 768,631
Contributions from Global Partner Alliance	182,750	41,510	224,260
Investment income and other income	4,258	718	4,976
Net realized and unrealized gain on foreign exchange contracts	3,333	-	3,333
Net assets released from restrictions	159,534	(159,534)	-
Total revenue, gains, and other support	<u>1,000,969</u>	<u>231</u>	<u>1,001,200</u>
Expenses:			
Program activities:			
Child development programs	813,929	-	813,929
Supporting activities:			
Management & General	73,485	-	73,485
Fundraising	111,766	-	111,766
Total supporting activities	<u>185,251</u>	<u>-</u>	<u>185,251</u>
Total expenses	<u>999,180</u>	<u>-</u>	<u>999,180</u>
Change in net assets	1,789	231	2,020
Net assets, beginning of year	<u>242,527</u>	<u>26,179</u>	<u>268,706</u>
Net assets, end of year	<u>\$ 244,316</u>	<u>\$ 26,410</u>	<u>\$ 270,726</u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Activities
Fiscal year ended June 30, 2019
(Amounts in thousands)

	2019		Total
	Without donor restrictions	With donor restrictions	
Revenue, gains, and other support:			
Contributions	\$ 605,880	\$ 103,946	\$ 709,826
Contributions from Global Partner Alliance	204,153	33,940	238,093
Investment income and other income	6,228	1,129	7,357
Net realized and unrealized gain on foreign exchange contracts	4,365	-	4,365
Net assets released from restrictions	145,583	(145,583)	-
Total revenue, gains, and other support	<u>966,209</u>	<u>(6,568)</u>	<u>959,641</u>
Expenses:			
Program activities:			
Child development programs	764,548	-	764,548
Supporting activities:			
Management & General	75,613	-	75,613
Fundraising	92,806	-	92,806
Total supporting activities	<u>168,419</u>	<u>-</u>	<u>168,419</u>
Total expenses	<u>932,967</u>	<u>-</u>	<u>932,967</u>
Change in net assets	33,242	(6,568)	26,674
Net assets, beginning of year	<u>209,285</u>	<u>32,747</u>	<u>242,032</u>
Net assets, end of year	<u>\$ 242,527</u>	<u>\$ 26,179</u>	<u>\$ 268,706</u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Functional Expenses
Fiscal years ended June 30, 2020 and 2019
(Amounts in thousands)

	Fiscal year 2020					
	Program activities		Supporting activities			Total expenses
	Child Development Programs	Management & General	Fundraising	Total supporting activities		
Program Grants	\$ 681,757	\$ -	\$ -	\$ -	\$ 681,757	
Personnel Expenses	82,941	48,415	55,789	104,204	187,145	
Services Expenses	7,504	3,775	26,067	29,842	37,346	
Information Technology	10,132	5,970	3,893	9,863	19,995	
Travel And Related	11,584	2,073	5,290	7,363	18,947	
Operating Expenses	10,478	1,355	4,151	5,506	15,984	
Advertising And Promotions	2,274	521	12,166	12,687	14,961	
Other Expenses	7,259	11,376	4,410	15,786	23,045	
Total	<u>\$ 813,929</u>	<u>\$ 73,485</u>	<u>\$ 111,766</u>	<u>\$ 185,251</u>	<u>\$ 999,180</u>	

	Fiscal year 2019					
	Program activities		Supporting activities			Total expenses
	Child Development Programs	Management & General	Fundraising	Total supporting activities		
Program Grants	\$ 634,998	\$ -	\$ -	\$ -	\$ 634,998	
Personnel Expenses	78,303	53,345	42,178	95,523	173,826	
Services Expenses	5,689	2,868	21,958	24,826	30,515	
Information Technology	9,526	4,603	2,119	6,722	16,248	
Travel And Related	14,869	1,891	6,020	7,911	22,780	
Operating Expenses	11,747	2,394	4,527	6,921	18,668	
Advertising And Promotions	2,129	441	12,423	12,864	14,993	
Other Expenses	7,287	10,071	3,581	13,652	20,939	
Total	<u>\$ 764,548</u>	<u>\$ 75,613</u>	<u>\$ 92,806</u>	<u>\$ 168,419</u>	<u>\$ 932,967</u>	

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
Fiscal years ended June 30, 2020 and 2019
(Amounts in thousands)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 2,020	\$ 26,674
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,978	12,595
Net (gain) loss on disposition of equipment	(30)	355
Net realized and unrealized gain on investments	(1,696)	(2,141)
Net unrealized loss (gain) on foreign exchange contracts	7,223	(4,365)
Funds received restricted for endowments	(820)	(861)
Increase (decrease) in other non-cash items	219	(43)
Changes in assets and liabilities:		
Decrease (increase) in receivables	3,243	(573)
Increase in prepaid expenses and other	(1,952)	(2,848)
Increase in accounts payable and accrued liabilities	605	4,849
Increase in funds committed to sponsorship projects	15,879	7,718
Net cash provided by operating activities	36,669	41,360
Cash flows from investing activities:		
Purchases of investments	(49,135)	(30,127)
Proceeds from sales of investments	51,601	28,367
Purchases of property and equipment	(4,068)	(2,498)
Proceeds from sales of property and equipment	53	75
Net cash used in investing activities	(1,549)	(4,183)
Cash flows from financing activities:		
Funds received restricted for endowments	820	861
Increase (decrease) increase in split-interest agreements	52	(59)
Net cash provided by financing activities	872	802
Net increase in cash and cash equivalents	35,992	37,979
Effect of foreign currency on cash	(2,509)	59
Cash, cash equivalents, and restricted cash, beginning of year	162,574	124,536
Cash, cash equivalents, and restricted cash, end of year	\$ 196,057	\$ 162,574

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

(1) Organization Mission and Structure

Compassion International, Inc. and its wholly owned and controlled affiliates (collectively, Compassion) is a Christian organization that exists to release children from poverty in Jesus' name. Compassion is a holistic child development through sponsorship organization; its principal services provide opportunities that encourage the healthy development of all aspects of a child - spiritually, physically, socially, emotionally and even economically. Compassion serves all children regardless of religion, race, ethnicity or gender. The consolidated financial statements include the accounts of Compassion International, Inc., a not for profit corporation created under the laws of the state of Illinois, and its wholly owned and controlled affiliates. All material inter-affiliate accounts and transactions have been eliminated in the consolidated financial statements.

Compassion is headquartered in Colorado Springs, Colorado and has international branch offices and affiliates (national offices) with child programs in 25 countries. The organization's programs are concentrated in certain countries of Africa, Asia, Central America, the Caribbean, and South America.

Compassion fulfills its mission of releasing children from poverty in Jesus' name through Child Development Programs.

Child Development Programs

The child development programs represent costs to assist over 2.2 million (unaudited) and 2.1 million (unaudited) children in 2020 and 2019, respectively. Child development is a lifetime investment. It changes as a child's needs change. It is personal, individualized and relational work that is tailored to the age, gender, health, culture and family situation of each child Compassion serves. Through our child development programs, Compassion equips children with the skills they need to overcome poverty and lead successful, fulfilling lives.

Compassion's Child Sponsorship Program (CDSP) pairs compassionate people with children suffering from poverty in the developing world. Through monthly financial support, prayer and letter writing, sponsors invest directly in the lives of children living in extreme poverty. Sponsors provide words of hope and encouragement through personal letters and notes that remind children of their full potential and help them to defeat poverty and pursue their dreams. Additionally, sponsors and donors have access to a centralized communication center to obtain support and information regarding their sponsorship relationship. Compassion does all of our work through partnerships with thousands of local churches around the world. Local churches are best suited to address the needs of children in their communities, and tailor our holistic child development model to the contextualized need of those children. The children attend church-based child development centers where they receive nurturing care and protection, as well as life-changing opportunities that would otherwise be out of their reach to include, but not limited to: education, medical, meals, curriculum, spiritual development, HIV/AIDS care and education, and bibles. All Compassion-registered children have the opportunity to develop their potential and be released from the generational cycle of poverty. Compassion works primarily through child sponsorship, but also has specific initiatives to help babies and mothers, to develop future leaders, and to meet critical needs.

Compassion deploys Complementary Interventions (CIV) to remove significant obstacles to holistic child development and improved effectiveness in its programs. These interventions include, but are not limited to: disaster relief, infrastructure, safe water, sanitation and hygiene solutions, income generation, education, and non-formal education.

Compassion's Child Survival Program (CSP) is an early childhood initiative that focuses on promoting development and survival of the most vulnerable babies, while also providing education and support for mothers and/or primary caregivers. CSP is implemented through four strategies: home-based care, group-based learning centers, advocacy, and church-based child development centers.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

Affiliates

Compassion's international affiliates are consolidated based on the level of control exercised by Compassion International, Inc. and the presence of an economic interest. Compassion's consolidated international affiliates at June 30, 2020 and 2019 include:

- Compassion (Darunatorn) Foundation (Thailand)
- Compassion de Mexico Asociacion Civil
- Compassion do Brasil
- Compassion International del Peru
- Compassion International (East Asia) Limited
- Compassion International (Singapore) Limited
- Compassion International Ghana
- Compassion International, Incorporated (Kenya)
- Compassion International Lanka (Sri Lanka)
- Compassion International Tanzania
- Compassion International Togo
- Compassion International Uganda
- Fundacion Compassion International Ecuador
- Ong Compassion International en Bolivia
- Yayasan Bantuan Kasih Indonesia
- Yayasan Kasih Karunia Indonesia Timur (East Indonesia)

Compassion Productions, LLC (CP, LLC) is a limited liability company created under the laws of the state of Tennessee with Compassion International, Inc. as its only member and is consolidated based on level of control exercised by Compassion International, Inc. and the presence of an economic interest. CP, LLC produces concert and other events, which serve as a platform for Compassion's fundraising activities. Compassion has certain other international affiliates which are immaterial and consolidated based on the level of control exercised and the presence of economic interest.

Global Partner Alliance

The Global Partner Alliance (GPA) is an alliance that Compassion has entered into with 11 unaffiliated international organizations to raise funds to release children from poverty in Jesus' name.

Compassion serves the GPA by maintaining children's files, selecting and monitoring sponsorship projects, providing programmatic supervision, and distributing funds on behalf of the international organizations for those activities that are jointly conducted. Compassion is reimbursed for the costs incurred in providing these services. Apart from donor-imposed restrictions by an international organization, Compassion has control over the ultimate distribution of amounts received, and as such amounts are included as revenue and related program payments are included as expenses in the accompanying consolidated financial statements. Compassion does not exercise the level of control to consolidate unaffiliated international organizations and therefore their operations are not reflected in the accompanying consolidated financial statements.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with United States (U.S.) generally accepted accounting principles (GAAP).

Donor-imposed restrictions are defined as stipulations that specify a use for a contributed asset that is more specific than the broad limits resulting from that nature of the not-for-profit, the environment in which it operates, and the purposes specified in its incorporating documents. Accordingly, net assets of Compassion and changes therein are classified and reported as follows:

Without Donor Restrictions: Net assets without donor restrictions are derived from CDSP, unrestricted, or invested in property, equipment and intangibles. Within these funds, Compassion's Board of Directors has designated funds primarily for 1) CDSP donor contributions received for future registered beneficiary payments, and 2) a CDSP reserve to set aside monies to ensure stability of the support rate against circumstances such as unhedged foreign currency exposure or average product revenue below the disbursement rate. (See Note 7 to the Consolidated Financial Statements for further information.)

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

With Donor Restrictions: Net assets subject to donor-imposed restrictions require resources to be used for a specific purpose and/or the passage of time. Specific purpose restrictions are primarily comprised of CIV and CSP programs. Passage of time restrictions include split-interest agreements. Other donor-imposed restrictions are perpetual in nature and stipulate that resources be maintained in perpetuity with investment returns being restricted for use in certain endowment funds. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. (See Note 8 to the Consolidated Financial Statements for further information.)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated 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.

Cash and Cash Equivalents

Cash and short-term investments with original 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.

Investments

Investments are recorded at fair value, primarily based on quoted market prices. Gains or losses, whether realized or unrealized, are recognized when they occur.

Fair Value Measurement

Compassion records its financial assets and liabilities at fair value in accordance with the framework for measuring fair value in generally accepted accounting principles on a recurring basis. The fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. 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 various valuation techniques and broadly refer to the assumption 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.

The carrying amounts of cash and cash equivalents, receivables, accounts payable, accrued liabilities, accrued severance, and funds committed to sponsorship projects approximate fair value because of their short maturities. Investments and foreign exchange contracts are recorded at fair value in accordance with the fair value hierarchy. The future obligations for gift annuities and trusts is recorded at present value and measured on an annual basis.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

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

Investments and restricted 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 U.S. government obligations, primarily U.S. Treasury bills, and investment grade U.S. 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 non-transferability, which are generally based on available market information.

Investments and restricted investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all.

Foreign exchange 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 and therefore, classified within Level 2.

Receivables from Global Partner Alliance

Receivables from the Global Partner Alliance (GPA) consist primarily of promises to give and are carried at original commitment amount less an estimate made for doubtful receivables and are included on the consolidated statements of financial position. Management believes there are no uncollectible accounts for the years ended June 30, 2020 and 2019.

Foreign Exchange Contracts

To assist in the management of foreign currency risk, Compassion may enter into foreign currency forward (FOREX) contracts, which provide for the future exchange of funds at agreed-upon rates. These contracts are recorded at fair value in the accompanying consolidated statements of financial position and unrealized gains and losses are recognized in the accompanying consolidated statements of activities.

Property and Equipment

Property and equipment are recorded at cost when purchased or at estimated fair value if received by donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, with no salvage value. Buildings and building improvements are depreciated over 5 to 30 years, furniture and equipment are depreciated over 3 to 10 years, vehicles are depreciated over 3 to 5 years, and software is amortized over 3 to 5 years.

Intangibles

Intangibles are recorded at cost when purchased. Intangibles are amortized over the estimated useful lives of the related assets (generally 3 to 10 years), using the straight-line method. No purchases of intangible assets were made during fiscal years 2020 and 2019, and amortization in each year is immaterial.

Impairment of Long-Lived Assets

Long-lived 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 consolidated statements of activities. Compassion recorded no impairment losses for the years ended June 30, 2020 and 2019.

Defined Contribution Plans

Compassion sponsors several defined contribution pension plans covering substantially all employees not receiving severance benefits. The expense for these defined contribution plans was \$11.48 million and \$8.95 million for the years ended June 30, 2020 and 2019, respectively and are included in "Personnel Expenses" on the consolidated statements of functional expenses.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

Severance Benefits

Compassion provides certain severance benefits to eligible former or inactive employees during the period subsequent to employment but prior to retirement through plans individualized for each geography in accordance with local laws and regulations or common market practices. Severance expense is accrued when benefits are known and communicated to applicable employees. When severance expense cannot be reasonably estimated until the specific circumstances of an employee's departure are known, Compassion's policy is to recognize the expense when paid. Accrued severance for years ended June 30, 2020 and 2019 was \$3.25 million and \$2.48 million, respectively, and is included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was \$3.46 million and \$3.34 million for the years ended June 30, 2020 and 2019, respectively and is included in "Personnel Expenses" on the consolidated statements of functional expenses.

Self-Funded Medical Insurance

Compassion has established plans for self-funding medical claims of employees in various offices throughout the world. Compassion either has contracted with a third party, through a broker, to administer, or self-administers the health plans. Compassion has also purchased stop loss coverage, which provides for an annual specific deductible per individual of \$0.28 million and \$0.25 million for the years ended June 30, 2020 and 2019, respectively. Potential incurred but unreported claims totaling approximately \$1.15 million for the years ended June 30, 2020 and 2019, respectively, are included in "Accounts payable and accrued liabilities" in the consolidated statements of financial position.

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. Amounts predominantly are funds that were remitted to national offices in June and distributed to sponsorship projects in July. These committed program funds are accrued at year-end in the consolidated statements of financial position consistent with our stated purpose to transfer resources. Funds committed to sponsorship projects are included on the consolidated statements of financial position.

Split-interest Agreements

Compassion holds split-interest agreements recorded at fair value for revocable trusts, irrevocable trusts, and gift annuities. Assets received under revocable trusts are recorded with an equal and offsetting liability, and subsequently adjusted until the termination of the agreement and distribution of the funds. Assets received under gift annuities and irrevocable trusts are recorded with a related liability at the present value of future payments to be made to specified beneficiaries using risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the liability. In subsequent years, the liability for future payments to the donor is reduced by payments made to the donor and is adjusted to reflect amortization of the discount and changes in actuarial assumptions at the end of the year. The excess of contributed assets over the liability is recorded as a contribution with donor restriction until such amount is received via distribution. Upon termination of the split-interest agreements, the remaining liability is removed and recognized as contributions for revocable trust and changes in value of split interest agreements for irrevocable trusts and gift annuities. If there are no donor-imposed restrictions stipulated in the agreement, net assets are then released to net assets without donor restriction; whereas, split-interest agreements with donor-imposed restrictions are held in net asset with donor restrictions until distribution is expended in satisfaction of the restricted purpose stipulated by the agreement.

Contributions

Contributions are recorded as revenue when received without donor-imposed conditions, or when donor-imposed conditions are substantially met. Child sponsorships and other monthly commitments are considered conditional until payment is received. Compassion reports contributions of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets beyond Compassion's general intended purpose. The majority of Compassion's contributions are received from individuals and the Global Partner Alliance.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

Gifts in-Kind

Gifts in-kind (GIK) are comprised primarily of contributed goods and services for specialized skills and are recognized at the fair value of the services received. Compassion received and recorded goods and contributed services which are included in the consolidated statements of activities. GIK expense is recorded when the goods and services are used and included in the consolidated statements of activities. Unused GIK is immaterial at June 30, 2020 and 2019.

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

Exchange Transaction Revenue

Compassion recognizes revenue from exchange transactions in an amount that reflects the consideration Compassion expects to receive when it transfers control of promised goods and services to the customer and the customer receives commensurate value for the transfer of asset. This process involves identifying the customer contract, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations, and recognizing exchange transaction revenue when the performance obligations have been satisfied. Exchange transaction revenues are immaterial to Compassion's overall budget and are presented net of related expenses in the consolidated statements of activities.

Endowments

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.

Compassion has two donor-restricted endowments; 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.

These endowment funds have donor-imposed restrictions, which classifies the original value of gifts donated as net assets with donor restrictions in perpetuity. The net assets for child sponsorship and leadership development are invested to provide a long-term total return to support child beneficiaries in developing countries. A portion of the earnings from the donor-restricted endowment funds may be used to keep the endowment at adequate levels to ensure perpetuity of funding. The remaining endowment earnings can be appropriated for expenditure in accordance with the donor's stipulations.

Functional Expense Allocation

The cost of providing the various programs and supporting services has been summarized on a functional basis in the consolidated statements of activities. Expenses directly attributable to a specific functional area of Compassion are reported as costs of those functional areas. Accordingly, certain costs have been allocated among program and supporting services benefited. Costs allocated primarily include facilities, information technology, and donor servicing and communications. Facilities is allocated based on headcount, information technology is allocated based on head count and estimated time and effort, and donor servicing and communications are based on time and effort.

Liquidity

Compassion's board of directors approves an annual operating and capital budget. Compassion structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Compassion invests cash in excess of daily requirements in interest bearing accounts and short-term investments. Compassion's board-designated CDSP reserve is available to management for general expenditures to manage unanticipated liquidity needs, and therefore amounts are included in financial assets available for expenditure. The remainder of the Compassion's board-designated net assets require board approval for expenditure and are unavailable to management

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

for general expenditure. Additionally, net assets with donor restrictions are withheld from financial assets available for expenditure.

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 significant net unrelated business income during the years ended June 30, 2020 and 2019. As an Association of Churches, Compassion is classified as a public charity and not a private foundation under Section 509(a)(1) and 170(b)(1)(A)(i) of the IRC.

Foreign Currency

Substantially all assets and liabilities of consolidated foreign national offices have been translated at foreign exchange rates in effect at June 30, 2020 and 2019. All foreign office revenue and expense amounts are converted utilizing the average monthly spot 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.

Reclassifications

Certain amounts in the 2019 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2020 consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09 or Topic 606), which requires a company to recognize revenue when the company transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. Additionally, the FASB issued the following amendments to ASU 2014-09 that have the same effective date and transition provisions:

- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which provides clarifying guidance to improve the operability and understandability of the implementation guidance on principal versus agent considerations;
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies certain aspects of the guidance in identifying performance obligations and the licensing implementation guidance;
- ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which provides technical improvements and certain practical expedients in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition; and
- ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which makes minor corrections and improvements to certain aspects of Topic 606.
- ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)* that allows for a one-year deferral of the effective date due to COVID-19 related practicalities.

Compassion's consolidated financial statements reflect the early adoption of this ASU and amendments with no material impacts.

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions, including business entities. The new guidance clarifies the definition of an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

unconditional. Donors will use the same criteria as recipients to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. Compassion's consolidated financial statements reflect implementation of this ASU with early adoption of the "Contributions Made" provision with no material impact.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the consolidated statements of financial position via a right of use asset and lease liability, and qualitative and quantitative disclosures.

Additionally, since its initial release the FASB has issued the following Topic 842-related ASUs:

- 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, which clarifies the applicability of Topic 842 to land easements and provides an optional transition practical expedient for existing land easements.
- 2018-10, *Codification Improvements to Topic 842, Leases*, which makes certain technical corrections to Topic 842.
- 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows companies to adopt Topic 842 without revising comparative period reporting or disclosures and provides an optional practical expedient to lessors to not separate lease and non-lease components of a contract if certain criteria are met.
- 2019-01, *Leases (Topic 842): Codification Improvements*, which provides guidance for certain lessors on determining the fair value of an underlying asset in a lease and on the cash flow statement presentation of lease payments received. ASU 2019-01 also clarifies disclosures required in interim periods after adoption of ASU 2016-02 in the year of adoption.
- 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842), Effective Dates*, which defers the effective date of ASU 2016-02 and all related Topic 842 ASUs by one year, with early adoption permitted.
- ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)* that allows for a one-year deferral of the effective date due to COVID-19 related practicalities.

The provisions are effective for Compassion's fiscal year ending June 30, 2023. Compassion is currently evaluating the impact that the adoption of these provisions will have on Compassion's consolidated financial statements, but expects ASU 2016-02, at a minimum, to add significant right-of-use assets and lease liabilities to the consolidated statements of financial position.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life, instead of when incurred. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, which amends Subtopic 326-20 (created by ASU 2016-13) to explicitly state that operating lease receivables are not in the scope of Subtopic 326-20. Additionally, in April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, in May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, and in November 2019, the FASB issued ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*, and ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, to provide further clarifications on certain aspects of ASU 2016-13 and to extend the nonpublic entity effective date of ASU 2016-13. The changes (as amended) are effective for Compassion's fiscal year ending June 30, 2024, with early adoption permitted. Compassion does not expect the adoption of ASU 2016-13 to have a material effect on its consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

(3) Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total within the consolidated statements of cash flows, in thousands, as of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 194,856	\$ 161,846
Restricted cash included in restricted assets	1,201	728
Cash equivalents and restricted cash shown in Consolidated statement of cash flows	<u>\$ 196,057</u>	<u>\$ 162,574</u>

(4) Investments and Fair Value Measurements

The following table represents investments that are measured at fair value on a recurring basis, in thousands, at June 30, 2020:

	<u>Fair value June 30, 2020</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Corporate bonds	\$ 33,738	\$ -	\$ 33,738	\$ -
Government obligations	38,102	-	38,102	-
Other	114	-	114	-
Total investments	<u>\$ 71,954</u>	<u>\$ -</u>	<u>\$ 71,954</u>	<u>\$ -</u>
Restricted investments:				
Cash equivalents and interest receivable	1,227	1,227	-	-
Corporate bonds	1,982	-	1,982	-
Government obligations	3,078	-	3,078	-
Corporate stocks	7,312	7,312	-	-
Mutual funds	2,094	2,094	-	-
Exchange traded funds	1,387	1,387	-	-
Total restricted investments	<u>\$ 17,080</u>	<u>\$ 12,020</u>	<u>\$ 5,060</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 6,478	\$ -	\$ 6,478	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 7,609	\$ -	\$ 7,609	\$ -

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

The following table represents investments that are measured at fair value on a recurring basis, in thousands, at June 30, 2019:

	Fair Value June 30, 2019	Level 1	Level 2	Level 3
Investments:				
Corporate bonds	\$ 38,766	\$ -	\$ 38,766	\$ -
Government obligations	32,430	-	32,430	-
Other	112	2	110	-
Total investments	<u>\$ 71,308</u>	<u>\$ 2</u>	<u>\$ 71,306</u>	<u>\$ -</u>
Restricted investments:				
Cash equivalents and interest receivable	770	770	-	-
Corporate bonds	1,224	-	1,224	-
Government obligations	4,470	-	4,470	-
Corporate stocks	7,967	7,967	-	-
Mutual funds	2,278	2,278	-	-
Other	1,406	1,406	-	-
Total restricted investments	<u>\$ 18,115</u>	<u>\$ 12,421</u>	<u>\$ 5,694</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 7,739	\$ -	\$ 7,739	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 1,647	\$ -	\$ 1,647	\$ -

(5) Foreign Exchange Contracts

At June 30, 2020 and 2019, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling \$256.83 million and \$187.46 million, respectively, and sales of U.S. dollars with notional amounts totaling \$152.52 million and \$162.74 million, respectively.

(6) Property and Equipment

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

	2020	2019
Building and building improvements	\$ 84,450	\$ 83,497
Software	51,934	45,526
Furniture and equipment	14,438	22,122
Land	12,605	11,929
Vehicles	6,029	6,966
Assets in progress	1,208	422
	<u>170,664</u>	<u>170,462</u>
Less accumulated depreciation	(98,425)	(90,790)
Property and equipment, net	<u>\$ 72,239</u>	<u>\$ 79,672</u>

Depreciation expense totaled approximately \$11.78 million and \$12.40 million for the years ended June 30, 2020 and 2019, respectively.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

(7) Net Assets without Donor Restrictions

Net assets without donor restrictions are available for the following purposes, in thousands, at June 30:

	<u>2020</u>	<u>2019</u>
Board-designated:		
Future beneficiary payment	\$ 35,859	\$ 32,619
CDSP reserve	15,631	32,815
Property, equipment, and intangibles	73,027	80,658
Unrestricted	119,799	96,435
Net assets without donor restrictions	<u>\$ 244,316</u>	<u>\$ 242,527</u>

(8) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes, in thousands, at June 30:

	<u>2020</u>	<u>2019</u>
Specific purpose	\$ 14,539	\$ 15,113
Passage of Time	823	920
Investment in perpetuity:		
Child sponsorship endowment	7,447	6,484
Leadership endowment	3,601	3,662
Net assets with donor restrictions	<u>\$ 26,410</u>	<u>\$ 26,179</u>

Net assets released from donor-imposed restrictions by meeting purpose restrictions, by occurrence of the passage of time, or other events specified by donors, in thousands, for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Specific purpose	\$ 158,796	\$ 144,887
Passage of Time	20	17
Release of appropriated endowment amounts:		
Child sponsorship endowment	404	389
Leadership development endowment	314	290
Net assets released from restriction	<u>\$ 159,534</u>	<u>\$ 145,583</u>

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

(9) GPA Contributions

Contributions from the unaffiliated international organizations comprising the Global Partner Alliance were reported as follows, in thousands, for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Compassion Australia	\$ 48,687	\$ 50,808
Compassion United Kingdom	42,627	45,052
Compassion Canada	41,700	40,947
Compassion Korea (South Korea)	40,424	51,737
Compassion Netherlands	21,391	21,344
Compassion Deutschland (Germany)	9,692	9,552
Compassion Schweiz (Switzerland)	5,556	4,556
Compassion Italia Onlus (Italy)	5,035	4,849
Service d'Entraide et Liaison (France)	3,676	3,762
Tear Fund New Zealand	3,506	3,805
Compassion Norden (Nordic countries)	1,966	1,681
	<u>\$ 224,260</u>	<u>\$ 238,093</u>

(10) Fundraising Events

Compassion's fundraising event activities include the Roadshow and other concerts, speakers, events, and CauseTrek trips. The direct benefits to sponsors and donors are limited to the amount of revenue associated with exchange transactions at the events, and any excess direct benefits to sponsors and donors are recorded as "Fundraising" expense in the consolidated financial statements. Fundraising event activities, in thousands, for the years ended June 30 are as follows:

	<u>2020</u>	<u>2019</u>
Gross receipts from Fundraising events	\$ 17,740	\$ 20,040
Less contributions	(16,223)	(15,878)
Gross income from Fundraising events	1,517	4,162
Less direct benefits to sponsors and donors	(1,596)	(4,162)
Net loss from Fundraising events	<u>\$ (79)</u>	<u>\$ -</u>

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2020 and 2019

(11) Liquidity

Financial assets available for general expenditure within one year, in thousands, at June 30, 2020 are as follows:

Cash and cash equivalents	\$ 194,856
Investments	71,954
Receivables from Global Partner Alliance	7,183
Accounts Receivable	1,600
Foreign exchange contracts, at fair value	6,478
Total restricted assets	<u>17,080</u>
Total financial assets, at year-end	<u>299,151</u>
Less those unavailable for general expenditure within one year, due to:	
Restricted for specific purpose	(14,539)
Restricted for passage of time	(823)
Restricted for endowment	(11,048)
Less amounts unavailable to management without Board's approval:	
Future beneficiary payments	<u>(35,859)</u>
Financial assets not available to be used within one year	<u>(62,269)</u>
Financial assets to meet cash needs for general expenditures within one year	<u><u>\$ 236,882</u></u>

(12) Lease Commitments

Compassion is committed under certain operating leases for building facilities at June 30, 2020. All operating leases are non-cancelable and expire on various dates through 2025. Lease and rent expense for fiscal years 2020 and 2019 were \$2.76 million and \$2.71 million, respectively, and included in "Operating Expenses" in the consolidated statements of functional expenses. In addition, Compassion leases excess owned office space, unrelated to the aforementioned leased properties, to third party tenants with initial lease terms generally ranging from three to seven years. The carrying amount and accumulated depreciation of owned property that is leased as of June 30, 2020 and 2019 are \$8.05 million and \$6.72 million, respectively, and is included in "Property and equipment, net" in the consolidated statements of financial position. Rental income totaled approximately \$1.68 million and \$1.91 million over the same periods and is included in "Investment income and other income" in the consolidated statements of activities. Future minimum rental commitments and sublease rental income required by all non-cancelable leases are approximately as follows, in thousands, at June 30, 2020:

	Operating	Sublease
2021	\$ 2,218	\$ 1,614
2022	1,805	1,142
2023	1,234	1,117
2024	677	766
2025	239	174
Thereafter	-	109
	<u>\$ 6,173</u>	<u>\$ 4,922</u>

(13) Subsequent Events

Compassion has evaluated subsequent events through August 26, 2020, the date the consolidated financial statements were available to be issued, and there were none to be reported.