Releasing children from poverty

Compassion®

in Jesus' name

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

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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, 2019 and 2018, 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 financial position of Compassion International, Inc. and its affiliates as of June 30, 2019 and 2018, and the changes in net assets, allocation of functional expenses, and cash flows for the years then ended are in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2019, Compassion International, Inc. and its affiliates adopted new accounting guidance, ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Denver, Colorado
August 29, 2019

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2019 and 2018
(Amounts in thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 161,846	$ 123,641
Investments	71,308	68,766
Receivables from Global Partner Alliance	8,612	9,211
Accounts receivable	3,558	2,386
Prepaid expenses and other	12,292	9,444
Foreign exchange contracts, at fair value	7,739	7,123
Total current assets	265,355	220,571
Noncurrent assets:		
Property and equipment, net	79,672	90,002
Intangibles, net	986	1,183
Total noncurrent assets	80,658	91,185
Restricted assets:		
Cash and investments restricted for split-interest agreements	3,935	3,977
Cash and investments restricted for long-term purposes	14,180	12,903
Total restricted assets	18,115	16,880
Total assets	$ 364,128	$ 328,636
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 24,550	$ 20,013
Funds committed to sponsorship projects	63,526	56,043
Split-interest agreements	159	86
Foreign exchange contracts, at fair value	1,647	5,396
Total current liabilities	89,882	81,538
Long-term liabilities:		
Accrued liabilities, less current portion	1,600	1,284
Funds committed to sponsorship projects, less current portion	1,885	1,595
Split-interest agreements, less current portion	2,055	2,187
Total long-term liabilities	5,540	5,066
Total liabilities	95,422	86,604
Net assets:		
Without donor restrictions	242,527	209,285
With donor restrictions	26,179	32,747
Total net assets	268,706	242,032
Total liabilities and net assets	$ 364,128	$ 328,636

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		
	Without donor restrictions	**With donor restrictions**	**Total**
Revenue, gains, and other support:			
Contributions	$ 605,833	$ 103,815	$ 709,648
Contributions from Global Partner Alliance	204,153	33,940	238,093
Gifts in-kind	47	131	178
Investment income and other income	6,215	1,099	7,314
Net unrealized gain on foreign exchange contracts	4,365	-	4,365
Changes in value of split-interest agreements	13	30	43
Net assets released from restrictions	145,583	(145,583)	-
Total revenue, gains, and other support	966,209	(6,568)	959,641
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	168,419	-	168,419
Total expenses	932,967	-	932,967
Change in net assets	33,242	(6,568)	26,674
Net assets, beginning of year	209,285	32,747	242,032
Net assets, end of year	$ 242,527	$ 26,179	$ 268,706

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Activities
Fiscal year ended June 30, 2018
(Amounts in thousands)

	2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Revenue, gains, and other support:			
Contributions	$ 569,056	$ 94,277	$ 663,333
Contributions from Global Partner Alliance	190,623	32,589	223,212
Gifts in-kind	29	62	91
Investment income and other income	1,406	1,162	2,568
Net unrealized gain on foreign			-
exchange contracts	1,305	-	1,305
Changes in value of split-interest agreements	10	52	62
Net assets released from restrictions	132,970	(132,970)	-
Total revenue, gains, and other support	895,399	(4,828)	890,571
Expenses:			
Program activities:			
Child development programs	703,543	-	703,543
Supporting activities:			
Management & General	68,476	-	68,476
Fundraising	90,045	-	90,045
Total supporting activities	158,521	-	158,521
Total expenses	862,064	-	862,064
Change in net assets	33,335	(4,828)	28,507
Net assets, beginning of year	175,950	37,575	213,525
Net assets, end of year	$ 209,285	$ 32,747	$ 242,032

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
Fiscal years ended June 30, 2019 and 2018
(Amounts in thousands)

	Fiscal year 2019				
	Program activities	Supporting activities			
	Child Development Programs	Management & General	Fundraising	Total supporting activities	Total expenses
Program grants	$ 634,998	$ -	$ -	$ -	$ 634,998
Salaries and benefits	72,956	49,302	38,938	88,240	161,196
Office and related expenses	17,689	7,848	4,432	12,280	29,969
Professional services	9,365	5,192	12,796	17,988	27,353
Travel and training	16,147	2,404	7,020	9,424	25,571
Advertising and promotion	-	137	21,900	22,037	22,037
Postage and printing	6,379	1,097	4,590	5,687	12,066
Occupancy	5,171	1,719	1,510	3,229	8,400
Other	1,843	7,914	1,620	9,534	11,377
Total	$ 764,548	$ 75,613	$ 92,806	$ 168,419	$ 932,967

	Fiscal year 2018				
	Program activities	Supporting activities			
	Child Development Programs	Management & General	Fundraising	Total supporting activities	Total expenses
Program grants	$ 588,553	$ -	$ -	$ -	$ 588,553
Salaries and benefits	65,911	44,880	37,260	82,140	148,051
Office and related expenses	14,597	7,168	4,593	11,761	26,358
Professional services	8,742	4,656	15,248	19,904	28,646
Travel and training	13,712	1,851	6,791	8,642	22,354
Advertising and promotion	8	102	20,199	20,301	20,309
Postage and printing	5,330	1,772	3,594	5,366	10,696
Occupancy	4,792	2,033	1,131	3,164	7,956
Other	1,898	6,014	1,229	7,243	9,141
Total	$ 703,543	$ 68,476	$ 90,045	$ 158,521	$ 862,064

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
Fiscal years ended June 30, 2019 and 2018
(Amounts in thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 26,674	$ 28,507
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,595	12,998
Net loss on disposition of equipment	355	116
Net realized and unrealized gain on investments	(2,141)	(527)
Net unrealized gain on foreign exchange contracts	(4,365)	(1,305)
Funds received restricted for endowments	(861)	(782)
Increase in other non-cash items	(43)	(124)
Changes in assets and liabilities:		
Increase in receivables	(573)	(1,499)
Increase in prepaid expenses and other	(2,848)	(1,557)
Increase in accounts payable and accrued liabilities	4,853	2,370
Increase (decrease) in funds committed to sponsorship projects	7,773	(487)
Net cash provided by operating activities	41,419	37,710
Cash flows from investing activities:		
Purchases of investments	(30,127)	(33,601)
Proceeds from sales of investments	28,367	31,936
Purchases of property and equipment	(2,498)	(4,780)
Proceeds from sales of property and equipment	75	72
Net cash used in investing activities	(4,183)	(6,373)
Cash flows from financing activities:		
Funds received restricted for endowments	861	782
(Decrease) increase in split-interest agreements	(59)	129
Net cash provided by financing activities	802	911
Net increase in cash and cash equivalents	38,038	32,248
Cash, cash equivalents, and restricted cash, beginning of year	124,536	92,288
Cash, cash equivalents, and restricted cash, end of year	$ 162,574	$ 124,536

See accompanying notes to consolidated financial statements.

(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 life changing opportunities to address physical, social, economic, and spiritual care together in Jesus' name. 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 2.1 million (unaudited) and 1.92 million (unaudited) children in 2019 and 2018, 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. Compassion processed nearly 9 million (unaudited) letters between sponsors and their children in 2019. 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'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's Youth Development Program (YDP) equips youth ages 12 and older with customized training and educational paths according to their own unique potential, talents and purpose. Through the provision of YDP, students may receive assistance with formal education needs, non-formal education opportunities and income generation training.

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

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, 2019 and 2018 include:

- Compassion (Darunatorn) Foundation (Thailand)
- Compassion de Mexico Asociacion Civil
- Compassion do Brasil
- Compassion International del Peru
- Compassion International (East Asia) Limited
- Compassion International en Bolivia
- Compassion International Ghana
- Compassion International, Incorporated (Kenya)
- Compassion International Lanka (Sri Lanka)
- Compassion International (Singapore) Limited
- Compassion International Togo
- Compassion International Uganda
- Corporación Compassion International Filial Ecuador
- Fundacion Compassion International Ecuador
- 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 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.

(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).

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, "Presentation of Financial Statements for Not-For-Profit Entities". The ASU is effective for Compassion's fiscal year 2019 and our consolidated financial statements reflect implementation of this ASU. The standard makes improvements to the information provided in the consolidated financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit's liquidity, financial performance, and cash flows. The net asset classification has been updated to reflect the classification of assets into two distinct categories: with and without donor restriction. A 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 the child sponsorship program (CDSP), invested in property, equipment and intangibles, or unrestricted. Within these funds, Compassion's Board of Directors has designated funds 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 9 to the Consolidated Financial Statements for further information.)

With Donor Restrictions: Net assets subject to donor-imposed restrictions require resources to be used with the for a specific purpose and/or the passage of time. Specific purpose restrictions are primarily comprised of CSP, YD, and CIV 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 10 to the Consolidated Financial Statements for further information.)

Prior year reclassifications have been included to conform with the classifications within ASU 2016-14. The consolidated statement of financial position reflects a net asset reclassification from temporarily restricted assets to without donor restriction totaling $94.43 million and to with donor restriction of approximately $21.08 million at June 30, 2018. Similarly, temporarily restricted contributions on the consolidated statement of activities were reclassified to without donor restriction and with donor restriction totaling $759.71 million and $126.93 million for the year ended June 30, 2018, respectively. Temporarily restricted net assets, beginning of year on the consolidated statement of activities were likewise reclassified to without donor restriction and with donor restriction totaling $83.61 million and $27.09 million for the year ended June 30, 2018, respectively.

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.

Receivables from Global Partner Alliance
Receivables from the Global Partner Alliance (GPA) consist of trade receivables and are carried at original invoice 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, 2019 and 2018.

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 are 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.

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, 2019 and 2018.

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 $8.95 million and $7.87 million for the years ended June 30, 2019 and 2018, respectively and are included in "Salaries and benefits" on the consolidated statements of functional expenses.

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 national office 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, 2019 and 2018, was $2.48 million and $2.05 million, respectively and are included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was $3.34 million and $2.75 million for the years ended June 30, 2019 and 2018, respectively and are included in "Salaries and benefits" 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 $0.25 million for the years ended June 30, 2019 and 2018. Potential incurred but unreported claims totaling approximately $1.15 million and $1.22 million for the years ended June 30, 2019 and 2018, 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 for revocable trusts, irrevocable trusts, and gift annuities. Assets received under revocable trusts are recorded at fair value, and an equal and offsetting liability is recorded, and subsequently adjusted until the termination of the agreement and distribution of the funds. Assets received under gift annuities and irrevocable trusts are recorded at fair value at date of receipt, and a related liability is recorded 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, then net assets are released due to the passage of time to net assets without donor restriction due to termination. 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, and net assets with donor restriction are released to net assets without donor restriction.

Contributions

Contributions are recorded as revenue when an unconditional promise to give has been made. 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 (GPA). The 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.

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 included in "Prepaid expenses and other" in the consolidated statements of financial position and was immaterial at June 30, 2019 and 2018.

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.

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 sufficient to support a number of sponsorships 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 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, 2019 and 2018. 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, 2019 and 2018. All foreign office revenue and expense amounts are converted utilizing the average monthly rate, based on the blended hedged and spot rates, 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.

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 accounted 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.

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.

Reclassifications
Certain amounts in the 2018 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2019 consolidated financial statements.

Recent Accounting Pronouncements
The adoption of ASU 2016-14 is addressed in the Basis of Presentation of this note.

In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows (Topic 230): Restricted Cash*, which require that statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. Compassion's consolidated statements of cash flows reflect implementation of this ASU in the "Cash equivalents and restricted cash" line with a reconciliation to the consolidated statement of financial position in note 3.

In June 2018, the FASB ratified a final consensus on EITF Issue 17-A, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This guidance amends ASU 2014-09 and ASU 2015-05, "Intangibles – Goodwill and Other – Internal-use Software" (Subtopic 350-40) Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The guidance prescribes the accounting for implementation and upfront costs associated with hosted cloud computing arrangements that are service contracts and now requires implementation costs of hosting arrangements to be capitalized as prepayment of fees on the consolidated statements of financial position and amortized in the same line of the consolidated statements of functional expenses as the hosting fees over the term of the hosting arrangement including renewal options that are reasonably certain to be exercised. Compassion's consolidated financial statements reflect implementation of this ASU with financial impact of $1.35 million included in "Prepaid expenses and other" line on the consolidating financial statement of financial position with no impact to the "Professional services" line on the consolidated statement of functional expenses, as amount no amortization expense has been recognized.

In May 2019, the FASB issue Accounting Standards Update 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. The new guidance extends the scope of the two private company alternatives to not-for-profits, enabling organizations to recognize fewer items as separate intangible assets in acquisitions and to account for goodwill in a more cost-effective manner. Instead of testing goodwill for impairment annually at the reporting unit level, a not-for-profit organization that elects the accounting alternative will: 1) amortize goodwill over 10 years or less, on a straight-line basis, 2) test for impairment upon a triggering event; and 3) have the option to elect to test for impairment at the entity level. A not-for-profit organization also has the option to subsume certain customer-related intangible assets and all noncompete agreements into goodwill, which it subsequently must amortize. The new standard is effective immediately with no impact to Compassion's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU 2016-06 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. In July 2018, the FASB issued ASU 2018-10, which clarifies and corrects errors in ASC 842. The effective date and transition requirements in ASU 2018-10 are the same as the effective date and transition requirements of ASU 2016-02. In July 2018, the FASB issued ASU 2018-11, which creates a new, optional transition method for implementing ASU 2016-02 and a lessor practical expedient for separating lease and non-lease components. In March 2019, the FASB issued ASU 2019-01, which provides targeted changes to how lessors that are not manufacturers or dealers determine the fair value of the underlying asset in a lease, and how financial institution lessors should present lease payments received in the statement of cash flows. ASU 2019-01 also amends the transition disclosures for Topic 842, in that all companies are exempt from certain interim period transition disclosure requirements. The provisions are effective for Compassion's fiscal year ending June 30, 2022, due to an extension by the FASB. 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 May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the entity for the fiscal years beginning after December 15, 2018 (as amended in August 2015 by ASU 2015-14, Deferral of the Effective Date). The provisions are effective for Compassion's fiscal year ending June 30, 2020. Compassion does not expect the adoption of these provisions to have a significant impact on Compassion's consolidated financial statements as Compassion receives most revenue in the form of contributions.

On June 21, 2018, the FASB issued Accounting Standards Update 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 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. The provisions are effective for Compassion’s fiscal year ending June 30, 2020 for receipts and June 30, 2021 for contributions made. Compassion does not expect a material impact on contributions received, as the majority of contributions are received unconditionally under the provision. Compassion is currently evaluating the impact that the adoption of these provisions will have on Compassion’s consolidated financial statements for contributions made.

(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:

	2019	2018
Cash and cash equivalents	$ 161,846	$ 123,641
Restricted cash included restricted assets	728	895
Cash equivalents and restricted cash shown in Consolidated statement of cash flows	$ 162,574	$ 124,536

(4) Liquidity

Financial assets available for general expenditure within one year, in thousands, at June 30, 2019 are as follows:

Cash and cash equivalents	$ 161,846
Investments	71,308
Receivables from Global Partner Alliance	8,612
Accounts receivable	3,558
Foreign exchange contracts, at fair value	7,739
Restricted assets	18,115
Total financial assets, at year-end	271,178
Less amounts unavailable for general expenditures within one year, due to:	
Restricted for specific purpose	(15,113)
Restricted for passage of time	(920)
Restricted for endowment	(10,146)
Less amounts unavailable to management without Board’s approval:	
Board-designated for future beneficiary payment	(32,619)
Financial assets not available to be used within one year	(58,798)
Financial assets to meet cash needs for general expenditures within one year	$ 212,380

(5) 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, 2019:

	Cost basis June 30, 2019	Fair value June 30, 2019	Level 1	Level 2	Level 3
Investments:					
Corporate bonds	$ 38,495	$ 38,766	$ -	$ 38,766	$ -
Government obligations	32,351	32,430	-	32,430	-
Other	112	112	2	110	-
Total investments	$ 70,958	$ 71,308	$ 2	$ 71,306	$ -
Restricted investments:					
Cash equivalents and interest receivable	770	770	770	-	-
Corporate bonds	1,188	1,224	-	1,224	-
Government obligations	4,360	4,470	-	4,470	-
Corporate stocks	6,437	7,967	7,967	-	-
Mutual funds	2,320	2,278	2,278	-	-
Exchange traded funds	1,281	1,406	1,406	-	-
Total restricted investments	$ 16,356	$ 18,115	$ 12,421	$ 5,694	$ -
Current assets:					
Foreign exchange contracts	$ -	$ 7,739	$ -	$ 7,739	$ -
Current liabilities:					
Foreign exchange contracts	$ -	$ 1,647	$ -	$ 1,647	$ -

The following table represents investments that are measured at fair value on a recurring basis, in thousands, at June 30, 2018:

	Cost basis June 30, 2018	Fair value June 30, 2018	Level 1	Level 2	Level 3
Investments:					
Corporate bonds	$ 36,681	$ 36,168	$ -	$ 36,168	$ -
Government obligations	33,048	32,486	-	32,486	-
Other	112	112	-	107	5
Total investments	$ 69,841	$ 68,766	$ -	$ 68,761	$ 5
Restricted investments:					
Cash equivalents and interest receivable	929	929	929	-	-
Corporate bonds	1,345	1,314	-	1,314	-
Government obligations	3,632	3,606	-	3,606	-
Corporate stocks	5,879	7,375	7,375	-	-
Mutual funds	2,342	2,351	2,351	-	-
Other	1,161	1,305	1,305	-	-
Total restricted investments	$ 15,288	$ 16,880	$ 11,960	$ 4,920	$ -
Current assets:					
Foreign exchange contracts	$ -	$ 7,123	$ -	$ 7,123	$ -
Current liabilities:					
Foreign exchange contracts	$ -	$ 5,396	$ -	$ 5,396	$ -

(6) Foreign Exchange Contracts

At June 30, 2019 and 2018, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling $187.46 million and $175.49 million, respectively, and sales of U.S. dollars with notional amounts totaling $162.74 million and $165.84 million, respectively.

(7) Property and Equipment

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

	2019	2018
Building and building improvements	$ 83,497	$ 82,734
Software	45,526	44,616
Furniture and equipment	22,122	22,888
Land	11,929	11,929
Vehicles	6,966	6,790
Assets in progress	422	1,028
	170,462	169,985
Less accumulated depreciation	(90,790)	(79,983)
Property and equipment, net	$ 79,672	$ 90,002

Depreciation expense totaled approximately $12.40 million and $12.80 million for the years ended June 30, 2019 and 2018, respectively.

(8) Intangibles

Intangibles consist of the following, in thousands, as of June 30:

	2019	2018
Naming rights, non-compete, and customer list	$ 1,971	$ 1,971
Less accumulated amortization	(985)	(788)
Intangibles, net	$ 986	$ 1,183

Amortization expense totaled approximately $0.20 million for the years ended June 30, 2019 and 2018. Future amortization expense associated with net carrying values at June 30, 2019 is estimated to be $0.20 million annually through fiscal year 2024.

(9) Net Assets without Donor Restrictions

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

	2019	2018
Board-designated:		
CDSP future beneficiary payment	$ 32,619	$ 47,773
CDSP reserve	32,815	27,962
Property, equipment, and intangibles	80,658	91,185
Unrestricted	96,435	42,365
Net assets without donor restrictions	$ 242,527	$ 209,285

(10) Net Assets with Donor Restrictions

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

	2019	2018
Specific purpose	$ 15,113	$ 22.946
Passage of time	920	932
Investment in perpetuity:		
Child sponsorship endowment	6,484	5,127
Leadership endowment	3,662	3,742
Net assets with donor restrictions	$ 26,179	$ 32,747

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:

	2019	2018
Net assets released from restrictions:		
Specific purpose	$ 144,832	$ 132,177
Passage of time	17	-
Gift in-kind donations used	55	131
Release of appropriated endowment amounts:		
Child sponsorship endowment	389	359
Leadership development endowment	290	303
Net assets released from restriction	$ 145,583	$ 132,970

(11) Global Partner Alliance

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

	2019	2018
Compassion Korea (South Korea)	$ 51,737	$ 50,544
Compassion Australia	50,808	48,170
Compassion United Kingdom	45,052	39,614
Compassion Canada	40,947	41,283
Compassion Netherlands	21,344	18,692
Compassion Deutschland (Germany)	9,552	8,149
Compassion Italia Onlus (Italy)	4,849	4,229
Compassion Schweiz (Switzerland)	4,556	3,820
Tear Fund New Zealand	3,805	3,791
Service d'Entraide et Liaison (France)	3,762	3,448
Compassion Nordic Entities (Norway, Sweden, Finland, Denmark)	1,681	1,472
	$ 238,093	$ 223,212

(12) Lease Commitments

Compassion is committed under certain operating leases for building facilities at June 30, 2019. All operating leases are non-cancelable and expire on various dates through 2024. Lease and rent expense for fiscal years 2019 and 2018 were $2.71 million and $2.37 million, respectively, and is included in "Occupancy" 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 five years. The carrying amount and accumulated depreciation of owned property that is leased as of June 30, 2019 and 2018 are $6.72 million and $7.56 million, respectively, and is included in "Property and equipment, net" in the consolidated statements of financial position. Rental income totaled approximately $1.91 million and $1.81 million over the same periods and is included in "Interest, dividends, 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, 2019:

	Operating	Sublease
2020	$ 2,093	$ 1,346
2021	1,105	1,383
2022	716	1,364
2023	459	784
2024	107	452
Thereafter	-	136
	$ 4,480	$ 5,465

(13) 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 transaction 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:

	2019	2018
Gross receipts from Fundraising events	$ 20,040	$ 19,139
Less contributions	(15,878)	(13,670)
Gross income from Fundraising events	4,162	5,469
Less direct benefits to sponsors and donors	(4,162)	(5,469)
Net income from Fundraising events	$ -	$ -

(14) Subsequent Events

Compassion has evaluated subsequent events through August 29, 2019, the date the consolidated financial statements were available to be issued, and there were none to be reported.