



**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

# COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

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KPMG LLP  
Suite 800  
1225 17th Street  
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## Independent Auditors' Report

The Board of Directors  
Compassion International, Incorporated:

We have audited the accompanying consolidated financial statements of Compassion International, Incorporated and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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 audits 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, Incorporated and its affiliates as of June 30, 2015 and 2014, 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  
September 4, 2015

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Statements of Financial Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 80,259,524	96,692,553
Investments	85,670,184	84,736,180
Receivables from Global Partner Alliance	10,399,291	10,906,326
Accounts receivable	452,339	790,965
Prepaid expenses and supplies	7,006,027	6,688,316
	<hr/>	<hr/>
Total current assets	183,787,365	199,814,340
<b>Noncurrent assets:</b>		
Property, plant, and equipment, net	89,142,194	74,530,952
Intangibles, net	1,790,567	1,996,000
	<hr/>	<hr/>
Total noncurrent assets	90,932,761	76,526,952
<b>Restricted assets:</b>		
Investments restricted for trust and annuity obligations	2,601,085	2,852,875
Investments restricted for long-term purposes	10,151,055	9,802,262
	<hr/>	<hr/>
Total restricted assets	12,752,140	12,655,137
	<hr/>	<hr/>
Total assets	\$ 287,472,266	288,996,429
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<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 24,472,561	18,822,615
Funds committed to sponsorship projects	46,448,528	45,196,307
Accrued severance/retirement benefits for national employees	1,390,260	1,241,129
Trust obligations	35,508	41,205
Gift annuities payable	26,556	12,636
Revocable trust agreements	69,238	75,214
Foreign exchange contracts, at fair value	358,722	—
	<hr/>	<hr/>
Total current liabilities	72,801,373	65,389,106
<b>Long-term liabilities:</b>		
Funds committed to sponsorship projects, less current portion	381,524	—
Accrued severance/retirement benefits for national employees, less current portion	15,674,569	14,731,752
Trust obligations, less current portion	773,179	926,682
Gift annuities payable, less current portion	443,391	428,035
Custodial funds held	325,997	328,394
	<hr/>	<hr/>
Total long-term liabilities	17,598,660	16,414,863
	<hr/>	<hr/>
Total liabilities	90,400,033	81,803,969
	<hr/> <hr/>	<hr/> <hr/>
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
Unrestricted	91,265,524	89,150,040
Temporarily restricted	96,662,942	109,331,820
Permanently restricted	9,143,767	8,710,600
	<hr/>	<hr/>
Total net assets	197,072,233	207,192,460
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Total liabilities and net assets	\$ 287,472,266	288,996,429
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See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Statements of Activities

Years ended June 30, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 11,374,547	528,226,326	341,433	539,942,306	2,408,615	489,125,911	311,699	491,846,225
Gifts in-kind	—	935,931	—	935,931	—	529,376	—	529,376
Contributions from Global Partner Alliance	35,752,399	188,386,929	—	224,139,328	33,087,117	187,373,849	—	220,460,966
Interest, dividends, and other income	1,698,427	62,944	41,937	1,803,308	2,022,046	80,789	30,727	2,133,562
Net realized and unrealized (losses) gains on investments and disposition of assets	(400,638)	470,378	49,797	119,537	1,355,059	992,198	408,326	2,755,583
Net unrealized (loss) gain on foreign exchange contracts	(358,722)	—	—	(358,722)	1,353,157	—	—	1,353,157
Changes in value of split-interest agreements	(20,305)	(177,889)	—	(198,194)	70,830	141,676	—	212,506
Net assets released from restrictions in satisfaction of program restrictions	730,573,497	(730,573,497)	—	—	680,555,747	(680,555,747)	—	—
Total revenue, gains, and other support	778,619,205	(12,668,878)	433,167	766,383,494	720,852,571	(2,311,948)	750,752	719,291,375
Expenses:								
Program services:								
Child development program	597,170,219	—	—	597,170,219	561,374,252	—	—	561,374,252
Sponsor/donor ministries	37,968,897	—	—	37,968,897	35,535,570	—	—	35,535,570
Total program services	635,139,116	—	—	635,139,116	596,909,822	—	—	596,909,822
Supporting activities:								
Fund-raising	83,926,854	—	—	83,926,854	67,746,851	—	—	67,746,851
Administration	57,437,751	—	—	57,437,751	45,862,112	—	—	45,862,112
Total supporting activities	141,364,605	—	—	141,364,605	113,608,963	—	—	113,608,963
Total expenses	776,503,721	—	—	776,503,721	710,518,785	—	—	710,518,785
Change in net assets	2,115,484	(12,668,878)	433,167	(10,120,227)	10,333,786	(2,311,948)	750,752	8,772,590
Net assets, beginning of year	89,150,040	109,331,820	8,710,600	207,192,460	78,816,254	111,643,768	7,959,848	198,419,870
Net assets, end of year	\$ 91,265,524	96,662,942	9,143,767	197,072,233	89,150,040	109,331,820	8,710,600	207,192,460

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2015

	Program services			Supporting activities			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	
Program grants	\$ 511,567,951	1,760,205	513,328,156	—	—	—	513,328,156
Salaries and related taxes	36,755,413	11,079,296	47,834,709	23,648,605	21,136,065	44,784,670	92,619,379
Employee benefits	8,568,152	3,082,067	11,650,219	5,402,575	6,461,702	11,864,277	23,514,496
Travel and training	12,194,919	1,877,862	14,072,781	5,487,261	1,202,889	6,690,150	20,762,931
Data processing services	5,017,750	3,197,164	8,214,914	7,962,527	7,521,762	15,484,289	23,699,203
Professional fees	12,797,807	8,721,152	21,518,959	21,453,971	12,301,305	33,755,276	55,274,235
Occupancy	5,131,854	1,067,854	6,199,708	2,523,768	4,017,651	6,541,419	12,741,127
Office equipment and supplies	4,100,238	1,305,968	5,406,206	2,042,467	2,254,548	4,297,015	9,703,221
Postage and shipping	278,407	3,652,942	3,931,349	2,370,516	1,478,747	3,849,263	7,780,612
Photos and printing	408,924	1,987,350	2,396,274	2,423,372	795,951	3,219,323	5,615,597
Media	15,365	146,879	162,244	8,893,166	73,307	8,966,473	9,128,717
International expansion	—	—	—	1,220,068	—	1,220,068	1,220,068
Miscellaneous	333,439	90,158	423,597	498,558	193,824	692,382	1,115,979
<b>Total</b>	<b>\$ 597,170,219</b>	<b>37,968,897</b>	<b>635,139,116</b>	<b>83,926,854</b>	<b>57,437,751</b>	<b>141,364,605</b>	<b>776,503,721</b>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended June 30, 2014

	Program services			Supporting activities			Total expenses
	Child development program	Sponsor/donor ministries	Total program expenses	Fund-raising	Administration	Total supporting activities	
Program grants	\$ 477,248,136	1,232,085	478,480,221	—	—	—	478,480,221
Salaries and related taxes	35,926,151	11,340,507	47,266,658	19,937,326	17,126,249	37,063,575	84,330,233
Employee benefits	8,205,443	2,398,170	10,603,613	3,962,832	4,595,421	8,558,253	19,161,866
Travel and training	12,835,065	1,551,925	14,386,990	4,796,862	1,055,058	5,851,920	20,238,910
Data processing services	6,297,922	4,043,367	10,341,289	8,532,756	7,590,205	16,122,961	26,464,250
Professional fees	11,683,911	7,496,159	19,180,070	14,573,857	9,149,953	23,723,810	42,903,880
Occupancy	4,738,229	914,964	5,653,193	2,361,664	3,413,485	5,775,149	11,428,342
Office equipment and supplies	3,494,380	987,308	4,481,688	1,836,560	1,663,834	3,500,394	7,982,082
Postage and shipping	220,730	3,539,127	3,759,857	2,112,422	738,889	2,851,311	6,611,168
Photos and printing	340,660	1,226,391	1,567,051	1,584,322	317,526	1,901,848	3,468,899
Media	5,398	709,680	715,078	6,554,213	56,290	6,610,503	7,325,581
International expansion	—	—	—	1,187,439	—	1,187,439	1,187,439
Miscellaneous	378,227	95,887	474,114	306,598	155,202	461,800	935,914
Total	\$ <u>561,374,252</u>	<u>35,535,570</u>	<u>596,909,822</u>	<u>67,746,851</u>	<u>45,862,112</u>	<u>113,608,963</u>	<u>710,518,785</u>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,120,227)	8,772,590
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,772,747	6,139,645
Net (gain) loss on disposition of equipment	(31,012)	6,313
Net realized and unrealized gain on investments	(88,525)	(2,761,896)
Net unrealized loss (gain) on foreign exchange contracts	358,722	(1,353,157)
Change in value of split-interest agreements	198,194	(212,506)
Funds received restricted for endowments	(433,167)	(750,752)
Changes in assets and liabilities:		
Decrease in receivables	845,661	72,054
Increase in prepaid expenses and supplies	(317,711)	(1,039,046)
Increase in accounts payable and accrued liabilities	5,649,946	2,496,359
Increase in funds committed to sponsorship projects	1,633,745	2,074,968
Increase in accrued severance/retirement benefits for national employees	1,091,948	2,070,445
Net cash provided by operating activities	<u>5,560,321</u>	<u>15,515,017</u>
Cash flows from investing activities:		
Purchases of investments	(30,015,761)	(26,839,929)
Proceeds from sales of investments	28,875,085	25,039,003
Proceeds from sales of property and equipment	157,879	153,397
Purchases of intangibles	—	(1,996,000)
Purchases of property and equipment	(21,305,423)	(7,067,233)
Net cash used in investing activities	<u>(22,288,220)</u>	<u>(10,710,762)</u>
Cash flows from financing activities:		
Funds received restricted for endowments	433,167	750,752
Increase in gift annuities payable	29,276	14,254
(Decrease) increase in revocable trust agreements	(5,976)	9,113
(Decrease) increase in trust obligations	(159,200)	49,797
Decrease in custodial funds held	(2,397)	(3,883)
Net cash provided by financing activities	<u>294,870</u>	<u>820,033</u>
Net (decrease) increase in cash and cash equivalents	(16,433,029)	5,624,288
Cash and cash equivalents, beginning of year	<u>96,692,553</u>	<u>91,068,265</u>
Cash and cash equivalents, end of year	<u>\$ 80,259,524</u>	<u>96,692,553</u>

See accompanying notes to consolidated financial statements.



# COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2015 and 2014

### (1) Organization

#### (a) General

Compassion International, Incorporated is a Christian organization that exists as an advocate for children to release them from their spiritual, economic, social, and physical poverty, and enable them to become responsible and fulfilled Christian adults. Compassion International, Incorporated's principal services provide life-changing opportunities for education and skills training, social development, health and nutrition, and most importantly, to learn about Christ and develop a lifelong relationship with God. Compassion International, Incorporated's program services are concentrated in certain countries of Africa, Asia, Central America, the Caribbean, and South America.

#### (b) Consolidation

The consolidated financial statements include the accounts of Compassion International, Incorporated, a not-for-profit corporation created under the laws of the state of Illinois, and its wholly owned and controlled affiliates (collectively, Compassion). All material interaffiliate 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 (field offices) with child programs in 26 countries.

Compassion's international affiliates are consolidated based on the level of control exercised by the parent company and the presence of an economic interest. Compassion's consolidated international affiliates include: Compassion International Ghana, Compassion International Togo, Shohanobhuti Bangladesh Trust, Adhane Management Consultants Private Limited (India), Caruna Bal Vikas (India), Compassion East India, Yayasan Bantuan Kasih (Indonesia), Compassion International Lanka (Sri Lanka), Compassion Foundation (Thailand), Compassion do Brasil, Corporación Compassion International Filial Ecuador, Compassion de Mexico Asociacion Civil, Compassion International de Peru, Compassion International (East Asia) Limited, and Compassion International (Singapore) Limited.

Compassion Productions, LLC (CP, LLC) is a limited liability company created under the laws of the state of Tennessee with Compassion International, Incorporated as its only member. CP, LLC produces concert events which serve as a platform for Compassion's fund-raising activities.

### (2) Summary of Significant Accounting Policies

#### (a) 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). The net assets, revenue, gains, and other support and expenses in the accompanying consolidated financial statements are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Compassion and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated by the board of directors for specific purposes at any time.

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

*Temporarily Restricted Net Assets* – Net assets subject to donor-imposed restrictions that may or will be met with either actions of Compassion and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Permanently restricted net assets represent resources subject to donor-imposed restrictions to be invested in perpetuity, and only the income may be available for program operations. The income realized from the permanently restricted net assets is temporarily restricted for use in the child development and leadership development programs.

**(b) *Cash and Cash Equivalents***

Cash and short-term investments with maturities of three months or less from the date of acquisition are considered cash and cash equivalents. Compassion maintains cash accounts in the U.S. and internationally. Cash accounts in the U.S. may exceed federally insured amounts at times. Cash balances maintained internationally are not insured. Management believes no significant risk exists due to the size and financial wherewithal of the financial institutions where accounts are held.

**(c) *Investments***

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

**(d) *Property, Plant, and Equipment***

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

**(e) *Intangibles***

Intangibles are recorded at cost when purchased or at estimated fair value if received by donation. Amortization is computed using the straight-line method over the estimated useful lives of the related assets. Intangibles are amortized over 3 to 10 years.

**(f) *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, 2015 or 2014.

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

**(g) *Gift Annuities Payable***

Under gift annuity contracts, Compassion receives irrevocable title to contributed assets and agrees to make fixed period payments to the donor(s) for life. Contributed assets are recorded at fair value at the date of receipt, and a liability is established for the present value of future annuity payments based on a discount rate of 5.6%. The excess of contributed assets over the annuity liability is recorded as unrestricted revenue. Any actuarial gain or loss resulting from the computation of the liability for the present value of future annuity payments is recorded as an unrestricted change in the value of split-interest agreements. Upon the donor's death, the remaining liability is recognized as revenue.

**(h) *Revocable Trust Agreements***

Assets received and held under revocable trust agreements are recorded at fair value at the date of receipt and as corresponding liabilities. Investment income is paid to the income beneficiaries and is not recorded as revenue or expense by Compassion. Upon the donor's death, the assets are distributed to the beneficiaries of the trust, which may include Compassion. Assets of revocable trusts in which Compassion is named as a beneficiary but that are not held or controlled by Compassion are not recorded in the consolidated statements of financial position.

**(i) *Irrevocable Trust Agreements***

Under irrevocable trust agreements, Compassion receives contributed investments and agrees to maintain the principal of the investment and make annual payments to the donor(s) or other named beneficiary for life. The annual payments are based on a fixed rate of return or on related investment income, as stipulated in the trust agreement. Amounts received under irrevocable trust agreements, net of the present value of future payments to beneficiaries, are recorded as temporarily restricted support upon receipt. Investment income and payments made to donors in accordance with the terms of the trust agreements are recorded as increases and decreases to the liability for trust obligations, respectively. A liability for trust obligations is recorded for the present value of future payments to beneficiaries based on a rate of return appropriate for the expected term of the promise to give. Any actuarial gain or loss resulting from the computation of the liability for the present value of future payments to beneficiaries is recorded as temporarily restricted changes in the value of split-interest agreements. Upon the death of the donor, the assets are transferred from temporarily restricted net assets as designated by the board of directors or the trust agreement. Certain trusts name other charitable organizations as partial remaindermen.

**(j) *Contributions and Contributed Services***

Contributions are recorded as received and pledged. Compassion reports contributions of cash and other assets as restricted support if they are received with donor-imposed restrictions that limit the use of the donated assets. The majority of Compassion's contributions are received from individuals and the Global Partner Alliance (see note 4).

Contributed services for specialized skills are recognized at the fair value of the services received. Compassion received and recorded contributed services of \$114,082 and \$0 for the years ended June 30, 2015 and 2014, respectively, in the consolidated statements of activities. Additionally, a substantial number of volunteer workers have donated significant amounts of time to Compassion's programs, administration, and fund-raising activities that are not reflected in the accompanying

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

consolidated financial statements, as the services provided do not meet the required accounting criteria to be recognized.

**(k) 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. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The child development program represents costs to assist approximately 1,700,000 (unaudited) and 1,600,000 (unaudited) children in Compassion's child survival, child sponsorship, and leadership development programs in 2015 and 2014, respectively, through grants that engage these children in activities to develop them spiritually, economically, socially, and physically. Other grants are provided for specific program interventions such as Bibles, disaster relief, medical, and educational needs. Compassion also uses program funds to oversee and enhance the program effectiveness, and develop and train personnel at new projects.

Sponsor/donor ministries represent costs used to enhance the sponsor/child relationship and advocate for children. Funds are used to gather and disseminate information to sponsors concerning their sponsored child, process correspondence between the sponsor and the child, and educate sponsors on the challenges of child growth in the environment in which the child lives. Advocacy funds are used to challenge and motivate the Christian public to expand their mission and activities to include ministry to children.

**(l) 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 net unrelated business income during the years ended June 30, 2015 and 2014. As a publicly supported organization, 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.

**(m) Self-Funded Medical Insurance**

As of January 1, 2008, Compassion established a plan for self-funding medical claims of employees in the United States of America. Through its broker, Compassion has contracted with a third-party to administer the health plan. Compassion has also purchased stop loss coverage, which provides for an annual specific deductible per individual of \$250,000 and \$150,000 for the years ended June 30, 2015 and 2014, respectively. Compassion has estimated potential unreported claims to be approximately \$1,216,000 and \$925,000 for the years ended June 30, 2015 and 2014, respectively, which have been accrued in the accompanying consolidated financial statements.

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(n) **Foreign Currency**

Substantially all assets and liabilities of consolidated foreign field offices have been translated at foreign exchange rates in effect at June 30, 2015 and 2014. All foreign office revenue and expense amounts are converted at the rate in effect on the date of the transaction. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

(o) **Foreign Exchange Contracts**

To assist in the management of foreign currency risk, Compassion may enter into foreign exchange contracts, which provide for the future exchange of funds at agreed-upon rates. These contracts are recorded at fair value in the accompanying consolidated statements of financial position at June 30, 2015 and 2014 and unrealized gains and losses are recognized in the accompanying consolidated statements of activities for the years ended June 30, 2015 and 2014.

At June 30, 2015 and 2014, Compassion had in place foreign exchange contracts with notional amounts totaling \$17,307,050 and \$782,475, respectively.

(p) **Fair Value Measurement**

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

- **Cash and cash equivalents** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Investments** – Investments are recorded at fair value in accordance with the fair value hierarchy. See further discussion at note 3.
- **Receivables from Global Partner Alliance** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Accounts receivable** – Fair value is estimated to be the same as the carrying (book) value because of their short maturities.
- **Foreign exchange contracts** – Foreign exchange contracts are recorded at fair value in accordance with the fair value hierarchy. See further discussion at note 3.
- **Accounts payable and accrued liabilities** – Fair value is estimated to be the same as the carrying (book) value due to the short maturities of accounts payable; included in accrued liabilities is the present value of future obligations, which is adjusted annually. The carrying (book) value approximates fair value because of their short maturities.
- **Funds committed to sponsorship projects** – Fair value is estimated to be the same as the carrying (book) value due to the majority of the funds committed to sponsorship projects having short maturities.

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

#### *(q) Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

#### **(3) Investments and Fair Value Measurements**

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

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

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

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

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

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

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The following table represents investments that are measured at fair value on a recurring basis at June 30, 2015:

	<b>Cost basis June 30, 2015</b>	<b>Fair value June 30, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments:</b>					
Corporate bonds	\$ 37,919,297	38,162,577	—	38,162,577	—
Government obligations	39,859,362	40,022,603	—	40,022,603	—
Corporate stocks	5,030,962	6,869,852	6,869,852	—	—
Mutual funds	347,480	524,456	524,456	—	—
Other	90,696	90,696	—	90,696	—
<b>Total investments</b>	<b>\$ 83,247,797</b>	<b>85,670,184</b>	<b>7,394,308</b>	<b>78,275,876</b>	<b>—</b>
<b>Restricted investments:</b>					
Gift annuities and revocable and irrevocable trusts	\$ 2,502,331	2,601,085	2,581,017	20,068	—
Child sponsorship endowments	4,116,539	4,493,225	2,496,546	1,996,679	—
Leadership development endowments	4,853,906	5,657,830	4,084,602	1,573,228	—
<b>Total restricted investments</b>	<b>\$ 11,472,776</b>	<b>12,752,140</b>	<b>9,162,165</b>	<b>3,589,975</b>	<b>—</b>
<b>Current liabilities:</b>					
Foreign exchange contracts	\$ 358,722	358,722	—	358,722	—

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Notes to Consolidated Financial Statements

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The following table represents investments that are measured at fair value on a recurring basis at June 30, 2014:

	<b>Cost basis June 30, 2014</b>	<b>Fair value June 30, 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:					
Corporate bonds	\$ 37,621,945	38,238,606	—	38,238,606	—
Government obligations	38,801,538	39,156,386	—	39,156,386	—
Corporate stocks	4,530,928	6,725,232	6,723,231	—	2,001
Mutual funds	347,480	536,324	536,324	—	—
Other	79,632	79,632	—	79,632	—
Total investments	\$ <u>81,381,523</u>	<u>84,736,180</u>	<u>7,259,555</u>	<u>77,474,624</u>	<u>2,001</u>
Restricted investments:					
Gift annuities and revocable and irrevocable trusts	\$ 2,615,502	2,852,875	2,822,829	30,046	—
Child sponsorship endowments	3,725,868	4,260,108	2,273,998	1,986,110	—
Leadership development endowments	4,584,691	5,542,154	4,228,353	1,313,801	—
Total restricted investments	\$ <u>10,926,061</u>	<u>12,655,137</u>	<u>9,325,180</u>	<u>3,329,957</u>	<u>—</u>
Current liabilities:					
Foreign exchange contracts	\$ —	—	—	—	—

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, 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 government obligations, and investment grade corporate bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or nontransferability, which are generally based on available market information.

Investments and restricted investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include privately held corporate stocks.

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



## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2015 and 2014

#### (4) Global Partner Alliance

Compassion has entered into an alliance with international organizations to raise funds to release children from poverty. Together, Compassion and 11 international organizations form the Global Partner Alliance (GPA). Compassion maintains children's files, selects and monitors projects, provides field supervision, and distributes 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. Because Compassion has control over the ultimate distribution of amounts received from the international organizations, such amounts are included as revenue and related program payments are included as expenses in the accompanying consolidated financial statements. The international organizations have separate fund-raising and administrative expenses that are not reflected in the accompanying consolidated financial statements. Receivables from the GPA consist of trade receivables and are carried at original invoice amount less an estimate made for doubtful receivables. Receivables from the international organizations were \$10,399,291 and \$10,906,326 as of June 30, 2015 and 2014, respectively. Management believes there are no uncollectible accounts for the years ended June 30, 2015 and 2014, respectively.

The GPA funded the start-up costs for Compassion Norden's operations in fiscal years 2015 and 2014. Compassion's share of the costs were recorded in the consolidated statements of activities as fund-raising expense in the amount of \$986,983 and \$891,197 for the years ended June 30, 2015 and 2014, respectively.

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

	<b>2015</b>	<b>2014</b>
Compassion Korea (South Korea)	\$ 54,420,647	52,594,698
Compassion Australia	46,499,392	48,676,141
Compassion United Kingdom	44,228,793	37,263,384
Compassion Canada	43,016,864	44,843,598
Compassion Netherlands	16,207,688	16,294,197
Compassion Deutschland (Germany)	4,579,378	4,581,217
Tear Fund New Zealand	4,395,257	4,287,971
Compassion Italia Onlus (Italy)	3,984,249	4,733,957
Compassion Schweiz (Switzerland)	3,459,544	3,491,980
Service d'Entraide et de Liaison (France)	2,816,021	3,526,353
Compassion Norden (Nordic countries)	531,495	167,470
	\$ 224,139,328	220,460,966

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Notes to Consolidated Financial Statements

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**(5) Property, Plant, and Equipment**

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

	<u>2015</u>	<u>2014</u>
Land	\$ 11,928,683	11,928,683
Buildings and building improvements	79,218,914	72,152,223
Furniture and equipment	26,206,400	22,778,483
Vehicles	6,114,397	5,681,067
Software and other	25,841,083	17,536,205
Assets in progress	3,052,430	1,594,465
Construction in process	84,706	990,106
	<u>152,446,613</u>	<u>132,661,232</u>
Less accumulated depreciation	<u>(63,304,419)</u>	<u>(58,130,280)</u>
Property, plant, and equipment, net	<u>\$ 89,142,194</u>	<u>74,530,952</u>

Depreciation expense was \$6,567,314 and \$6,139,645 for the years ended June 30, 2015 and 2014, respectively.

**(6) Intangibles**

Intangibles consist of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Naming rights, noncompete, and customer list	\$ 1,996,000	1,996,000
	1,996,000	1,996,000
Less accumulated amortization	<u>(205,433)</u>	<u>—</u>
Intangibles, net	<u>\$ 1,790,567</u>	<u>1,996,000</u>

Amortization expense was \$205,433 and \$0 for the year ended June 30, 2015 and 2014, respectively.

The estimated amortization expense at June 30, 2015 is as follows:

2016	\$ 205,433
2017	205,434
2018	197,100
2019	197,100
2020	197,100
Thereafter	788,400
	<u>\$ 1,790,567</u>

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Notes to Consolidated Financial Statements

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**(7) Funds Committed to Sponsorship Projects**

Funds committed to sponsorship projects represent grants that are payable in future periods to program beneficiaries who are unaffiliated church groups. The vast majority of these amounts are funds that were remitted to field offices at year-end (June) and distributed to sponsorship projects in July. These committed program funds are accrued at year-end in the consolidated statements of financial position in accordance with the social and moral obligation to transfer resources.

Funds committed to sponsorship projects consist of the following amounts payable as of June 30:

	<u>2015</u>	<u>2014</u>
Funds committed to sponsorship projects:		
2016	\$ 46,448,528	45,196,307
2017	177,258	—
2018	133,758	—
2019	70,508	—
	<u>\$ 46,830,052</u>	<u>45,196,307</u>

**(8) Net Assets Released from Restrictions**

Net assets were released from donor-imposed restrictions by meeting purpose restrictions for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Purpose restrictions accomplished:		
Child sponsorship program	\$ 581,867,334	522,419,860
Other child programs	147,473,346	157,061,155
Gift in-kind donations used	650,703	528,485
Child sponsorship endowment earnings used	298,224	275,196
Leadership development endowment earnings used	283,890	271,051
	<u>\$ 730,573,497</u>	<u>680,555,747</u>

**COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

**(9) Temporarily Restricted Net Assets**

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

	<b>2015</b>	<b>2014</b>
Child development programs:		
Child sponsorship program	\$ 59,194,257	75,254,031
Other child programs	36,541,470	33,037,081
Irrevocable trust agreements	927,215	1,040,708
	\$ 96,662,942	109,331,820

**(10) Permanently Restricted Net Assets**

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

	<b>2015</b>	<b>2014</b>
Investments in perpetuity, the income from which is expendable to support:		
Child sponsorship endowments	\$ 4,493,225	4,260,108
Leadership development endowments	4,650,542	4,450,492
	\$ 9,143,767	8,710,600

**(11) Endowment Funds**

Compassion has adopted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA or the Act) passed by the State of Colorado. In accordance with UPMIFA, Compassion appropriates for expenditure or accumulates as much of an endowment fund as Compassion determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

As of June 30, 2015 and 2014, Compassion had two donor-restricted endowment funds. These permanently restricted endowment funds have donor-imposed restrictions, which classifies the original value of gifts donated as permanently restricted net assets. The net assets for child sponsorship and leadership development are invested to provide a long-term total return sufficient to support a number of sponsorships in third world countries. A portion of the earnings from the donor-restricted endowment funds may be used to keep the endowment principal at adequate levels to ensure perpetuity of funding. The remaining endowment earnings can be appropriated for expenditure in accordance with the donor's stipulations.

The child sponsorship endowment fund is established for the purpose of providing ongoing support for children participating in Compassion's child sponsorship program. The leadership development endowment fund is established for the purpose of providing ongoing support for students participating in Compassion's leadership development program.

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Notes to Consolidated Financial Statements

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Compassion's net asset classifications by type of endowment and changes in endowment net assets as of June 30, 2015 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-designated:			
Child sponsorship endowments	\$ —	4,493,225	4,493,225
Leadership development endowments	1,007,288	4,650,542	5,657,830
	<u>\$ 1,007,288</u>	<u>9,143,767</u>	<u>10,151,055</u>
Changes in endowment net assets:			
Endowment net assets, beginning of year	\$ 1,091,662	8,710,600	9,802,262
Investment return:			
Investment income	50,152	41,937	92,089
Net realized and unrealized appreciation	470,378	49,797	520,175
Total investment return	520,530	91,734	612,264
Contributions	—	341,433	341,433
Appropriation of endowment assets	(604,904)	—	(604,904)
Endowment net assets, end of year	<u>\$ 1,007,288</u>	<u>9,143,767</u>	<u>10,151,055</u>

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Compassion's net asset classifications by type of endowment and changes in endowment net assets as of June 30, 2014 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-designated:			
Child sponsorship endowments	\$ —	4,260,108	4,260,108
Leadership development endowments	1,091,662	4,450,492	5,542,154
	<u>\$ 1,091,662</u>	<u>8,710,600</u>	<u>9,802,262</u>
Changes in endowment net assets:			
Endowment net assets, beginning of year	\$ 617,830	7,959,848	8,577,678
Investment return:			
Investment income	49,041	30,727	79,768
Net realized and unrealized appreciation	992,198	408,326	1,400,524
Total investment return	1,041,239	439,053	1,480,292
Contributions	—	311,699	311,699
Appropriation of endowment assets	<u>(567,407)</u>	<u>—</u>	<u>(567,407)</u>
Endowment net assets, end of year	<u>\$ 1,091,662</u>	<u>8,710,600</u>	<u>9,802,262</u>

**(12) Commitments**

Compassion has commitments related to operating leases for building facilities and equipment at June 30, 2015. All operating leases are noncancelable and expire on various dates through 2020. Lease and rent expenses for the years ended June 30, 2015 and 2014 were \$2,435,949 and \$2,168,102, respectively. Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more at June 30, 2015 are as follows:

2016	\$ 1,717,106
2017	1,092,097
2018	375,837
2019	138,115
2020	41,340
	<u>\$ 3,364,495</u>

**(13) U.S. Pension Plan**

Compassion has a defined-contribution pension plan covering substantially all U.S. paid employees. The plan is noncontributory for employees and has a five-year vesting period. Contributions are equal to 10% of each covered employee's qualifying compensation. Pension contribution expense was \$6,626,043 and \$5,908,914 for the years ended June 30, 2015 and 2014, respectively.

## COMPASSION INTERNATIONAL, INCORPORATED AND AFFILIATES

### Notes to Consolidated Financial Statements

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#### **(14) Severance/Retirement Benefits for National Employees**

Compassion maintains a self-funded benefit plan for national employees, which are employees outside of the United States paid by field offices. The liability recognized in the consolidated statements of financial position is the undiscounted accumulation of the amount agreed to be paid to an employee who leaves the organization in good standing after three years of service. Compassion accrues the higher of one month's salary for each year worked or the amount required by local laws. National severance/retirement contribution expense was \$2,921,314 and \$3,252,441 for the years ended June 30, 2015 and 2014, respectively.

#### **(15) Subsequent Events**

Compassion has evaluated subsequent events through September 4, 2015, the date the consolidated financial statements were available to be issued and there were none to be reported.