



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

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KPMG LLP  
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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 affiliates, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, 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 Consolidated 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 affiliates as of June 30, 2017 and 2016, 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 14, 2017

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statements of Financial Position

June 30, 2017 and 2016

(Amounts in thousands)

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 92,279	95,062
Investments	67,809	66,407
Receivables from Global Partner Alliance	8,825	8,529
Accounts receivable	1,273	1,418
Prepaid expenses and supplies	7,509	7,642
Gifts in-kind inventory, net	378	72
Foreign exchange contracts, at fair value	4,132	7,012
Total current assets	182,205	186,142
Noncurrent assets:		
Property and equipment, net	98,211	100,721
Intangibles, net	1,380	1,585
Total noncurrent assets	99,591	102,306
Restricted assets:		
Investments restricted for trust and annuity obligations	3,012	2,773
Investments restricted for long-term purposes	11,623	10,469
Total restricted assets	14,635	13,242
Total assets	\$ 296,431	301,690
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,383	22,317
Funds committed to sponsorship projects	57,749	58,294
Accrued severance	746	282
Trust obligations	33	31
Gift annuities payable	29	19
Revocable trust agreements	14	14
Foreign exchange contracts, at fair value	3,710	3,134
Total current liabilities	79,664	84,091
Long-term liabilities:		
Funds committed to sponsorship projects, less current portion	376	369
Accrued severance, less current portion	785	2,264
Trust obligations, less current portion	752	763
Gift annuities payable, less current portion	974	826
Custodial funds held	342	316
Security deposits	13	—
Total long-term liabilities	3,242	4,538
Total liabilities	82,906	88,629
Net assets:		
Unrestricted	92,345	100,955
Temporarily restricted	110,695	102,335
Permanently restricted	10,485	9,771
Total net assets	213,525	213,061
Total liabilities and net assets	\$ 296,431	301,690

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statements of Activities

Fiscal years ended June 30, 2017 and 2016

(Amounts in thousands)

	2017				2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue, gains, and other support:								
Contributions	\$ 17,656	587,368	284	605,308	15,216	576,499	491	592,206
Gifts in-kind	13	392	—	405	22	237	—	259
Contributions from Global Partner Alliance	35,012	177,835	—	212,847	31,914	173,694	—	205,608
Interest, dividends, and other income	2,041	70	57	2,168	1,886	72	47	2,005
Net realized and unrealized (losses) gains on investments and disposition of assets	(880)	902	373	395	(1,240)	239	89	(912)
Net unrealized gain (loss) on foreign exchange contracts	(3,456)	—	—	(3,456)	4,236	—	—	4,236
Changes in value of split-interest agreements	47	37	—	84	(84)	(75)	—	(159)
Net assets released from restrictions in satisfaction of program restrictions	758,244	(758,244)	—	—	744,994	(744,994)	—	—
Total revenue, gains, and other support	808,677	8,360	714	817,751	796,944	5,672	627	803,243
Expenses:								
Program services:								
Child development program	630,527	—	—	630,527	621,352	—	—	621,352
Sponsor/donor ministries	29,234	—	—	29,234	27,447	—	—	27,447
Total program services	659,761	—	—	659,761	648,799	—	—	648,799
Supporting activities:								
Fund-raising	89,530	—	—	89,530	76,105	—	—	76,105
Administration	67,996	—	—	67,996	62,351	—	—	62,351
Total supporting activities	157,526	—	—	157,526	138,456	—	—	138,456
Total expenses	817,287	—	—	817,287	787,255	—	—	787,255
Change in net assets	(8,610)	8,360	714	464	9,689	5,672	627	15,988
Net assets, beginning of year	100,955	102,335	9,771	213,061	91,266	96,663	9,144	197,073
Net assets, end of year	\$ 92,345	110,695	10,485	213,525	100,955	102,335	9,771	213,061

See accompanying notes to consolidated financial statements.



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Consolidated Statements of Cash Flows  
 Fiscal years ended June 30, 2017 and 2016  
 (Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 464	15,988
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	12,686	11,279
Net loss on disposition of equipment	1,087	968
Net realized and unrealized gain on investments	(1,014)	(208)
Net loss on gifts in-kind inventory	10	152
Change in gifts in-kind inventory, net	(340)	116
Net unrealized (gain) loss on foreign exchange contracts	3,456	(4,236)
(Increase) decrease in value of split-interest agreements	(84)	159
Funds received restricted for endowments	(714)	(627)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(151)	904
Decrease (increase) in prepaid expenses and supplies	133	(975)
Decrease in accounts payable and accrued liabilities	(4,934)	(1,253)
(Decrease) increase in funds committed to sponsorship projects	(538)	11,832
Increase in security deposits	13	—
Decrease in accrued severance	(1,015)	(15,422)
Net cash provided by operating activities	<u>9,059</u>	<u>18,677</u>
Cash flows from investing activities:		
Purchases of investments	(38,615)	(23,928)
Proceeds from sales of investments	36,918	42,752
Purchases of property and equipment	(11,324)	(23,753)
Proceeds from sales of property and equipment	290	133
Net cash used in investing activities	<u>(12,731)</u>	<u>(4,796)</u>
Cash flows from financing activities:		
Funds received restricted for endowments	714	627
Increase in gift annuities payable	158	375
Increase (decrease) in revocable trust agreements	—	(56)
Decrease in trust obligations	(9)	(15)
Increase (decrease) in custodial funds held	26	(10)
Net cash provided by financing activities	<u>889</u>	<u>921</u>
Net (decrease) increase in cash and cash equivalents	(2,783)	14,802
Cash and cash equivalents, beginning of year	<u>95,062</u>	<u>80,260</u>
Cash and cash equivalents, end of year	\$ <u>92,279</u>	<u>95,062</u>

See accompanying notes to consolidated financial statements.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

### (1) Organization and Mission

Compassion International, Inc. is a Christian organization that exists to release children from poverty in Jesus' name. Compassion International, Inc. is a holistic child development through sponsorship organization; its principal services provide life-changing opportunities for education and skills training, social development, health and nutrition, and learning about Christ. Compassion International, Inc. 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 (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 25 countries. The organization's programs are concentrated in certain countries of Africa, Asia, Central America, the Caribbean, and South America.

During fiscal year 2017, Compassion made the difficult decision to exit operations in India after 48 years in country, due to funding restrictions placed on Compassion by the Indian government. The final day of operations in India was March 15, 2017. The decision to close its India operations impacted nearly 147,000 (unaudited) babies, children, and young adults in Compassion's child development programs. Subsequent to fiscal year end, Compassion transferred control of Compassion East India, Adhane Management Consultants Private Limited, and Caruna Bal Vikas to local boards and no longer has economic interest in India. Such entities have been consolidated based on the level of control exercised by Compassion, prior to transference of that control.

Compassion's international affiliates are consolidated based on the level of control exercised by Compassion International, Inc. and the presence of an economic interest. In addition to those entities noted above, Compassion's consolidated international affiliates at June 30, 2017 and 2016 include:

- Compassion (Darunatorn) Foundation (Thailand)
- Compassion de Mexico Asociacion Civil
- Compassion do Brasil
- Compassion International de Peru
- Compassion International (East Asia) Limited
- Compassion International en Bolivia
- Compassion International Ghana
- Compassion International Lanka (Sri Lanka)
- Compassion International (Singapore) Limited
- Compassion International Togo
- Corporación Compassion International Filial Ecuador
- Fundacion Compassion International Ecuador
- Yayasan Bantuan Kasih (Indonesia)
- Yayasan Kasih Karunia Indonesia Timur (East Indonesia)



## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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 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.
- 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 Compassion's programs. 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, primarily based on quoted market prices. Gains or losses, whether realized or unrealized, are recognized when they occur.

#### (d) 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 and other are amortized over 3 to 5 years.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

#### **(e) Intangibles**

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

#### **(f) 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, 2017 and 2016.

#### **(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 include Compassion. Assets of revocable trusts in which Compassion is named as a beneficiary but 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 beneficiaries 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 trust agreement. Certain trusts name other charitable organizations as partial remaindermen.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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

Contributions are recorded as revenue when an unconditional promise to give has been made. Child sponsorships and other monthly fund commitments are considered intentions to give 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. The majority of Compassion's contributions are received from individuals and the Global Partner Alliance (note 4, *Global Partner Alliance*).

Contributed services for specialized skills are recognized at the fair value of the services received. Compassion received and recorded contributed services of \$0.36 million and \$0.17 million for the years ended June 30, 2017 and 2016, 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 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 over 1.90 million (unaudited) and 1.87 million (unaudited) children in Compassion's child survival, child sponsorship, and leadership development programs in 2017 and 2016, respectively.

These programs are paid for through grants that engage children in activities to develop them spiritually, economically, socially, and physically. Other grants are provided to beneficiaries in the child development program for specific interventions, such as disaster relief, medical, and educational needs. Compassion also uses program funds to oversee and enhance the program effectiveness, develop and train church workers at new sponsorship projects, and to extend its expertise in holistic child development to international churches and organizations that do not currently implement Compassion's programs, but have a deep passion and concern for children.

Sponsor/donor ministries represent costs used to enhance the sponsor/child relationship to challenge the U.S. Christian public to expand their activities to include ministry to 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 on the importance and challenges of child development.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

### **(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 significant net unrelated business income during the years ended June 30, 2017 and 2016. 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.

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

Compassion has established a plan for self-funding medical claims of employees in the U.S. 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 \$0.25 million for the years ended June 30, 2017 and 2016. Potential incurred but unreported claims totaling approximately \$1.29 million and \$1.26 million for the years ended June 30, 2017 and 2016, respectively, are included in accounts payable and accrued liabilities in the consolidated statement of financial position.

### **(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, 2017 and 2016. 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.

### **(o) Fair Value Measurement**

Compassion records its financial assets and liabilities at fair value in accordance with the framework for measuring fair value in generally accepted accounting principles on a recurring basis. The fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Compassion has the ability to access at the measurement date
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active
- Level 3 – Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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.

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 are recorded at present value and measured on an annual basis.

#### **(p) 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.

#### **(q) Reclassifications**

Certain amounts in the 2016 consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the 2017 consolidated financial statements.

#### **(r) Recent Accounting Pronouncements**

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 standard makes improvements to the information provided in 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 entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual reporting periods beginning after December 31, 2017, but early adoption is permitted. The provisions are effective for Compassion's fiscal year ending June 30, 2019. We are currently evaluating the impact that the adoption of these provisions will have on Compassion's consolidated financial statements.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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 sufficient 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 annual periods in 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. We do 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.

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 2016-02, requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-use asset and lease liability and additional qualitative and quantitative disclosures. ASU 2016-02 is effective for the entity for annual periods in fiscal years beginning December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. The provisions are effective for Compassion's fiscal year ending June 30, 2021. We are currently evaluating the impact that the adoption of these provisions will have on Compassion's consolidated financial statements, but expect ASU 2016-02 to add significant right-of-use assets and lease liabilities to the consolidated statements of financial position.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement 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 statement of cash flows. The new standard is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The provisions are effective for Compassion's fiscal year ending June 30, 2021. The amendments should be applied using a retrospective transition method to each period presented. We are currently evaluating the impact that the adoption of these provisions will have on Compassion's consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2017:

	<b>Cost basis June 30, 2017</b>	<b>Fair value June 30, 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:					
Corporate bonds	\$ 34,584	34,670	—	34,670	—
Government obligations	33,108	33,028	—	33,028	—
Other	111	111	—	101	10
<b>Total investments</b>	<b>\$ 67,803</b>	<b>67,809</b>	<b>—</b>	<b>67,799</b>	<b>10</b>
Restricted investments:					
Cash and cash equivalents	\$ 38	38	38	—	—
Corporate bonds	1,363	1,381	—	1,381	—
Government obligations	3,104	3,111	—	3,111	—
Corporate stocks	5,289	6,763	6,763	—	—
Mutual funds	2,021	2,065	2,065	—	—
Exchange-traded funds	1,134	1,277	1,277	—	—
<b>Total restricted investments</b>	<b>\$ 12,949</b>	<b>14,635</b>	<b>10,143</b>	<b>4,492</b>	<b>—</b>
Current assets:					
Foreign exchange contracts	\$ —	4,132	—	4,132	—
Current liabilities:					
Foreign exchange contracts	\$ —	3,710	—	3,710	—

The following table represents investments that are measured at fair value on a recurring basis at June 30, 2016:

	<b>Cost basis June 30, 2016</b>	<b>Fair value June 30, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:					
Corporate bonds	\$ 30,326	30,653	—	30,653	—
Government obligations	28,395	28,802	—	28,802	—
Corporate stocks	5,594	6,846	6,846	—	—
Other	106	106	—	96	10
<b>Total investments</b>	<b>\$ 64,421</b>	<b>66,407</b>	<b>6,846</b>	<b>59,551</b>	<b>10</b>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

	<b>Cost basis June 30, 2016</b>	<b>Fair value June 30, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Restricted investments:					
Cash and cash equivalents	\$ 1,142	1,142	1,142	—	—
Corporate bonds	1,175	1,205	—	1,205	—
Government obligations	2,324	2,385	—	2,385	—
Corporate stocks	4,869	5,657	5,657	—	—
Mutual funds	1,958	1,942	1,942	—	—
Exchange-traded funds	832	911	911	—	—
	<u>12,300</u>	<u>13,242</u>	<u>9,652</u>	<u>3,590</u>	<u>—</u>
Total restricted investments	\$ 12,300	13,242	9,652	3,590	—
Current assets:					
Foreign exchange contracts	\$ —	7,012	—	7,012	—
Current liabilities:					
Foreign exchange contracts	\$ —	3,134	—	3,134	—

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. Equities are invested in consumer discretionary, consumer staples, energy, financials, healthcare, industrial, information technology, materials, telecommunication services, and utility sectors, none of which have a significant concentration. Exchange-traded funds and mutual funds are invested in balanced, global equity, high yield, intermediate bond, international developed markets, large-cap growth, large-cap value, real estate investment trust, short bond, small-cap growth, and small-cap value funds, none of which have a significant concentration.

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 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 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, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

**(4) Global Partner Alliance**

Compassion has entered into an alliance with unaffiliated international organizations to raise funds to release children from poverty. Together, Compassion and 11 unaffiliated international organizations form the Global Partner Alliance (GPA).

Compassion maintains children's files, selects and monitors sponsorship 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 unaffiliated international organizations have separate fund-raising and administrative expenses that are not reflected in the accompanying consolidated financial statements.

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

	<u>2017</u>	<u>2016</u>
Compassion Korea (South Korea)	\$ 47,616	48,841
Compassion Australia	46,041	42,025
Compassion United Kingdom	42,004	42,804
Compassion Canada	37,634	36,281
Compassion Netherlands	17,486	15,305
Compassion Deutschland (Germany)	6,403	5,279
Compassion Italia Onlus (Italy)	4,019	4,000
Tear Fund New Zealand	3,927	3,747
Compassion Schweiz (Switzerland)	3,530	3,535
Service d'Entraide et de Liaison (France)	3,015	2,968
Compassion Norden (Nordic countries)	<u>1,172</u>	<u>823</u>
	<u>\$ 212,847</u>	<u>205,608</u>

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 unaffiliated international organizations were \$8.83 million and \$8.53 million at June 30, 2017 and 2016, respectively. Management believes there are no uncollectible accounts for the years ended June 30, 2017 and 2016.

The GPA funded the start-up costs for Compassion Norden's operations in fiscal years 2017 and 2016. Compassion's share of the costs was recorded in the consolidated statements of activities as fund-raising expense in the amount of \$0.61 million and \$0.52 million for the years ended June 30, 2017 and 2016, respectively.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

**(5) Property and Equipment**

Property and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 11,929	11,929
Buildings and building improvements	81,495	80,328
Furniture and equipment	25,107	26,506
Vehicles	6,219	6,330
Software and other	44,652	37,267
Assets in progress	<u>1,512</u>	<u>11,268</u>
	170,914	173,628
Less accumulated depreciation	<u>(72,703)</u>	<u>(72,907)</u>
Property and equipment, net	\$ <u><u>98,211</u></u>	<u><u>100,721</u></u>

Depreciation expense was approximately \$12.48 million and \$11.07 million for the years ended June 30, 2017 and 2016, respectively.

**(6) Intangibles**

Intangibles consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Naming rights, noncompete, and customer list	\$ 1,996	1,996
Less accumulated amortization	<u>(616)</u>	<u>(411)</u>
Intangibles, net	\$ <u><u>1,380</u></u>	<u><u>1,585</u></u>

Amortization expense totaled approximately \$0.21 million for the years ended June 30, 2017 and 2016. Future amortization expense associated with net carrying values at June 30, 2017 is estimated to be as follows:

2018	\$ 197
2019	197
2020	197
2021	197
2022	197
Thereafter	<u>395</u>
	\$ <u><u>1,380</u></u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

**(7) 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 at June 30, 2017 and 2016 and unrealized gains and losses are recognized in the accompanying consolidated statements of activities for the years ended June 30, 2017 and 2016.

For the years ended June 30, 2017 and 2016, Compassion recorded an unrealized loss of \$3.46 million and an unrealized gain of \$4.24 million, respectively, on FOREX contracts.

At June 30, 2017 and 2016, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling \$116.10 million and \$116.27 million, respectively, and sales of U.S. dollars with notional amounts totaling \$126.22 million and \$146.23 million, respectively.

**(8) 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 field 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 in accordance with the social and moral obligation to transfer resources.

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

	<u>2017</u>	<u>2016</u>
Funds committed to sponsorship projects:		
Year 1	\$ 57,749	58,294
Year 2	332	276
Year 3	44	92
Year 4	—	1
	<u>\$ 58,125</u>	<u>58,663</u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

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

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

	<u>2017</u>	<u>2016</u>
Purpose restrictions accomplished:		
Child sponsorship program	\$ 621,910	586,731
Other child programs	135,724	157,131
Gift in-kind donations used	86	527
Child sponsorship endowment earnings used	260	332
Leadership development endowment earnings used	264	273
	<u>\$ 758,244</u>	<u>744,994</u>

**(10) Temporarily Restricted Net Assets**

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

	<u>2017</u>	<u>2016</u>
Child development programs:		
Child sponsorship program	\$ 52,235	68,615
Other child programs	57,592	32,917
Irrevocable trust agreements	868	803
	<u>\$ 110,695</u>	<u>102,335</u>

The shift in net assets held in child sponsorship program, as compared to other child programs, during fiscal year 2017, primarily reflects the reclassification of approximately \$15.48 million in funds related to the cessation of India operations.

**(11) Permanently Restricted Net Assets**

Permanently restricted net assets are restricted to the following at June 30:

	<u>2017</u>	<u>2016</u>
Investments in perpetuity, the income from which is expendable to support:		
Child sponsorship endowments	\$ 5,745	5,031
Leadership development endowments	4,740	4,740
	<u>\$ 10,485</u>	<u>9,771</u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

**(12) 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.

At June 30, 2017 and 2016, Compassion had two donor-restricted endowment funds. These permanently restricted endowment funds have donor-imposed restrictions, which classifies the original value of gifts donated as permanently restricted net assets. The net assets for child sponsorship and leadership development are invested to provide a long-term total return sufficient to support a number of sponsorships in third world countries. A portion of the earnings from the donor-restricted endowment funds may be used to keep the endowment principal at adequate levels to ensure perpetuity of funding. The remaining endowment earnings can be appropriated for expenditure in accordance with the donor's stipulations.

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

Compassion's net asset classifications by type of endowment and changes in endowment net assets at and for the year ended June 30, 2017 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor designated:			
Child sponsorship endowments	\$ —	5,745	5,745
Leadership development endowments	<u>1,138</u>	<u>4,740</u>	<u>5,878</u>
	\$ <u><u>1,138</u></u>	<u><u>10,485</u></u>	<u><u>11,623</u></u>
Changes in endowment net assets:			
Endowment net assets, beginning of year	\$ 698	9,771	10,469
Investment return:			
Investment income	62	57	119
Net realized and unrealized appreciation	<u>902</u>	<u>373</u>	<u>1,275</u>
Total investment return	964	430	1,394
Contributions	—	284	284
Appropriation of endowment assets	<u>(524)</u>	<u>—</u>	<u>(524)</u>
Endowment net assets, end of year	\$ <u><u>1,138</u></u>	<u><u>10,485</u></u>	<u><u>11,623</u></u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

Compassion's net asset classifications by type of endowment and changes in endowment net assets at and for the year ended June 30, 2016 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor designated:			
Child sponsorship endowments	\$ —	5,031	5,031
Leadership development endowments	<u>698</u>	<u>4,740</u>	<u>5,438</u>
	\$ <u>698</u>	<u>9,771</u>	<u>10,469</u>
Changes in endowment net assets:			
Endowment net assets, beginning of year	\$ 1,007	9,144	10,151
Investment return:			
Investment income	58	47	105
Net realized and unrealized appreciation	<u>239</u>	<u>89</u>	<u>328</u>
Total investment return	297	136	433
Contributions	—	491	491
Appropriation of endowment assets	<u>(606)</u>	<u>—</u>	<u>(606)</u>
Endowment net assets, end of year	\$ <u>698</u>	<u>9,771</u>	<u>10,469</u>

**(13) Lease Commitments**

Compassion is committed under certain operating leases for building facilities at June 30, 2017. All operating leases are noncancelable and expire on various dates through 2022. In addition, Compassion leases excess office space to third-party tenants with initial lease terms generally ranging from three to five years. The carrying amount and accumulated depreciation of leased property at June 30, 2017 are \$8.55 million and \$1.34 million, respectively.

Lease and rent expense for fiscal years 2017 and 2016 were \$2.38 million and \$2.33 million, respectively. Rental income totaled approximately \$1.43 million and \$1.47 million over the same periods.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

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(In thousands)

Future minimum lease payments and minimum rental income to be received under noncancelable operating leases with initial or remaining terms of one year or more at June 30, 2017 are as follows:

	<u>Lease payments</u>	<u>Rental income</u>
2018	\$ 1,589	1,052
2019	1,183	913
2020	792	780
2021	427	713
2022	186	198
Thereafter	—	65
	<u>\$ 4,177</u>	<u>3,721</u>

**(14) Fund-raising Events**

Compassion's fund-raising event activities include the Roadshow and other concerts, Walk with Compassion events, and CauseTrek events. 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 fund-raising expense in the consolidated financial statements. Fund-raising event activities for the years ended June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Gross receipts from fund-raising events	\$ 14,624	11,447
Less contributions	<u>(11,403)</u>	<u>(7,589)</u>
Gross income from fund-raising events	3,221	3,858
Less direct benefits to sponsors and donors	<u>(3,221)</u>	<u>(3,858)</u>
Net income from fund-raising events	<u>\$ —</u>	<u>—</u>

**(15) Pension/Severance Plans**

*Defined Contribution Plans*

Compassion sponsors several defined contribution pension plan covering substantially all employees not receiving severance benefits. The expense for these defined contribution plans was \$7.77 million and \$6.80 million for the years ended June 30, 2017 and 2016, respectively.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2017 and 2016

(In thousands)

### *Severance Benefits*

Compassion provides certain severance benefits to eligible former or inactive employees during the period subsequent to employment but prior to retirement and accrues for severance expense 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 actually paid; and accordingly, no liability has been recorded in the accompanying consolidated financial statements, as amount is not material. Compassion's severance expense was \$2.47 million and \$1.45 million for the years ended June 30, 2017 and 2016, respectively.

During the year ended June 30, 2016, Compassion terminated the self-funded benefit plan for national employees, and as a result, Compassion made benefit payments of \$13,347. In addition, Compassion established a benefit plan structure in 2016, described in the above paragraphs, that is individualized for each field office depending on local laws and regulations or common market practices.

### **(16) Subsequent Events**

Compassion has evaluated subsequent events through September 14, 2017, the date the consolidated financial statements were available to be issued, and there were none to be reported.