COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Financial Statements
June 30, 2018 and 2017
(With Independent Auditor’s Report Thereon)
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<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditors’ Report</td>
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</tr>
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<td>Consolidated Financial Statements:</td>
<td></td>
</tr>
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<td>Consolidated Statements of Financial Position</td>
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<td>Consolidated Statements of Functional Expenses</td>
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<td>Consolidated Statements of Cash Flows</td>
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</tr>
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<td>Notes to Consolidated Financial Statements</td>
<td>7</td>
</tr>
</tbody>
</table>
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, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Compassion International, Inc. and affiliates as of June 30, 2018 and 2017, 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.

Denver, Colorado
September 5, 2018
## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Amounts in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 124,413</td>
<td>$ 92,279</td>
</tr>
<tr>
<td>Investments</td>
<td>68,766</td>
<td>67,809</td>
</tr>
<tr>
<td>Receivables from Global Partner Alliance</td>
<td>9,211</td>
<td>8,825</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,386</td>
<td>1,273</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>9,444</td>
<td>7,887</td>
</tr>
<tr>
<td>Foreign exchange contracts, at fair value</td>
<td>7,123</td>
<td>4,132</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>221,343</td>
<td>182,205</td>
</tr>
<tr>
<td><strong>Noncurrent assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>90,002</td>
<td>98,211</td>
</tr>
<tr>
<td>Intangibles, net</td>
<td>1,183</td>
<td>1,380</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>91,185</td>
<td>99,591</td>
</tr>
<tr>
<td><strong>Restricted assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments restricted for trust and annuity obligations</td>
<td>3,205</td>
<td>3,012</td>
</tr>
<tr>
<td>Investments restricted for long-term purposes</td>
<td>12,903</td>
<td>11,623</td>
</tr>
<tr>
<td><strong>Total restricted assets</strong></td>
<td>16,108</td>
<td>14,635</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 328,636</td>
<td>$ 296,431</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$ 20,013</td>
<td>$ 18,129</td>
</tr>
<tr>
<td>Funds committed to sponsorship projects</td>
<td>56,043</td>
<td>57,749</td>
</tr>
<tr>
<td>Trust and gift annuity obligations</td>
<td>86</td>
<td>76</td>
</tr>
<tr>
<td>Foreign exchange contracts, at fair value</td>
<td>5,396</td>
<td>3,710</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>81,538</td>
<td>79,664</td>
</tr>
<tr>
<td><strong>Long-term liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued liabilities, less current portion</td>
<td>1,284</td>
<td>798</td>
</tr>
<tr>
<td>Funds committed to sponsorship projects, less current portion</td>
<td>1,595</td>
<td>376</td>
</tr>
<tr>
<td>Trust and gift annuity obligations, less current portion</td>
<td>2,187</td>
<td>2,068</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td>5,066</td>
<td>3,242</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>86,604</td>
<td>82,906</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>114,857</td>
<td>92,345</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>115,510</td>
<td>110,695</td>
</tr>
<tr>
<td>Permanently restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child sponsorship endowments</td>
<td>6,925</td>
<td>5,745</td>
</tr>
<tr>
<td>Leadership development endowments</td>
<td>4,740</td>
<td>4,740</td>
</tr>
<tr>
<td><strong>Total permanently restricted</strong></td>
<td>11,665</td>
<td>10,485</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>242,032</td>
<td>213,525</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$ 328,636</td>
<td>$ 296,431</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### COMPASSION INTERNATIONAL, INC. AND AFFILIATES

#### Consolidated Statements of Activities

**Fiscal year ended June 30, 2018**

(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue, gains, and other support:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$21,435</td>
<td>$641,116</td>
<td>$782</td>
<td>$663,333</td>
</tr>
<tr>
<td>Contributions from Global Partner Alliance</td>
<td>33,789</td>
<td>189,423</td>
<td>-</td>
<td>223,212</td>
</tr>
<tr>
<td>Gifts in-kind</td>
<td>29</td>
<td>62</td>
<td>-</td>
<td>91</td>
</tr>
<tr>
<td>Interest, dividends, and other income</td>
<td>1,953</td>
<td>67</td>
<td>75</td>
<td>2,095</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses) on investments and disposition of assets</td>
<td>(547)</td>
<td>697</td>
<td>323</td>
<td>473</td>
</tr>
<tr>
<td>Net unrealized gain on foreign exchange contracts</td>
<td>1,305</td>
<td>-</td>
<td>-</td>
<td>1,305</td>
</tr>
<tr>
<td>Changes in value of split-interest agreements</td>
<td>10</td>
<td>52</td>
<td>-</td>
<td>62</td>
</tr>
<tr>
<td>Net assets released from restrictions in satisfaction of program restrictions</td>
<td>826,602</td>
<td>(826,602)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total revenue, gains, and other support</td>
<td>884,576</td>
<td>4,815</td>
<td>1,180</td>
<td>890,571</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child development program</td>
<td>678,382</td>
<td>-</td>
<td>-</td>
<td>678,382</td>
</tr>
<tr>
<td>Sponsor/donor ministries</td>
<td>25,161</td>
<td>-</td>
<td>-</td>
<td>25,161</td>
</tr>
<tr>
<td>Total program services</td>
<td>703,543</td>
<td>-</td>
<td>-</td>
<td>703,543</td>
</tr>
<tr>
<td>Supporting activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management &amp; General</td>
<td>68,476</td>
<td>-</td>
<td>-</td>
<td>68,476</td>
</tr>
<tr>
<td>Fundraising</td>
<td>90,045</td>
<td>-</td>
<td>-</td>
<td>90,045</td>
</tr>
<tr>
<td>Total supporting activities</td>
<td>158,521</td>
<td>-</td>
<td>-</td>
<td>158,521</td>
</tr>
<tr>
<td>Total expenses</td>
<td>862,064</td>
<td>-</td>
<td>-</td>
<td>862,064</td>
</tr>
<tr>
<td>Change in net assets</td>
<td>22,512</td>
<td>4,815</td>
<td>1,180</td>
<td>28,507</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>92,345</td>
<td>110,695</td>
<td>10,485</td>
<td>213,525</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$114,857</td>
<td>$115,510</td>
<td>$11,665</td>
<td>$242,032</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
## Compassion International, Inc. and Affiliates

**Consolidated Statements of Activities**

Fiscal year ended June 30, 2017

(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue, gains, and other support:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$17,656</td>
<td>$587,368</td>
<td>$284</td>
<td>$605,308</td>
</tr>
<tr>
<td>Contributions from Global Partner Alliance</td>
<td>35,012</td>
<td>177,835</td>
<td>-</td>
<td>212,847</td>
</tr>
<tr>
<td>Gifts in-kind</td>
<td>13</td>
<td>392</td>
<td>-</td>
<td>405</td>
</tr>
<tr>
<td>Interest, dividends, and other income</td>
<td>2,041</td>
<td>70</td>
<td>57</td>
<td>2,168</td>
</tr>
<tr>
<td>Net realized and unrealized gains (losses) on investments and disposition of assets</td>
<td>(880)</td>
<td>902</td>
<td>373</td>
<td>395</td>
</tr>
<tr>
<td>Net unrealized loss on foreign exchange contracts</td>
<td>(3,456)</td>
<td>-</td>
<td>-</td>
<td>(3,456)</td>
</tr>
<tr>
<td>Changes in value of split-interest agreements</td>
<td>47</td>
<td>37</td>
<td>-</td>
<td>84</td>
</tr>
<tr>
<td>Net assets released from restrictions in satisfaction of program restrictions</td>
<td>758,244</td>
<td>(758,244)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue, gains, and other support</strong></td>
<td>808,677</td>
<td>8,360</td>
<td>714</td>
<td>817,751</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Program services:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child development program</td>
<td>630,527</td>
<td>-</td>
<td>-</td>
<td>630,527</td>
</tr>
<tr>
<td>Sponsor/donor ministries</td>
<td>29,234</td>
<td>-</td>
<td>-</td>
<td>29,234</td>
</tr>
<tr>
<td><strong>Total program services</strong></td>
<td>659,761</td>
<td>-</td>
<td>-</td>
<td>659,761</td>
</tr>
<tr>
<td><strong>Supporting activities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management &amp; General</td>
<td>67,996</td>
<td>-</td>
<td>-</td>
<td>67,996</td>
</tr>
<tr>
<td>Fundraising</td>
<td>89,530</td>
<td>-</td>
<td>-</td>
<td>89,530</td>
</tr>
<tr>
<td><strong>Total supporting activities</strong></td>
<td>157,526</td>
<td>-</td>
<td>-</td>
<td>157,526</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>817,287</td>
<td>-</td>
<td>-</td>
<td>817,287</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>(8,610)</td>
<td>8,360</td>
<td>714</td>
<td>464</td>
</tr>
<tr>
<td><strong>Net assets, beginning of year</strong></td>
<td>100,955</td>
<td>102,335</td>
<td>9,771</td>
<td>213,061</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$92,345</td>
<td>$110,695</td>
<td>$10,485</td>
<td>$213,525</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### COMPASSION INTERNATIONAL, INC. AND AFFILIATES

**Consolidated Statement of Functional Expenses**

Fiscal years ended June 30, 2018 and 2017

(Amounts in thousands)

#### Fiscal year 2018

<table>
<thead>
<tr>
<th></th>
<th>Program services</th>
<th>Supporting activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Child development program</td>
<td>Management &amp; General</td>
</tr>
<tr>
<td></td>
<td>Sponsor/ donor ministries</td>
<td>Fundraising</td>
</tr>
<tr>
<td>Program grants</td>
<td>$588,538</td>
<td>$</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>53,682</td>
<td>12,229</td>
</tr>
<tr>
<td>Professional services</td>
<td>4,187</td>
<td>4,555</td>
</tr>
<tr>
<td>Office and related expenses</td>
<td>12,063</td>
<td>2,534</td>
</tr>
<tr>
<td>Travel and training</td>
<td>13,177</td>
<td>535</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Postage and printing</td>
<td>590</td>
<td>4,740</td>
</tr>
<tr>
<td>Occupancy</td>
<td>4,524</td>
<td>268</td>
</tr>
<tr>
<td>Other</td>
<td>1,618</td>
<td>280</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$678,382</strong></td>
<td><strong>$25,161</strong></td>
</tr>
</tbody>
</table>

#### Fiscal year 2017

<table>
<thead>
<tr>
<th></th>
<th>Program services</th>
<th>Supporting activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Child development program</td>
<td>Management &amp; General</td>
</tr>
<tr>
<td></td>
<td>Sponsor/ donor ministries</td>
<td>Fundraising</td>
</tr>
<tr>
<td>Program grants</td>
<td>$543,486</td>
<td>$</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>50,466</td>
<td>12,681</td>
</tr>
<tr>
<td>Professional services</td>
<td>7,872</td>
<td>5,908</td>
</tr>
<tr>
<td>Office and related expenses</td>
<td>9,024</td>
<td>3,634</td>
</tr>
<tr>
<td>Travel and training</td>
<td>12,990</td>
<td>1,031</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Postage and printing</td>
<td>563</td>
<td>5,516</td>
</tr>
<tr>
<td>Occupancy</td>
<td>4,746</td>
<td>338</td>
</tr>
<tr>
<td>Other</td>
<td>1,362</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$630,527</strong></td>
<td><strong>$29,234</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
Fiscal years ended June 30, 2018 and 2017
(Amounts in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$28,507</td>
<td>$464</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>12,998</td>
<td>12,686</td>
</tr>
<tr>
<td>Net loss on disposition of equipment</td>
<td>116</td>
<td>1,087</td>
</tr>
<tr>
<td>Net realized and unrealized gain on investments</td>
<td>(527)</td>
<td>(1,014)</td>
</tr>
<tr>
<td>Net unrealized (gain) loss on foreign exchange contracts</td>
<td>(1,305)</td>
<td>3,456</td>
</tr>
<tr>
<td>Funds received restricted for endowments</td>
<td>(1,180)</td>
<td>(714)</td>
</tr>
<tr>
<td>Increase in other non-cash items</td>
<td>(124)</td>
<td>(74)</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in receivables</td>
<td>(1,499)</td>
<td>(151)</td>
</tr>
<tr>
<td>Increase in prepaid expenses and other</td>
<td>(1,557)</td>
<td>(207)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable and accrued liabilities</td>
<td>2,370</td>
<td>(5,936)</td>
</tr>
<tr>
<td>Decrease in funds committed to sponsorship projects</td>
<td>(487)</td>
<td>(538)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>37,312</td>
<td>9,059</td>
</tr>
</tbody>
</table>

| Cash flows from investing activities: |           |           |
| Purchases of investments | (33,715)  | (38,615)  |
| Proceeds from sales of investments | 31,936    | 36,918    |
| Purchases of property and equipment | (4,780)   | (11,324)  |
| Proceeds from sales of property and equipment | 72        | 290       |
| Net cash used in investing activities | (6,487)   | (12,731)  |

| Cash flows from financing activities: |           |           |
| Funds received restricted for endowments | 1,180     | 714       |
| Increase in trust and gift annuity obligations | 129       | 175       |
| Net cash provided by financing activities | 1,309     | 889       |

| Net increase (decrease) in cash and cash equivalents | 32,134 | (2,783) |

| Cash and cash equivalents, beginning of year | 92,279  | 95,062   |
| Cash and cash equivalents, end of year | $124,413 | $92,279  |

See accompanying notes to consolidated financial statements.
(1) Organization Mission and Structure

Compassion International, Inc. and its wholly owned and controlled affiliates (collectively, Compassion) is a Christian organization that exists to release children from poverty in Jesus’ name. Compassion is a holistic child development through sponsorship organization; its principal services provide life changing opportunities for education and skills training, social development, health and nutrition, and learning about Christ. Compassion serves all children regardless of religion, race, ethnicity or gender. The consolidated financial statements include the accounts of Compassion International, Inc., a not for profit corporation created under the laws of the state of Illinois, and its wholly owned and controlled affiliates. All material inter-affiliate accounts and transactions have been eliminated in the consolidated financial statements.

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

Compassion fulfills its mission of releasing children from poverty in Jesus’ name through two main programs, Child Development Program and Sponsor/Donor Ministries.

Child Development Programs
The child development program represents costs to assist over 1.92 million (unaudited) and 1.90 million (unaudited) children in Compassion’s Child Sponsorship, Child Survival, Youth Development, Complimentary Intervention programs in 2018 and 2017, respectively. Child development is a lifetime investment. It changes as a child's needs change. It is personal, individualized and relational work that is tailored to the age, gender, health, culture and family situation of each child we serve. Compassion’s work is holistic, focusing on economic, social, physical, and spiritual poverty. Through our child development programs, Compassion equips children with the skills they need to overcome poverty and lead successful, fulfilling lives.

Compassion's Child Sponsorship Program (CDSP) pairs compassionate people with children suffering from poverty in the developing world. Through monthly financial support, prayer and letter writing, sponsors invest directly in the lives of children living in extreme poverty. The children attend church-based child development centers where they receive nurturing care and protection, as well as life-changing opportunities that would otherwise be out of their reach. All Compassion-registered children have the opportunity to develop their potential and be released from the generational cycle of poverty.

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

Compassion's Youth Development Program (YDP) equips youth ages 12 and older with customized training and educational paths according to their own unique potential, talents and purpose. Through the provision of the Youth Development Program, students may receive assistance with formal education needs, non-formal education opportunities and income generation training.

Compassion deploys Complementary Interventions (CIV) in order to remove significant obstacles to holistic child development and improved effectiveness in its programs of CDSP, CSP and YDP. These interventions include, but not limited to: Minor and major medical procedures; HIV/AIDS care and education; infrastructure; safe water, sanitation and hygiene solutions; the protection of highly vulnerable children; non-formal education; and disaster relief.

Sponsor/Donor Ministries
The personal relationship between a sponsor and their sponsored child is a foundational component of Compassion's child development strategy. Sponsorship is more than a financial commitment. It is also the avenue through which sponsors build relationships with their child. Sponsors provide words of hope and encouragement through personal letters and notes that remind children of their full potential and help them to defeat poverty and pursue their dreams.

Compassion processed over 5.63 million (unaudited) letters between sponsors and their children in the past year. Additionally, sponsors and donors have access to a centralized communication center to obtain support and information regarding their sponsorship relationship.
Affiliates
Compassion’s international affiliates are consolidated based on the level of control exercised by Compassion International, Inc. and the presence of an economic interest. Compassion’s consolidated international affiliates at June 30, 2018 and 2017 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)

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 0.15 million (unaudited) babies, children, and young adults in Compassion’s child development programs. In July 2017, Compassion transferred control in 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 had been consolidated based on the level of control exercised by Compassion, prior to transference of that control.

Compassion has certain other international affiliates which are immaterial and consolidated based on the level of control exercised and the presence of economic interest.

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

(2) Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with United States (U.S.) generally accepted accounting principles (GAAP). 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.
Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue, gains, and other support and expenses during the reporting period. Actual results could differ significantly from those estimates.

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

Investments
Investments are recorded at fair value, primarily based on quoted market prices. Gains or losses, whether realized or unrealized, are recognized when they occur (see note 3).

Receivables from Global Partner Alliance
Receivables from the Global Partner Alliance (GPA) consist of trade receivables and are carried at original invoice amount less an estimate made for doubtful receivables and are included on the consolidated statements of financial position. Management believes there are no uncollectible accounts for the years ended June 30, 2018 and 2017.

Property and Equipment
Property and equipment are recorded at cost when purchased or at estimated fair value if received by donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, with no salvage value. Buildings and building improvements are depreciated over 5 to 30 years, furniture and equipment are depreciated over 3 to 10 years, vehicles are depreciated over 3 to 5 years, and software are amortized over 3 to 5 years (see note 4).

Intangibles
Intangibles are recorded at cost when purchased. Intangibles are amortized over the estimated useful lives of the related assets (generally 3 to 10 years), using the straight-line method (see note 5).

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, 2018 and 2017.

Foreign Exchange Contracts
To assist in the management of foreign currency risk, Compassion may enter into foreign currency forward (FOREX) contracts, which provide for the future exchange of funds at agreed-upon rates. These contracts are recorded at fair value in the accompanying consolidated statements of financial position and unrealized gains and losses are recognized in the accompanying consolidated statements of activities (see note 6).

Self-Funded Medical Insurance
Compassion has 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 $0.25 million for the years ended June 30, 2018 and 2017. Potential incurred but unreported claims totaling approximately $1.22 million and $1.29 million for the years ended June 30, 2018 and 2017, respectively, are included in “Accounts payable and accrued liabilities” in the consolidated statements of financial position.
Severance Benefits
Compassion provides certain severance benefits to eligible former or inactive employees during the period subsequent to employment but prior to retirement through plans individualized for each national office in accordance with local laws and regulations or common market practices. Severance expense is accrued when benefits are known and communicated to applicable employees. When severance expense cannot be reasonably estimated until the specific circumstances of an employee’s departure are known, Compassion’s policy is to recognize the expense when paid. Accrued severance for years ended June 30, 2018 and 2017, was $2.05 million and $1.53 million, respectively and are included in “Accounts payable and accrued liabilities” on the accompanying consolidated statements of financial position. Compassion’s severance expense was $2.75 million and $2.47 million for the years ended June 30, 2018 and 2017, respectively and are included in “Salaries and benefits” on the consolidated statements of functional expenses.

Defined Contribution Plans
Compassion sponsors several defined contribution pension plans covering substantially all employees not receiving severance benefits. The expense for these defined contribution plans was $7.87 million and $7.77 million for the years ended June 30, 2018 and 2017, respectively and are included in “Salaries and benefits” on the consolidated statements of functional expenses.

Funds Committed to Sponsorship Projects
Funds committed to sponsorship projects represent grants that are payable in future periods to program beneficiaries who are unaffiliated church groups. Amounts predominantly are funds that were remitted to national offices in June and distributed to sponsorship projects in July. These committed program funds are accrued at year-end in the consolidated statements of financial position consistent with our stated purpose to transfer resources. Funds committed to sponsorship projects are included on the consolidated statements of financial position.

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 that are not held or controlled by Compassion are not recorded in the consolidated statements of financial position. Revocable trust agreements for years ended June 30, 2018 and 2017, was $0.01 million, respectively and are included in “Trust and gift annuity obligations” on the consolidated statements of financial position.

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. Irrevocable trust agreements for years ended June 30, 2018 and 2017, was $0.69 million and $0.78 million, respectively and are included in “Trust and gift annuity obligations” on the consolidated statements of financial position.

Gift Annuities Obligations
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. Gift annuities payable for years ended June 30, 2018 and 2017, was $1.20 million and $1.00 million, respectively and are included in “Trust and gift annuity obligations” on the consolidated statements of financial position.
Endowments
Compassion has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) passed by the state of Colorado. In accordance with UPMIFA, Compassion appropriates for expenditure or accumulates as much of an endowment fund as Compassion determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

Compassion has two donor-restricted endowments; the child sponsorship endowment fund is established for the purpose of providing ongoing support for children participating in Compassion’s child sponsorship program. The leadership development endowment fund is established for the purpose of providing ongoing support for students participating in Compassion’s leadership development program.

These permanently restricted endowment funds have donor-imposed restrictions, which classifies the original value of gifts donated as permanently restricted net assets as presented on the consolidated statements of financial position. The net assets for child sponsorship and leadership development are invested to provide a long-term total return sufficient to support a number of sponsorships in developing countries. A portion of the earnings from the donor-restricted endowment funds may be used to keep the endowment 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.

Contributions
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 GPA.

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 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. Compassion does not exercise the level of control to consolidate unaffiliated international organizations and therefore are not reflected in the accompanying consolidated financial statements.

Gifts in-Kind
Gifts in-kind (GIK) are comprised primarily of contributed goods and services for specialized skills and are recognized at the fair value of the services received. Compassion received and recorded goods and contributed services which are included in the consolidated statements of activities. GIK expense is recorded when the goods and services are used and included in the consolidated statements of activities. Unused GIK was $0.31 million and $0.38 million for the years ended June 30, 2018 and 2017, respectively, and is included in “Prepaid expense and other” in the consolidated statements of financial position.

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

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, 2018 and 2017. 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.

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. Such allocations are determined by management on an equitable basis.
Foreign Currency
Substantially all assets and liabilities of consolidated foreign national offices have been translated at foreign exchange rates in effect at June 30, 2018 and 2017. All foreign office revenue and expense amounts are converted utilizing the average monthly rate, based on the blended hedged and spot rates, in effect on the date of the transaction. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

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

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

Inputs are used in applying 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 is recorded at present value and measured on an annual basis.

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

Investments and restricted investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. The majority of these include U.S. government obligations, primarily U.S. Treasury bills, and investment grade U.S. corporate bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or non-transferability, which are generally based on available market information.

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

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

Reclassifications
Certain amounts in the 2017 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2018 consolidated financial statements.
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. The provisions are effective for Compassion’s fiscal year ending June 30, 2019. We have evaluated the impact of this pronouncement and believe it will have a significant impact on the presentation of the financial statements, but the quantitative impact will not be significant.

In November 2016, the FASB issue ASU 2016-18, “Statements of Cash Flows (Topic 230): Restricted Cash”, which require that statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. 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, and Compassion is expecting to adopt in fiscal year ending June 30, 2019. The amendments should be applied using a retrospective transition method to each period presented. We have evaluated the impact that the adoption of these provisions will have on Compassion’s consolidated financial statements and do not expect it will be significant to Compassion’s consolidated financial statements.

In June 2018, the FASB ratified a final consensus on EITF Issue 17-A, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This guidance amends ASU 2014-09 and ASU 2015-05, “Intangibles – Goodwill and Other – Internal-use Software” (Subtopic 350-40) Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement. The guidance prescribes the accounting for implementation and upfront costs associated with hosted cloud computing arrangements that are service contracts and now requires implementation costs of hosting arrangements to be capitalized as prepayment of fees on the consolidated statements of financial position and amortized in the same line of the consolidated statements of functional expenses as the hosting fees over the term of the hosting arrangement including renewal options that are reasonably certain to be exercised. The new standard is effective for public business entities for fiscal years beginning after December 15, 2017. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted, and Compassion is expecting to adopt in fiscal year ending June 30, 2019. We have evaluated the impact that the adoption of these provisions will have on Compassion’s consolidated financial statements and do not expect it will be significant to Compassion’s consolidated financial statements.

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 2016-06 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, at a minimum, to add significant right-of-use assets and lease liabilities to the consolidated statements of financial position.
On June 21, 2018, the FASB issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions, including business entities. The new guidance clarifies the definition of an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a “barrier or hurdle” that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. Donors will use the same criteria as recipients to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU 2018-08 is effective for a public company or a not-for-profit organization that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market would apply the new standard for transactions in which the entity serves as a resource recipient to annual reporting periods beginning after June 15, 2018, including interim periods within that annual period. Other organizations would apply the standard to annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. 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.

(3) Investments and Fair Value Measurements

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

<table>
<thead>
<tr>
<th></th>
<th>Cost basis June 30, 2018</th>
<th>Fair value June 30, 2018</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$ 36,681</td>
<td>$ 36,168</td>
<td>$ -</td>
<td>$ 36,168</td>
<td>$ -</td>
</tr>
<tr>
<td>Government obligations</td>
<td>33,048</td>
<td>32,486</td>
<td>-</td>
<td>32,486</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>112</td>
<td>112</td>
<td>-</td>
<td>107</td>
<td>5</td>
</tr>
<tr>
<td>Total investments</td>
<td>$ 69,841</td>
<td>$ 68,766</td>
<td>$ -</td>
<td>$ 68,761</td>
<td>$ 5</td>
</tr>
<tr>
<td>Restricted investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 157</td>
<td>$ 157</td>
<td>$ 157</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1,345</td>
<td>1,314</td>
<td>-</td>
<td>1,314</td>
<td>-</td>
</tr>
<tr>
<td>Government obligations</td>
<td>3,632</td>
<td>3,606</td>
<td>-</td>
<td>3,606</td>
<td>-</td>
</tr>
<tr>
<td>Corporate stocks</td>
<td>5,879</td>
<td>7,375</td>
<td>7,375</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>2,342</td>
<td>2,351</td>
<td>2,351</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exchange traded funds</td>
<td>-</td>
<td>1,305</td>
<td>1,305</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total restricted investments</td>
<td>$ 13,355</td>
<td>$ 16,108</td>
<td>$ 11,188</td>
<td>$ 4,920</td>
<td>$ -</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>$ -</td>
<td>$ 7,123</td>
<td>$ -</td>
<td>$ 7,123</td>
<td>$ -</td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange contracts</td>
<td>$ -</td>
<td>$ 5,396</td>
<td>$ -</td>
<td>$ 5,396</td>
<td>$ -</td>
</tr>
</tbody>
</table>
The following table represents investments that are measured at fair value on a recurring basis, in thousands, at June 30, 2017:

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

(4) Property and Equipment

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building and building improvements</td>
<td>$ 82,734</td>
<td>$ 81,514</td>
</tr>
<tr>
<td>Software</td>
<td>44,616</td>
<td>45,326</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>22,888</td>
<td>24,411</td>
</tr>
<tr>
<td>Land</td>
<td>11,929</td>
<td>11,929</td>
</tr>
<tr>
<td>Vehicles</td>
<td>6,790</td>
<td>6,222</td>
</tr>
<tr>
<td>Assets in progress</td>
<td>1,028</td>
<td>1,512</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>169,985</strong></td>
<td><strong>170,914</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(79,983)</td>
<td>(72,703)</td>
</tr>
<tr>
<td><strong>Property and equipment, net</strong></td>
<td><strong>$ 90,002</strong></td>
<td><strong>$ 98,211</strong></td>
</tr>
</tbody>
</table>

Depreciation expense totaled approximately $12.80 million and $12.48 million for the years ended June 30, 2018 and 2017, respectively.
(5) **Intangibles**

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Naming rights, non-compete, and customer list</td>
<td>$1,971</td>
<td>$1,996</td>
</tr>
<tr>
<td>Less accumulated amortization</td>
<td>(788)</td>
<td>(616)</td>
</tr>
<tr>
<td><strong>Intangibles, net</strong></td>
<td>$1,183</td>
<td>$1,380</td>
</tr>
</tbody>
</table>

Amortization expense totaled approximately $0.20 million for the years ended June 30, 2018 and 2017. Future amortization expense associated with net carrying values at June 30, 2018 is estimated to be $0.20 million annually through fiscal year 2024.

(6) **Foreign Exchange Contracts**

For the years ended June 30, 2018 and 2017, Compassion recorded an unrealized gain of $1.31 million and an unrealized loss of $3.46 million, respectively, on FOREX contracts. At June 30, 2018 and 2017, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling $175.49 million and $116.10 million, respectively, and sales of U.S. dollars with notional amounts totaling $165.84 million and $126.22 million, respectively.

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

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

<table>
<thead>
<tr>
<th>Purpose restrictions accomplished:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child sponsorship program</td>
<td>$640,349</td>
<td>$606,536</td>
</tr>
<tr>
<td>Other child programs</td>
<td>185,460</td>
<td>151,098</td>
</tr>
<tr>
<td>Gift in-kind donations used</td>
<td>131</td>
<td>86</td>
</tr>
<tr>
<td>Child sponsorship endowment earnings used</td>
<td>359</td>
<td>260</td>
</tr>
<tr>
<td>Leadership development endowment earnings used</td>
<td>303</td>
<td>264</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$826,602</td>
<td>$758,244</td>
</tr>
</tbody>
</table>

(8) **Temporarily Restricted Net Assets**

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

<table>
<thead>
<tr>
<th>Child development programs:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Child sponsorship program</td>
<td>$70,785</td>
<td>$52,235</td>
</tr>
<tr>
<td>Other child programs</td>
<td>43,793</td>
<td>57,592</td>
</tr>
<tr>
<td>Irrevocable trust agreements</td>
<td>932</td>
<td>868</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$115,510</td>
<td>$110,695</td>
</tr>
</tbody>
</table>
(9) Global Partner Alliance

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

<table>
<thead>
<tr>
<th>Organization</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compassion Korea (South Korea)</td>
<td>$50,544</td>
<td>$47,616</td>
</tr>
<tr>
<td>Compassion Australia</td>
<td>48,170</td>
<td>46,041</td>
</tr>
<tr>
<td>Compassion Canada</td>
<td>41,283</td>
<td>37,634</td>
</tr>
<tr>
<td>Compassion United Kingdom</td>
<td>39,614</td>
<td>42,004</td>
</tr>
<tr>
<td>Compassion Netherlands</td>
<td>18,692</td>
<td>17,486</td>
</tr>
<tr>
<td>Compassion Deutschland (Germany)</td>
<td>8,149</td>
<td>6,403</td>
</tr>
<tr>
<td>Compassion Italia Onlus (Italy)</td>
<td>4,229</td>
<td>4,019</td>
</tr>
<tr>
<td>Tear Fund New Zealand</td>
<td>3,791</td>
<td>3,927</td>
</tr>
<tr>
<td>Compassion Schweiz (Switzerland)</td>
<td>3,820</td>
<td>3,530</td>
</tr>
<tr>
<td>Service d'Entraide et Liaison (France)</td>
<td>3,448</td>
<td>3,015</td>
</tr>
<tr>
<td>Compassion Norden (Nordic countries)</td>
<td>1,472</td>
<td>1,172</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>223,212</strong></td>
<td><strong>212,847</strong></td>
</tr>
</tbody>
</table>

(10) Lease Commitments

Compassion is committed under certain operating leases for building facilities at June 30, 2018. All operating leases are non-cancelable and expire on various dates through 2024. Lease and rent expense for fiscal years 2018 and 2017 were $2.37 million and $2.38 million, respectively, and is included in “Occupancy” in the consolidated statements of functional expenses. Future minimum lease payments required under non-cancelable operating leases with initial or remaining terms of one year or more, in thousands, at June 30, 2018 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$2,246</td>
</tr>
<tr>
<td>2020</td>
<td>2,020</td>
</tr>
<tr>
<td>2021</td>
<td>1,216</td>
</tr>
<tr>
<td>2022</td>
<td>1,034</td>
</tr>
<tr>
<td>2023</td>
<td>613</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,129</strong></td>
</tr>
</tbody>
</table>

In addition, Compassion leases excess owned office space, unrelated to the aforementioned leased properties, to third party tenants with initial lease terms generally ranging from three to five years. The carrying amount and accumulated depreciation of owned property that is leased as of June 30, 2018 and 2017 are $7.56 million and $7.21 million, respectively, and is included in “Property and equipment, net” in the consolidated statements of financial position. Rental income totaled approximately $1.81 million and $1.43 million over the same periods and is included in “Interest, dividends, and other income” in the consolidated statements of activities. Future minimum rental income to be received under non-cancelable operating leases with initial or remaining terms of one year or more, in thousands, at June 30, 2018 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$1,367</td>
</tr>
<tr>
<td>2020</td>
<td>1,390</td>
</tr>
<tr>
<td>2021</td>
<td>1,383</td>
</tr>
<tr>
<td>2022</td>
<td>880</td>
</tr>
<tr>
<td>2023</td>
<td>684</td>
</tr>
<tr>
<td>Thereafter</td>
<td>340</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,044</strong></td>
</tr>
</tbody>
</table>
(11) Fundraising Events

Compassion’s fundraising 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 fundraising expense in the consolidated financial statements. Fundraising event activities, in thousands, for the years ended June 30 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross receipts from Fundraising events</td>
<td>$19,139</td>
<td>$14,624</td>
</tr>
<tr>
<td>Less contributions</td>
<td>(13,670)</td>
<td>(11,403)</td>
</tr>
<tr>
<td>Gross income from Fundraising events</td>
<td>5,469</td>
<td>3,221</td>
</tr>
<tr>
<td>Less direct benefits to sponsors and donors</td>
<td>(5,469)</td>
<td>(3,221)</td>
</tr>
<tr>
<td>Net income from Fundraising events</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

(12) Subsequent Events

Compassion has evaluated subsequent events through September 5, 2018, the date the consolidated financial statements were available to be issued, and there were none to be reported.