



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Consolidated Financial Statements**

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

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KPMG LLP  
Suite 800  
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## Independent Auditors' Report

The Board of Directors  
Compassion International, Inc.:

### *Report on the Financial Statements*

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, 2021 and 2020, 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, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Denver, Colorado  
August 30, 2021

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Consolidated Statements of Financial Position**

June 30, 2021 and 2020

(Amounts in thousands)

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current assets:		
Cash and cash equivalents	\$ 167,480	\$ 194,856
Investments	193,250	71,954
Receivables from Global Partner Alliance	5,884	7,183
Accounts receivable	2,582	1,600
Prepaid expenses and other	14,913	14,279
Foreign exchange contracts, at fair value	8,973	6,478
Total current assets	<u>393,082</u>	<u>296,350</u>
Noncurrent assets:		
Property and equipment, net	67,404	72,239
Intangibles, net	0	788
Total noncurrent assets	<u>67,404</u>	<u>73,027</u>
Restricted assets:		
Cash, cash equivalents and investments restricted for split-interest agreements	4,336	3,795
Cash, cash equivalents and investments restricted for long-term purposes	16,153	13,285
Total restricted assets	<u>20,489</u>	<u>17,080</u>
Total assets	<u>\$ 480,975</u>	<u>\$ 386,457</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 30,813	\$ 24,437
Funds committed to sponsorship projects	72,023	77,002
Split-interest agreements	711	625
Foreign exchange contracts, at fair value	6,699	7,609
Total current liabilities	<u>110,246</u>	<u>109,673</u>
Long-term liabilities:		
Accrued liabilities, less current portion	2,187	1,965
Funds committed to sponsorship projects, less current portion	3,458	2,452
Split-interest agreements, less current portion	1,994	1,641
Total long-term liabilities	<u>7,639</u>	<u>6,058</u>
Total liabilities	<u>117,885</u>	<u>115,731</u>
Net assets:		
Without donor restrictions	317,990	244,316
With donor restrictions	45,100	26,410
Total net assets	<u>363,090</u>	<u>270,726</u>
Total liabilities and net assets	<u>\$ 480,975</u>	<u>\$ 386,457</u>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Statements of Activities**  
Fiscal year ended June 30, 2021  
(Amounts in thousands)

	<b>2021</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Revenue, gains, and other support:			
Contributions	\$ 676,066	\$ 141,148	\$ 817,214
Contributions from Global Partner Alliance	218,723	56,329	275,052
Investment income and other income	(776)	2,924	2,148
Net realized and unrealized gain on foreign exchange contracts	1,576	-	1,576
Net assets released from restrictions	181,711	(181,711)	-
Total revenue, gains, and other support	<u>1,077,300</u>	<u>18,690</u>	<u>1,095,990</u>
Expenses:			
Program activities:			
Child development programs	830,335	\$ -	830,335
Supporting activities:			
Management & General	78,002	\$ -	78,002
Fundraising	95,289	\$ -	95,289
Total supporting activities	<u>173,291</u>	<u>-</u>	<u>173,291</u>
Total expenses	<u>1,003,626</u>	<u>-</u>	<u>1,003,626</u>
Change in net assets	73,674	18,690	92,364
Net assets, beginning of year	<u>244,316</u>	<u>26,410</u>	<u>270,726</u>
Net assets, end of year	<u>\$ 317,990</u>	<u>\$ 45,100</u>	<u>\$ 363,090</u>

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Consolidated Statements of Functional Expenses**

Fiscal years ended June 30, 2021 and 2020

(Amounts in thousands)

	<b>Fiscal year 2021</b>			
	<b>Program activities</b>	<b>Supporting activities</b>		
	<b>Child Development Programs</b>	<b>Management &amp; General</b>	<b>Fundraising</b>	<b>Total expenses</b>
Program Grants	\$ 708,691	\$ -	\$ -	\$ 708,691
Personnel Expenses	84,703	51,971	61,244	197,918
Services Expenses	7,597	3,879	11,317	22,793
Information Technology	10,696	6,395	3,218	20,309
Operating Expenses	9,565	3,000	5,155	17,720
Advertising And Promotions	1,148	639	10,130	11,917
Travel And Related	3,276	86	1,512	4,874
Other Expenses	4,659	12,032	2,713	19,404
<b>Total</b>	<b>\$ 830,335</b>	<b>\$ 78,002</b>	<b>\$ 95,289</b>	<b>\$ 1,003,626</b>

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

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Statements of Cash Flows**  
Fiscal years ended June 30, 2021 and 2020  
(Amounts in thousands)

	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Change in net assets	\$ 92,364	\$ 2,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,198	11,978
Net loss (gain) on disposition of equipment	3,731	(30)
Net realized and unrealized gain on investments	(1,463)	(1,696)
Net unrealized (gain) loss on foreign exchange contracts	(3,404)	7,223
Funds received restricted for endowments	(711)	(820)
Net (decrease) increase in other non-cash items	(144)	219
Changes in assets and liabilities:		
Decrease in receivables	534	3,243
Decrease (increase) in prepaid expenses and other	1,278	(1,952)
Increase in accounts payable and accrued liabilities	5,521	605
(Decrease) increase in funds committed to sponsorship projects	(591)	15,879
Net cash provided by operating activities	107,313	36,669
Cash flows from investing activities:		
Purchases of investments	(181,782)	(49,135)
Proceeds from sales of investments	58,422	51,601
Purchases of property and equipment	(11,062)	(4,068)
Proceeds from sales of property and equipment	92	53
Net cash used in investing activities	(134,330)	(1,549)
Cash flows from financing activities:		
Funds received restricted for endowments	711	820
Increase in split-interest agreements	439	52
Net cash provided by financing activities	1,150	872
Net (decrease) increase in cash and cash equivalents	(25,867)	35,992
Effect of foreign currency on cash	(1,636)	(2,509)
Cash and cash equivalents, beginning of year	196,057	162,574
Cash and cash equivalents, end of year	\$ 168,554	\$ 196,057

See accompanying notes to consolidated financial statements.



## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

#### (1) Organization Mission and Structure

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

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

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

#### *Child Development Programs*

The child development programs represent costs to assist over 2.2 million children (unaudited) in 2021 and 2020. Child development is a lifetime investment. It changes as a child's needs change. It is personal, individualized and relational work that is tailored to the age, gender, health, culture and family situation of each child Compassion serves. Through our child development programs, Compassion equips children with the skills they need to overcome poverty and lead successful, fulfilling lives.

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

The COVID-19 pandemic has touched every corner of the globe and Compassion and our global partners have not been immune. It has been crucial during this time to adapt how Compassion and our local church partners minister to children during this crisis. Throughout fiscal year 2021, Compassion temporarily halted group activities and normal operations at times, in response. Focus shifted toward COVID-19 response including, but not limited to, the provision of food packs, hygiene kits, medical/healthcare activities, as well as emotional and psychological support.

Compassion deploys Complementary Interventions (CIV) to remove significant obstacles to holistic child development and improved effectiveness in its programs. Local church partners have been able to access disaster relief funds to provide families suffering from the impact of the COVID-19 pandemic. During fiscal year 2021, this segment of support totaled over 40% of CIVs. Other interventions included, but were not limited to: natural disaster relief, safe water, income generation, post-secondary education and vocational training, and infrastructure.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

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

#### **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, 2021 and 2020 include:

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

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

#### **Global Partner Alliance**

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

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

## **(2) Summary of Significant Accounting Policies**

#### **Basis of Presentation**

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

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

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

*With Donor Restrictions:* Net assets subject to donor-imposed restrictions require resources to be used for a specific purpose and/or the passage of time. Specific purpose restrictions are primarily comprised of CIV and CSP programs. Passage of time

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

restrictions include split-interest agreements. Other donor-imposed restrictions are perpetual in nature and stipulate that resources be maintained in perpetuity with investment returns being restricted for use in certain endowment funds. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the consolidated statements of activities as net assets released from restrictions. (See Note 8 to the Consolidated Financial Statements for further information.)

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue, gains, and other support and expenses during the reporting period. Actual results could differ significantly from those estimates.

#### ***Cash and Cash Equivalents***

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

#### ***Investments***

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

#### ***Fair Value Measurement***

Compassion records its financial assets and liabilities on a recurring basis at fair value in accordance with the framework for measuring fair value outlined in U.S. GAAP. Fair value is measured using the fair value hierarchy that prioritizes the inputs to valuation techniques. The three levels of the fair value hierarchy are as follows:

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

Inputs are used in applying various valuation techniques and broadly refer to the assumption that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by Compassion. Compassion considers observable data to be 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, 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 are 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.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

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 are therefore classified within Level 2.

#### ***Receivables from Global Partner Alliance***

Receivables from the GPA consist primarily of promises to give and are carried at original commitment amount less an estimate made for doubtful receivables and are included on the consolidated statements of financial position. Management believes there are no uncollectible accounts for the years ended June 30, 2021 and 2020.

#### ***Foreign Exchange Contracts***

Compassion utilizes a rolling and layering currency hedging strategy to hedge known foreign cash flow exposure. The strategy is intended to provide stability in grant funding to our Frontline Church Partners, as well as in donations received from the Global Partner Alliance. Compassion's foreign currency hedges are stated at fair value on the statement of financial position at the end of the period. Hedges in a gain position are classified as assets while hedges in a loss position are classified as liabilities. Any gain or loss on hedge contracts is recognized in the revenue section of the statement of activities. Any change in hedge positions is also disclosed on the statement of cash flow.

#### ***Property and Equipment***

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

#### ***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 \$10.48 million and \$11.48 million for the years ended June 30, 2021 and 2020, respectively and are included in "Personnel Expenses" on the consolidated statements of functional expenses.

#### ***Severance Benefits***

Compassion provides certain severance benefits to eligible former or inactive employees during the period subsequent to employment but prior to retirement through plans individualized for each geography in accordance with local laws and regulations or common market practices. Severance expense is accrued when benefits are known and communicated to applicable employees. When severance expense cannot be reasonably estimated until the specific circumstances of an employee's departure are known, Compassion's policy is to recognize the expense when paid. Accrued severance for years ended June 30, 2021 and 2020 was \$4.2 million and \$3.3 million, respectively, and is included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was \$8.4 million and \$3.5 million for the years ended June 30, 2021 and 2020, respectively and is included in "Personnel Expenses" on the consolidated statements of functional expenses.

#### ***Self-Funded Medical Insurance***

Compassion has established plans for self-funding medical and dental claims of employees in the US. International employees are covered by either self-funded or fully insured plans. Compassion has also purchased stop loss coverage, which provides for

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

an annual specific deductible per individual of \$0.3 million and \$0.3 million for the years ended June 30, 2021 and 2020. Potential incurred but unreported claims totaling approximately \$1.2 million for the years ended June 30, 2021 and 2020, are included in Accounts payable and accrued liabilities in the consolidated statements of financial position.

#### ***Funds Committed to Sponsorship Projects***

Funds committed to sponsorship projects represent grants that are payable in future periods to unaffiliated church groups which run beneficiary programs. Amounts are predominantly funds that were remitted to national offices in June and distributed to sponsorship projects in July. These amounts are included on the consolidated statements of financial position.

#### ***Split-interest Agreements***

Compassion records split-interest agreements at fair value. The offsetting liability for irrevocable trusts and gift annuities is recorded at the present value of future beneficiary payments using risk-adjusted discount rates. Any remaining liability is then adjusted annually based on actuarial assumptions.

#### ***Contributions***

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

#### ***Volunteer Time***

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

#### ***Endowments***

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

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

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

#### ***Functional Expense Allocation***

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

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2021 and 2020

#### **Liquidity**

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

#### **Income Taxes**

Compassion is 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, 2021 and 2020. As an Association of Churches, Compassion is classified as a public charity and not a private foundation under Section 509(a)(1) and 170(b)(1)(A)(i) of the IRC.

#### **Foreign Currency**

All assets and liabilities of consolidated foreign national offices have been translated at foreign exchange rates in effect on June 30, 2021 and 2020. All foreign office revenue and expense amounts are converted utilizing the average monthly spot rate in effect on the date of the transaction. Foreign currency transaction gains and losses are included in the determination of the change in net assets.

#### **Reclassifications**

Certain amounts in the 2020 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2021 consolidated financial statements.

#### **Recent Accounting Pronouncements**

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

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

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

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2021 and 2020

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

**(3) Cash and Cash Equivalents**

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

	<u>2021</u>	<u>2020</u>
Unrestricted cash and cash equivalents	\$ 167,480	\$ 194,856
Restricted cash and cash equivalents	<u>1,074</u>	<u>1,201</u>
Cash and cash equivalents shown in the consolidated statement of cash flows	<u>\$ 168,554</u>	<u>\$ 196,057</u>

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

The following table represents investments that are measured at fair value on a recurring basis, in thousands, at June 30, 2021:

	<b>Fair value</b>			
	<b>June 30,</b>			
	<b>2021</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Unrestricted Investments:				
Corporate bonds	\$136,054	\$ -	\$136,054	\$ -
Government obligations	57,084	-	57,084	-
Other	<u>112</u>	-	<u>112</u>	-
Total unrestricted investments	<u>\$193,250</u>	<u>\$ -</u>	<u>\$193,250</u>	<u>\$ -</u>
Restricted investments:				
Corporate bonds	2,492	-	2,492	-
Government obligations	3,862	-	3,862	-
Corporate stocks	8,990	8,990	-	-
Mutual funds	2,611	2,611	-	-
Exchange traded funds	<u>1,460</u>	<u>1,460</u>	-	-
Total restricted investments	<u>\$19,415</u>	<u>\$13,061</u>	<u>\$ 6,354</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 8,973	\$ -	\$ 8,973	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 6,699	\$ -	\$ 6,699	\$ -

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

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

	<b>Fair value</b>			
	<b>June 30,</b>			
	<b>2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Unrestricted Investments:				
Corporate bonds	\$33,738	\$ -	\$33,738	\$ -
Government obligations	38,102	-	38,102	-
Other	114	-	114	-
Total investments	<u>\$71,954</u>	<u>\$ -</u>	<u>\$71,954</u>	<u>\$ -</u>
Restricted investments:				
Corporate bonds	1,982	-	1,982	-
Government obligations	3,078	-	3,078	-
Corporate stocks	7,312	7,312	-	-
Mutual funds	2,120	2,120	-	-
Exchange traded funds	1,387	1,387	-	-
Total restricted investments	<u>\$15,879</u>	<u>\$10,819</u>	<u>\$ 5,060</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 6,478	\$ -	\$ 6,478	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 7,609	\$ -	\$ 7,609	\$ -

**(5) Foreign Exchange Contracts**

At June 30, 2021 and 2020, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling \$256.9 million and \$256.8 million, respectively, and sales of U.S. dollars with notional amounts totaling \$174.87 million and \$152.5 million, respectively.

**(6) Property and Equipment**

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

	<b>2021</b>	<b>2020</b>
Building and building improvements	\$ 85,405	\$ 84,450
Software and hardware	52,059	51,934
Furniture and equipment	11,082	14,438
Land	12,643	12,605
Vehicles	6,208	6,029
Assets in progress	3,447	1,208
	<u>170,844</u>	<u>170,664</u>
Less accumulated depreciation	(103,440)	(98,425)
Property and equipment, net	<u>\$ 67,404</u>	<u>\$ 72,239</u>

Depreciation expense totaled approximately \$10.2 million and \$11.8 million for the years ended June 30, 2021 and 2020, respectively.



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2021 and 2020

**(7) Net Assets without Donor Restrictions**

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

	<u>2021</u>	<u>2020</u>
Board-designated:		
Future beneficiary payment	\$ 46,148	\$ 35,859
CDSP reserve	52,457	15,631
Property, equipment and intangibles	67,404	73,027
Unrestricted	151,981	119,799
Net assets without donor restrictions	<u>\$ 317,990</u>	<u>\$ 244,316</u>

**(8) Net Assets with Donor Restrictions**

The following table provides details of available restricted net assets as well as restricted net assets released during the period:

	<u>Restricted net asset balances</u>		<u>Released from restriction</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Specific purpose	\$30,272	\$14,539	\$ 181,037	\$ 158,796
Passage of Time	912	823	13	20
Investment in perpetuity:				
Child sponsorship endowment	9,166	7,447	336	404
Leadership endowment	4,750	3,601	326	314
	<u>\$45,100</u>	<u>\$26,410</u>	<u>\$ 181,711</u>	<u>\$ 159,534</u>

**(9) GPA Contributions**

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

	<u>2021</u>	<u>2020</u>
Compassion Korea (South Korea)	\$ 57,586	\$ 40,424
Compassion Australia	54,653	48,687
Compassion United Kingdom	53,339	42,627
Compassion Canada	48,248	41,700
Compassion Netherlands	24,072	21,391
Compassion Deutschland (Germany)	13,069	9,692
Compassion Schweiz (Switzerland)	7,995	5,556
Compassion Italia Onlus (Italy)	5,476	5,035
Service d'Entraide et Liaison (France)	4,447	3,676
Tear Fund New Zealand	3,810	3,506
Compassion Norden (Nordic countries)	2,357	1,966
	<u>\$ 275,052</u>	<u>\$ 224,260</u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2021 and 2020

**(10) Liquidity**

Financial assets available for general expenditure within one year, in thousands, at June 30, 2021 are as follows:

Cash and cash equivalents	\$167,480
Investments	193,250
Receivables from Global Partner Alliance	5,884
Accounts Receivable	2,582
Foreign exchange contracts, at fair value	8,973
Total restricted assets	<u>20,489</u>
Total financial assets, at year-end	<u>398,658</u>
Less those unavailable for general expenditure within one year, due to:	
Restricted for specific purpose	(30,272)
Restricted for passage of time	(912)
Restricted for endowment	(13,916)
Less amounts unavailable to management without Board's approval:	
Future Beneficiary Payments	<u>(46,148)</u>
Financial assets not available to be used within one year	<u>(91,248)</u>
Financial assets to meet cash needs for general expenditures within one year	<u>\$307,410</u>

**(11) Lease Commitments**

Compassion is committed under certain operating leases for building facilities at June 30, 2021. All operating leases are non-cancelable and expire on various dates through 2026. Lease and rent expense for fiscal years 2021 and 2020 were \$2.7 million and \$2.8 million, respectively, and included in "Operating Expenses" in the consolidated statements of functional expenses. Future minimum rental commitments required by all non-cancelable leases are approximately as follows, in thousands, at June 30, 2021:

2022	\$ 2,521
2023	1,994
2024	1,252
2025	672
2026	208
Thereafter	<u>-</u>
	<u>\$ 6,647</u>

**(12) Subsequent Events**

Compassion has evaluated subsequent events through August 30, 2021, the date the consolidated financial statements were available to be issued, and there were none to be reported.