



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Financial Statements**  
June 30, 2023 and 2022  
(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. and affiliates:

### *Opinion*

We have audited the consolidated financial statements of Compassion International, Inc. and affiliates (the Company), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for each of the fiscal years, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*KPMG LLP*

Denver, Colorado  
September 1, 2023

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Statements of Financial Position**  
June 30, 2023 and 2022  
(Amounts in thousands)

<b>Assets</b>	<b>2023</b>	<b>2022</b>
Current assets:		
Cash and cash equivalents	\$ 223,937	\$ 276,256
Investments	191,868	137,714
Receivables from Global Partner Alliance	7,122	9,559
Accounts receivable	2,123	1,418
Prepaid expenses and other	18,018	14,899
Foreign exchange contracts, at fair value	14,858	13,571
Total current assets	<u>457,926</u>	<u>453,417</u>
Non-current assets:		
Right of use assets — operating leases	6,901	—
Property and equipment, net	82,350	68,271
Total non-current assets	<u>89,251</u>	<u>68,271</u>
Restricted assets:		
Cash, cash equivalents and investments restricted for split-interest agreements	3,048	3,770
Cash, cash equivalents and investments restricted for long-term purposes	13,585	13,369
Total restricted assets	<u>16,633</u>	<u>17,139</u>
Total assets	<u>\$ 563,810</u>	<u>\$ 538,827</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 38,320	\$ 32,098
Funds committed to sponsorship projects	94,444	79,676
Foreign exchange contracts, at fair value	7,237	9,559
Lease liability	2,067	—
Split-interest agreements	316	652
Total current liabilities	<u>142,384</u>	<u>121,985</u>
Long-term liabilities:		
Accrued liabilities, less current portion	2,621	2,392
Funds committed to sponsorship projects, less current portion	7,844	3,388
Lease liability, less current portion	5,773	—
Split-interest agreements, less current portion	1,656	1,876
Total long-term liabilities	<u>17,894</u>	<u>7,656</u>
Total liabilities	<u>160,278</u>	<u>129,641</u>
Net assets:		
Without donor restrictions	357,636	364,108
With donor restrictions	45,896	45,078
Total net assets	<u>403,532</u>	<u>409,186</u>
Total liabilities and net assets	<u>\$ 563,810</u>	<u>\$ 538,827</u>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Consolidated Statements of Activities**

Fiscal years ended June 30, 2023 and 2022

(Amounts in thousands)

	<b>2023</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Revenue, gains, and other support:			
Contributions	\$ 712,281	\$ 187,295	\$ 899,576
Contributions from Global Partner Alliance	199,200	61,646	260,846
Investment income and other income	17,407	820	18,227
Net realized and unrealized gain on foreign exchange contracts	11,933	—	11,933
Net assets released from restrictions	248,943	(248,943)	—
Total revenue, gains, and other support	<u>1,189,764</u>	<u>818</u>	<u>1,190,582</u>
Expenses:			
Program activities:			
Child development programs	964,906	—	964,906
Supporting activities:			
Fundraising	147,043	—	147,043
Management and general	84,287	—	84,287
Total supporting activities	<u>231,330</u>	<u>—</u>	<u>231,330</u>
Total expenses	<u>1,196,236</u>	<u>—</u>	<u>1,196,236</u>
Change in net assets	(6,472)	818	(5,654)
Net assets, beginning of year	364,108	45,078	409,186
Net assets, end of year	<u>\$ 357,636</u>	<u>\$ 45,896</u>	<u>\$ 403,532</u>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Consolidated Statements of Activities**

Fiscal years ended June 30, 2023 and 2022

(Amounts in thousands)

	<b>2022</b>		
	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Revenue, gains, and other support:			
Contributions	\$ 696,318	\$ 161,783	\$ 858,101
Contributions from Global Partner Alliance	211,137	69,739	280,876
Investment income and other income	1,374	(2,789)	(1,415)
Net realized and unrealized gain on foreign exchange contracts	8,328	—	8,328
Net assets released from restrictions	228,755	(228,755)	—
Total revenue, gains, and other support	<u>1,145,912</u>	<u>(22)</u>	<u>1,145,890</u>
Expenses:			
Program activities:			
Child development programs	898,869	—	898,869
Supporting activities:			
Fundraising	120,620	—	120,620
Management and general	80,305	—	80,305
Total supporting activities	<u>200,925</u>	<u>—</u>	<u>200,925</u>
Total expenses	<u>1,099,794</u>	<u>—</u>	<u>1,099,794</u>
Change in net assets	46,118	(22)	46,096
Net assets, beginning of year	317,990	45,100	363,090
Net assets, end of year	<u>\$ 364,108</u>	<u>\$ 45,078</u>	<u>\$ 409,186</u>

See accompanying notes to consolidated financial statements.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Statements of Functional Expenses**  
Fiscal years ended June 30, 2023 and 2022  
(Amounts in thousands)

	<b>2023</b>			
	<b>Program activities</b>	<b>Supporting activities</b>		
	<b>Child Development Programs</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Expenses</b>
Program grants	\$ 785,165	\$ —	\$ —	\$ 785,165
Personnel expenses	120,479	79,234	60,623	260,336
Services expenses	10,618	26,374	2,382	39,374
Travel and related	16,645	9,290	1,524	27,459
Information technology	16,106	4,454	5,564	26,124
Operating expenses	11,112	6,953	2,300	20,365
Advertising and promotions	630	19,033	350	20,013
Other expenses	4,151	1,705	11,544	17,400
Total	\$ 964,906	\$ 147,043	\$ 84,287	\$ 1,196,236

	<b>2022</b>			
	<b>Program activities</b>	<b>Supporting activities</b>		
	<b>Child Development Programs</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Expenses</b>
Program grants	\$ 752,925	\$ —	\$ —	\$ 752,925
Personnel expenses	98,614	62,357	55,446	216,417
Services expenses	10,225	25,277	4,937	40,439
Travel and related	9,242	4,961	667	14,870
Information technology	14,316	3,527	5,954	23,797
Operating expenses	9,295	6,399	2,365	18,059
Advertising and promotions	330	15,699	420	16,449
Other expenses	3,922	2,400	10,516	16,838
Total	\$ 898,869	\$ 120,620	\$ 80,305	\$ 1,099,794

See accompanying notes to consolidated financial statements.



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Consolidated Statements of Cash Flows**  
Fiscal years ended June 30, 2023 and 2022  
(Amounts in thousands)

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Change in net assets	\$ (5,654)	\$ 46,096
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,134	6,853
(Gain) loss on disposition of equipment, net	(220)	437
Gain from insurance for building loss	—	(1,127)
Investment returns, net	(8,733)	11,369
Net unrealized gain on foreign exchange contracts	(3,609)	(1,739)
Funds received restricted for endowments	(1,983)	(265)
Changes in assets and liabilities:		
Decrease (increase) in receivables	1,710	(2,537)
Increase in prepaid expenses and other	(3,227)	(76)
Increase in accounts payable and accrued liabilities	7,025	2,015
Increase in right-of-use assets, operating leases	(6,885)	—
Increase in operating lease liability, net	6,667	—
Increase in finance lease liability	1,924	—
Increase in funds committed to sponsorship projects	23,244	12,230
Net cash provided by operating activities	16,393	73,256
Cash flows from investing activities:		
Purchases of investments	(221,981)	(97,527)
Proceeds from sales of investments	177,596	144,653
Purchases of property and equipment	(22,144)	(8,730)
Proceeds from sales of property and equipment	351	186
Proceeds from insurance for building loss	—	1,127
Net cash (used in) provided by investing activities	(66,178)	39,709
Cash flows from financing activities:		
Funds received restricted for endowments	1,982	265
Payment of finance lease liability	(759)	—
Decrease in split-interest agreements	(557)	(176)
Net cash provided by financing activities	666	89
Net (decrease) increase in cash and cash equivalents	(49,119)	113,054
Effect of foreign currency on cash	(2,671)	(4,669)
Cash and cash equivalents, beginning of year	276,939	168,554
Cash and cash equivalents, end of year	\$ 225,149	\$ 276,939
<u>Supplemental disclosure:</u>		
Unrestricted cash and cash equivalents	\$ 223,937	\$ 276,256
Restricted cash and cash equivalents within restricted assets on the consolidated statements of financial position	1,212	683
Total cash and cash equivalents	\$ 225,149	\$ 276,939

See accompanying notes to consolidated financial statements.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

#### (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, providing holistic child development through sponsorship and other support. Its principal services provide opportunities that encourage the healthy development of all aspects of a child - spiritually, physically, socially, emotionally and 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 inter-affiliate accounts and transactions have been eliminated in the consolidated financial statements.

Compassion is headquartered in Colorado Springs, Colorado USA, and has international branch offices and affiliates (national offices) with child programs in 28 countries. The organization's programs are concentrated in certain countries of Africa, Asia, Central America, the Caribbean, and South America.

#### ***Affiliates***

Compassion's consolidated international affiliates at June 30, 2023 and 2022 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. All of Compassion's international affiliates are consolidated based on the level of control exercised by Compassion International, Inc. and the presence of an economic interest.

#### ***Child Development Programs***

Compassion's child development programs provided holistic assistance to over 2.3 million (unaudited) children and youth in both 2023 and 2022. Child development is a lifetime investment. Compassion takes a long-term approach investing in and for the life of each child. Compassion delivers whole-life care that is personalized, individualized, relational and tailored to the age, gender, health, culture and family situation of each child whom we serve. This personalized care is made possible by partnering with local churches, where together we ensure Compassion's holistic child development model will allow children in poverty to fully mature in every facet of life and transcend what is often a generational legacy of poverty.

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. Knowing, loving, and connecting this network of caring donors facilitates the positive development of children and youth who live in poverty. Compassion's CDSP, which represents approximately 70% of total grants, is based on a holistic approach to child/youth development with a Global Outcomes Framework based around four outcome areas: self-sufficiency, youth agency, well-being, and spiritual development. Compassion works exclusively 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 to tailor our holistic child development model to the contextualized need of the 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 including: medical care, nutrition, HIV/AIDS care, Bibles, spiritual development and education. All Compassion-registered children have the opportunity to develop their potential and be released from the generational cycle of poverty.

Compassion deploys Supplementary Grants, which Compassion refers to as Complementary Interventions (CIV), to remove significant obstacles to holistic child development and to improve the effectiveness of its programs. In 2023 several of our field

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

countries began experiencing a food crisis. Many factors have contributed to this crisis, including the lingering economic impact of COVID, the war in Ukraine, supply chain disruptions, local political unrest and violence, and environmental challenges like drought and flood. Local church partners, in coordination with Compassion, have been able to access Disaster Response funds to provide support for children and families in need during this time. Other interventions included, but were not limited to: safe water, post-secondary education, income generation, vocational training, and infrastructure.

Compassion's Child Survival Program (CSP) is an early childhood initiative that focuses on promoting the 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.

#### ***Global Partner Alliance***

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

Compassion serves the GPA by maintaining children's files, selecting and monitoring sponsorship projects, providing programmatic supervision and support, and distributing funds. Compassion is reimbursed for the costs incurred in providing these services. Apart from donor-imposed restrictions, Compassion has control over the ultimate distribution of amounts received, and as such the reimbursed 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 necessary 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 the 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 arise from CDSP and unrestricted giving. A portion of these assets are invested in property and equipment. Additionally, Compassion's Board of Directors has designated funds primarily for 1) CDSP donor contributions received for future participant 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 restrictions include split-interest agreements. Other donor-imposed restrictions are perpetual in nature and stipulate those resources be maintained in perpetuity with investment returns being restricted for use. 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.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

#### ***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.

Restricted cash and cash equivalents are included in total restricted assets in the consolidated statements of financial position.

#### ***Investments***

Investments are recorded at fair value based on the fair value hierarchy. 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. 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, actively listed government bonds, exchange traded funds, and 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 and include corporate bonds and certain government bonds.

Compassion changed investment advisors for Fiscal Year 2023 which changed the makeup of our portfolio holdings based on new investment strategy.

Compassion holds no investments and restricted investments classified within Level 3.

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.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

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

Receivables from the GPA consist primarily of short-term promises to give and are valued at the original commitment amount. Management believes there are no uncollectible accounts for the years ended June 30, 2023 and 2022.

#### ***Leases***

Compassion leases various offices and equipment. The obligations associated with these leases have been recognized as a liability in the consolidated balance sheet based on future lease payments, discounted by the risk-free rate existing in the country in which the asset is held.

Right-of-use assets represent Compassion's right to use the underlying asset for the lease term. These right-of-use assets are recognized at the commencement date of the lease based on the net present value of lease payments over the lease term, discounted using the risk-free rate in place in the country in which the lease is held.

The value of an option to extend or terminate a lease is reflected in both the obligation and the asset to the extent it is reasonably certain that management will exercise the option. Compassion has assumed an extension of five years when a lease is within one year of completion and there is no intent to exit the lease.

Compassion treats fixed lease variable components within a lease as a single lease component for all classes of assets. Short term leases are not included in the right-of-use asset value due to their immaterial nature.

Leases with a term covering the majority of the remaining economic life of the asset, or containing a purchase option that is reasonably certain to be exercised, are considered finance leases. Otherwise leases are considered operating leases. Finance leases are included in Property and Equipment, while operating leases are categorized as non-current assets.

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

To assist in the management of foreign currency risk, Compassion enters into foreign currency forward contracts lasting up to 18 months, which provide for the future exchange of funds at agreed-upon rates. Compassion hedges against foreign currencies to be received as donations as well as against foreign currencies to be paid as grant and operational expense. These contracts are recorded at fair value in the accompanying consolidated statements of financial position, and unrealized gains and losses are recognized in the accompanying consolidated statements of activities.

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

Property and equipment are recorded at cost when purchased or at estimated fair value if received by donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, with no salvage value. Buildings and building improvements are depreciated over 15 to 30 years, furniture and equipment are depreciated over 3 to 10 years, vehicles are depreciated over 5 years, and software is amortized over 3 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 \$14.9 million and \$12.3 million for the years ended June 30, 2023 and 2022, 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 it is known that employees will be entitled to benefits and the amount can be reasonably estimated. When severance expense cannot be reasonably estimated until the specific circumstances of an employee's departure are known, Compassion's policy recognizes the expense when paid. Accrued severance for years ended June 30, 2023 and 2022 was \$3.6 million and \$3.2 million, respectively, and is included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was \$5.0 million and \$4.6 million for the years ended June 30, 2023 and 2022, respectively, and is included in "Personnel expenses" on the consolidated statements of functional expenses.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

#### ***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 an annual specific deductible per individual of \$0.4 million for the years ended June 30, 2023 and 2022. Potential incurred but unreported claims totaled approximately \$1.7 million and \$1.4 million for the years ended June 30, 2023 and 2022, respectively, and 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 local churches which run Compassion's child development programs. Amounts are predominantly funds that were remitted to national offices in June and will be distributed to sponsorship projects in July. These amounts are included as a liability 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 participant payments using risk-adjusted discount rates, and 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. Additionally, contribution revenue is recorded when a member of the GPA commits to a CIV. 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.

Compassion makes the decision to accept contributions of non-financial assets on a case-by-case basis, with a policy to sell or donate non-financial assets immediately upon receipt, unless there is a donor-imposed restriction. Contributed non-financial assets were immaterial during fiscal years 2023 and 2022.

#### ***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 these endowments are invested to provide a long-term total return to support child participants in developing countries. A portion of the earnings 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 donors' stipulations.

## COMPASSION INTERNATIONAL, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2023 and 2022

#### **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 are reported as such, but costs which benefit more than one functional area have been allocated. Allocated costs primarily relate to information technology, building operations, and personnel expenses. Building operations and personnel costs are allocated based on headcount, whereas information technology costs also consider estimated time and effort.

#### **Liquidity**

Compassion's Board of Directors approves an annual operating and capital budget. Compassion structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Compassion invests cash in excess of daily requirements in interest bearing accounts and short-term investments. Compassion's board-designated net assets require board approval for general expenditure and are therefore unavailable to management for general liquidity needs. 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 did not generate significant net unrelated business income during the years ended June 30, 2023 and 2022. 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 international national offices have been translated at foreign exchange rates in effect as of June 30, 2023 and 2022. All national office 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.

#### **Recent Accounting Pronouncements**

Compassion adopted ASC 842, Leases, effective July 1, 2022. This standard requires lessees to recognize leases on the statements of financial position as right-of-use (ROU) assets and lease liabilities based on the value of the discounted future lease payments.

In adopting ASC 842, Compassion made certain transition elections including a package of practical expedients for all classes of underlying assets as follows:

1. Lessee need not reassess whether any expired or existing contracts are or contain leases
2. Lessee need not reassess the lease classification for any existing or expired leases
3. Lessee need not reassess initial direct costs for any existing leases

Compassion also made the following transition elections:

1. To present the prior year as originally presented under the guidance of ASC 840
2. To use the hindsight election with respect to lease renewals and purchase options when determining lease term
3. To determine the discount rate at adoption based on the initial lease term

As a result of adopting ASC 842, Compassion recognized right-of-use ("ROU") assets and related lease liabilities on July 1, 2022 as follows:

	<b>Right-of-use assets</b>	<b>Lease liabilities</b>
	(in thousands)	
Operating leases	\$ 7,465	\$ (7,330)
Finance leases	\$ 1,119	\$ (1,156)

The implementation of ASC 842 had an immaterial impact on Compassion's net assets and cash flows from operations.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2023 and 2022

**(3) Liquidity**

Financial assets available for general expenditure within one year at June 30, 2023 are as follows:

	<b>2023</b>
	(in thousands)
Cash and cash equivalents	\$ 223,937
Investments	191,868
Receivables from Global Partner Alliance	7,122
Accounts Receivable	2,123
Foreign exchange contracts, at fair value	14,858
Total restricted assets	<u>16,633</u>
Total financial assets, at year-end	456,541
Less those unavailable for general expenditure within one year, due to:	
Restricted for specific purpose	(31,711)
Restricted for passage of time	(600)
Restricted for endowment	<u>(13,585)</u>
Financial assets not available to be used within one year	(45,896)
Total board-designated net assets	(71,095)
Financial assets to meet cash needs for general expenditures within one year	<u><u>\$ 339,550</u></u>

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

The following table represents investments that are measured at fair value at June 30, 2023:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair value June 30, 2023</b>
	(in thousands)			
Unrestricted investments:				
Corporate bonds	\$ —	\$ 43,798	\$ —	\$ 43,798
Government obligations	39,106	16,197	—	55,303
Corporate Stocks	89,682	171	—	89,853
Mutual Funds	2,792	—	—	2,792
Other	—	122	—	122
Total unrestricted investments	<u>\$ 131,580</u>	<u>\$ 60,288</u>	<u>\$ —</u>	<u>\$ 191,868</u>
Restricted investments:				
Corporate bonds	67	—	—	67
Mutual funds	14,510	—	—	14,510
Exchange traded funds	844	—	—	844
Total restricted investments	<u>\$ 15,421</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,421</u>
Current assets:				
Foreign exchange contracts	\$ —	\$ 14,858	\$ —	\$ 14,858
Current liabilities:				
Foreign exchange contracts	\$ —	\$ 7,237	\$ —	\$ 7,237

Restricted investments are included in total restricted assets in the consolidated statements of financial position.



**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
Fiscal years ended June 30, 2023 and 2022

The following table represents investments that are measured at fair value at June 30, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value June 30, 2022</u>
	(in thousands)			
Unrestricted Investments:				
Corporate bonds	\$ 96,083	\$ —	\$ —	\$ 96,083
Government obligations	41,517	—	—	41,517
Other	-	114	—	114
Total unrestricted investments	<u>\$ 137,600</u>	<u>\$ 114</u>	<u>\$ —</u>	<u>\$ 137,714</u>
Restricted investments:				
Corporate bonds	1,241	—	—	1,241
Government obligations	2,951	—	—	2,951
Corporate stocks	8,802	—	—	8,802
Mutual funds	2,184	—	—	2,184
Exchange traded funds	1,278	—	—	1,278
Total restricted investments	<u>\$ 16,456</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,456</u>
Current assets:				
Foreign exchange contracts	\$ —	\$ 13,571	\$ —	\$ 13,571
Current liabilities:				
Foreign exchange contracts	\$ —	\$ 9,559	\$ —	\$ 9,559

Restricted investments are included in total restricted assets in the consolidated statements of financial position.

**(5) Foreign Exchange Contracts**

At June 30, 2023 and 2022, Compassion had in place foreign exchange contracts for sales of U.S. dollars with notional amounts totaling \$291.8 million and \$279.9 million, respectively, and purchases of U.S. dollars with notional amounts totaling \$175.4 million and \$190.6 million, respectively.

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
Fiscal years ended June 30, 2023 and 2022

**(6) Property and Equipment**

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

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Building and building improvements	\$ 91,367	\$ 89,991
Software and hardware	29,207	46,479
Furniture and equipment	10,180	10,784
Land	12,499	12,538
Vehicles	7,850	6,733
Finance Leases	3,318	—
Assets in progress	16,415	3,608
	<u>170,836</u>	<u>170,133</u>
Less accumulated depreciation and amortization	(88,486)	(101,862)
Property and equipment, net	<u>\$ 82,350</u>	<u>\$ 68,271</u>

Depreciation expense totaled approximately \$5.4 million and \$6.9 million for the years ended June 30, 2023 and 2022, respectively. Amortization expense for finance leases totaled approximately \$0.8 million for the year ended June 30, 2023.

Outstanding commitments related to renovation of Compassion headquarters were approximately \$17.5 million at June 30, 2023.

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

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

	<u>2023</u>	<u>2022</u>
	(in thousands)	
Board-designated:		
Future beneficiary payment	\$ 41,095	\$ 46,922
CDSP reserve	30,000	30,000
Total Board-designated	<u>71,095</u>	<u>76,922</u>
Property and equipment	82,350	68,271
Unrestricted	204,191	218,915
Net assets without donor restrictions	<u>\$ 357,636</u>	<u>\$ 364,108</u>

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
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**(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:

	Restricted net asset balances		Released from restriction	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Specific purpose	\$ 31,711	\$ 33,472	\$ 248,722	\$ 228,065
Passage of time	600	474	8	6
Investment in perpetuity:				
Child sponsorship endowment	10,128	7,671	—	350
Leadership endowment	3,457	3,461	213	334
	\$ 45,896	\$ 45,078	\$ 248,943	\$ 228,755

**(9) GPA Contributions**

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

	2023	2022
	(in thousands)	
Compassion Korea (South Korea)	\$ 62,489	\$ 58,908
Compassion Australia	49,831	57,663
Compassion United Kingdom	45,755	52,951
Compassion Canada	44,124	49,841
Compassion Netherlands	22,897	24,089
Compassion Deutschland (Germany)	12,853	13,200
Compassion Schweiz (Switzerland)	8,596	8,706
Compassion Italia Onlus (Italy)	4,755	5,167
Service d'Entraide et de Liaison (France)	4,016	4,353
Tearfund New Zealand	3,414	3,660
Compassion Norden (Nordic countries)	2,116	2,338
	\$ 260,846	\$ 280,876

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES**

**Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2023 and 2022

**(10) Leases**

Compassion leases facilities and various pieces of equipment under ASC 842. The right-of-use asset and corresponding liability with future lease payments at June 30 are shown below:

	<u>2023</u>
	(in thousands)
Right-of-use assets:	
Finance leases	\$ 1,130
Operating leases	6,901
Total	<u>\$ 8,031</u>
Finance lease liability	\$ 1,165
Operating lease liability	6,675
Total	<u>\$ 7,840</u>

The components of lease expense for the year ended June 30 are as follows:

	<u>2023</u>
	(in thousands)
Finance lease expense:	
Amortization of right-of-use assets	\$ 763
Interest on lease liabilities	91
Operating lease expense	1,746
Total	<u>\$ 2,600</u>

Other information related to leases as of June 30 is as follows:

	<u>2023</u>
	(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Financing cash flows from finance leases	\$ 759
Operating cash flows from finance leases	\$ 53
Operating cash flows from operating leases	\$ 2,169
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,130
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 6,901
Weighted-average remaining lease term for finance leases	1.84 years
Weighted-average remaining lease term for operating leases	3.78 years
Weighted-average discount rate for finance leases	4.19 %
Weighted-average discount rate for operating leases	10.94 %

**COMPASSION INTERNATIONAL, INC. AND AFFILIATES****Notes to Consolidated Financial Statements**

Fiscal years ended June 30, 2023 and 2022

The finance and operating lease future minimum lease payments as of June 30 are as follows (in thousands):

<b>Fiscal year</b>	<b>Finance</b>	<b>Operating</b>	<b>Total</b>
2024	\$ 740	\$ 2,661	\$ 3,401
2025	370	1,981	2,351
2026	107	1,442	1,549
2027	—	1,135	1,135
2028	—	840	840
Thereafter	—	—	—
Less: amounts representing interest	52	1,384	1,436
<b>Present value of net minimum lease payments</b>	<b>\$ 1,165</b>	<b>\$ 6,675</b>	<b>\$ 7,840</b>

**(11) Subsequent Events**

Management has evaluated subsequent events through September 1, 2023, which is the date the consolidated financial statements were available to be issued. On July 1, 2023, Compassion International, Inc. acquired control of Compassion Australia for no consideration. Compassion Australia is currently a member of the GPA, and its mission fully aligns with Compassion International, Inc. A key outcome of this acquisition will be greater alignment between the entities in support of Compassion's multi-year strategy of advancing evidence-based outcomes with more children and youth more quickly.