



COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Consolidated Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8



KPMG LLP
Suite 800
1225 17th Street
Denver, CO 80202-5598

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, which comprise the consolidated statements of financial position as of June 30, 2022 and June 30, 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and June 30, 2021, and the results of its operations and its cash flows for the 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
August 26, 2022

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2022 and 2021
(Amounts in thousands)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 276,256	\$ 167,480
Investments	137,714	193,250
Receivables from Global Partner Alliance	9,559	5,884
Accounts receivable	1,418	2,582
Prepaid expenses and other	14,899	14,913
Foreign exchange contracts, at fair value	13,571	8,973
Total current assets	<u>453,417</u>	<u>393,082</u>
Noncurrent assets:		
Property and equipment, net	68,271	67,404
Total noncurrent assets	<u>68,271</u>	<u>67,404</u>
Restricted assets:		
Cash, cash equivalents and investments restricted for split-interest agreements	3,770	4,336
Cash, cash equivalents and investments restricted for long-term purposes	13,369	16,153
Total restricted assets	<u>17,139</u>	<u>20,489</u>
Total assets	<u><u>\$ 538,827</u></u>	<u><u>\$ 480,975</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 32,098	\$ 30,813
Funds committed to sponsorship projects	79,676	72,023
Split-interest agreements	652	711
Foreign exchange contracts, at fair value	9,559	6,699
Total current liabilities	<u>121,985</u>	<u>110,246</u>
Long-term liabilities:		
Accrued liabilities, less current portion	2,392	2,187
Funds committed to sponsorship projects, less current portion	3,388	3,458
Split-interest agreements, less current portion	1,876	1,994
Total long-term liabilities	<u>7,656</u>	<u>7,639</u>
Total liabilities	<u>129,641</u>	<u>117,885</u>
Net assets:		
Without donor restrictions	364,108	317,990
With donor restrictions	45,078	45,100
Total net assets	<u>409,186</u>	<u>363,090</u>
Total liabilities and net assets	<u><u>\$ 538,827</u></u>	<u><u>\$ 480,975</u></u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Activities
Fiscal year ended June 30, 2022
(Amounts in thousands)

	2022		
	Without donor restrictions	With donor restrictions	Total
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	1,145,912	(22)	1,145,890
Expenses:			
Program activities:			
Child development programs	898,869	-	898,869
Supporting activities:			
Management and general	80,305	-	80,305
Fundraising	120,620	-	120,620
Total supporting activities	200,925	-	200,925
Total expenses	1,099,794	-	1,099,794
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	\$ 364,108	\$ 45,078	\$ 409,186

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)

	2021		
	Without donor restrictions	With donor restrictions	Total
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	1,077,300	18,690	1,095,990
Expenses:			
Program activities:			
Child development programs	830,335	-	830,335
Supporting activities:			
Management and general	78,002	-	78,002
Fundraising	95,289	-	95,289
Total supporting activities	173,291	-	173,291
Total expenses	1,003,626	-	1,003,626
Change in net assets	73,674	18,690	92,364
Net assets, beginning of year	244,316	26,410	270,726
Net assets, end of year	\$ 317,990	\$ 45,100	\$ 363,090

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Functional Expenses
Fiscal years ended June 30, 2022 and 2021
(Amounts in thousands)

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

Fiscal year 2021				
	Program activities	Supporting activities		
	Child Development Programs	Management and General	Fundraising	Total Expenses
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
Total	\$ 830,335	\$ 78,002	\$ 95,289	\$ 1,003,626

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Fiscal years ended June 30, 2022 and 2021

(Amounts in thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 46,096	\$ 92,364
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,853	10,198
Net loss on disposition of equipment	437	3,731
Gain from insurance for building loss	(1,127)	-
Net realized and unrealized loss (gain) on investments	11,369	(1,463)
Net unrealized gain on foreign exchange contracts	(1,739)	(3,404)
Funds received restricted for endowments	(265)	(711)
Net decrease in other non-cash items	-	(144)
Changes in assets and liabilities:		
(Increase) decrease in receivables	(2,537)	534
(Increase) decrease in prepaid expenses and other	(76)	1,278
Increase in accounts payable and accrued liabilities	2,015	5,521
Increase (decrease) in funds committed to sponsorship projects	12,230	(591)
Net cash provided by operating activities	<u>73,256</u>	<u>107,313</u>
Cash flows from investing activities:		
Purchases of investments	(97,527)	(181,782)
Proceeds from sales of investments	144,653	58,422
Purchases of property and equipment	(8,730)	(11,062)
Proceeds from sales of property and equipment	186	92
Proceeds from insurance for building loss	1,127	-
Net cash provided by (used in) investing activities	<u>39,709</u>	<u>(134,330)</u>
Cash flows from financing activities:		
Funds received restricted for endowments	265	711
(Decrease) increase in split-interest agreements	(176)	439
Net cash provided by financing activities	<u>89</u>	<u>1,150</u>
Net increase (decrease) in cash and cash equivalents	113,054	(25,867)
Effect of foreign currency on cash	(4,669)	(1,636)
Cash and cash equivalents, beginning of year	<u>168,554</u>	<u>196,057</u>
Cash and cash equivalents, end of year	<u><u>\$ 276,939</u></u>	<u><u>\$ 168,554</u></u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

(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 27 countries. The organization's programs are concentrated in certain countries of Africa, Asia, Central America, the Caribbean, and South America.

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, 2022 and 2021 include:

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

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

Compassion fulfills its mission of releasing children from poverty in Jesus' name through holistic child development.

Child Development Programs

Compassion's holistic child development programs represent costs to assist over 2.3 million and 2.1 million (unaudited) children and youth in 2022 and 2021, respectively. Child development is a lifetime investment and Compassion takes a long-term approach to it by investing in and for the life of each child. Compassion delivers whole-life care, by way of our Frontline Church Partner that is personalized, individualized, relational and tailored to the age, gender, health, culture and family situation of each child whom Compassion serves. Through our holistic child development model, Compassion provides physical, socioeconomic and spiritual care together to help children in poverty 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. Our work is to facilitate a network of caring individuals, both local and far away, whom Compassion works to know, love, and connect with, in order to protect and enable positive development in children and youth who live in poverty. Compassion's program, which represents over 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 tailor our holistic child development model to the contextualized need of the children. The children attend church-based child development centers where they receive

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

nurturing care and protection, as well as life-changing opportunities that would otherwise be out of their reach including medical care, HIV/AIDS care, Bibles, spiritual development, education and nutrition. All Compassion-registered children have the opportunity to develop their potential and be released from the generational cycle of poverty.

Last fiscal year, the significant impact of the COVID-19 pandemic on the world required Compassion and our global partners to adapt in how we reach new and existing donors. Compassion and our local church partners also needed to change how we minister to children during this crisis. Throughout fiscal year 2021, in compliance with local government regulations, Compassion temporarily halted large group activities, which included much of our regular child program activities. We focused instead on meeting emergency needs in response to COVID-19, including food packs, hygiene kits, and other support. In fiscal year 2022 we began adapting to a post-pandemic environment with a renewed focus on the contextualization needed to support the people and communities we work in.

Compassion deploys Supplementary Grants, which Compassion refers to as Complementary Interventions (CIV), to remove significant obstacles to holistic child development and to improve effectiveness in its programs. Local church partners have been able to access disaster relief and other funds to provide families suffering from the impact of the COVID-19 pandemic. Last year this segment of support totaled over 40% of CIVs. During fiscal year 2022, the need to address COVID-19 declined, however, disaster response spending increased to 62% of CIVs. In 2022 the global economy, climate change, violence and other environmental factors have worsened. These situations necessitate a strategy and plan in which Compassion can return to holistic child and youth development as quickly as possible, by coordinating operations efforts on the ground. Other interventions included, but were not limited to: safe water, income generation, post-secondary education and vocational training, and infrastructure.

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.

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 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 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

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

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 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 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. Investments and foreign exchange contracts are

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

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, actively listed government and corporate 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.

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.

Receivables from Global Partner Alliance

Receivables from the GPA consist primarily of promises to give and are carried at original commitment amount and are included on the consolidated statements of financial position. Management believes there are no uncollectible accounts for the years ended June 30, 2022 and 2021.

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 both foreign currencies to be received as donations as well as 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 \$12.34 million and \$10.48 million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021 was \$3.2 million and \$4.2 million, respectively, and is included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was \$4.6 million and \$8.4 million for the years ended June 30, 2022 and 2021, 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, 2022 and 2021

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 and \$0.3 million for the years ended June 30, 2022 and 2021. Potential incurred but unreported claims totaled approximately \$1.4 million and \$1.2 million for the years ended June 30, 2022 and 2021, 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 church groups which run child development 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 participant 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.

Compassion makes the decision to accept contributions of non-financial assets on a case-by-case basis, with a policy to sell non-financial assets immediately upon receipt, unless there is a donor-imposed restriction. Contributed non-financial assets were immaterial during fiscal years 2022 and 2021.

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 donor's stipulations.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

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 generated no significant net unrelated business income during the years ended June 30, 2022 and 2021. 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, 2022 and 2021. All GPA revenue and 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.

Reclassifications

Certain amounts in the 2021 consolidated financial statements and related notes have been reclassified for comparative purposes to conform to the presentation in the 2022 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 a lease liability, and qualitative and quantitative disclosures. Additionally, since its initial release the FASB has issued multiple Topic 842-related ASUs. Compassion will adopt this standard effective July 1, 2022 and is currently evaluating and assessing the impact ASU 2016-02 will have on the consolidated financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This standard requires certain disclosures regarding the amounts, nature, and donor-imposed restrictions associated with contributed nonfinancial assets and is effective for fiscal year 2022. This ASU has been adopted with immaterial impact in the current fiscal year.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

(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 as of June 30:

	2022	2021
	(in thousands)	
Unrestricted cash and cash equivalents	\$ 276,256	\$ 167,480
Restricted cash and cash equivalents	683	1,074
Cash and cash equivalents shown in the consolidated statement of cash flows	<u>\$ 276,939</u>	<u>\$ 168,554</u>

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

(4) Investments and Fair Value Measurements

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

	Fair value June 30, 2022	Level 1	Level 2	Level 3
	(in thousands)			
Unrestricted investments:				
Corporate bonds	\$ 96,083	\$ 96,083	\$ -	\$ -
Government obligations	41,517	41,517	-	-
Other	114	-	114	-
Total unrestricted investments	<u>\$ 137,714</u>	<u>\$ 137,600</u>	<u>\$ 114</u>	<u>\$ -</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>\$ 16,456</u>	<u>\$ -</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 13,571	\$ -	\$ 13,571	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 9,559	\$ -	\$ 9,559	\$ -

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

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

	Fair value			
	June 30,			
	2021	Level 1	Level 2	Level 3
		(in thousands)		
Unrestricted Investments:				
Corporate bonds	\$ 136,054	\$ 136,054	\$ -	\$ -
Government obligations	57,084	57,084	-	-
Other	112	-	112	-
Total unrestricted investments	<u>\$ 193,250</u>	<u>\$ 193,138</u>	<u>\$ 112</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	1,460	1,460	-	-
Total restricted investments	<u>\$ 19,415</u>	<u>\$ 19,415</u>	<u>\$ -</u>	<u>\$ -</u>
Current assets:				
Foreign exchange contracts	\$ 8,973	\$ -	\$ 8,973	\$ -
Current liabilities:				
Foreign exchange contracts	\$ 6,699	\$ -	\$ 6,699	\$ -

(5) Foreign Exchange Contracts

At June 30, 2022 and 2021, Compassion had in place foreign exchange contracts for purchases of U.S. dollars with notional amounts totaling \$279.9 million and \$256.9 million, respectively, and sales of U.S. dollars with notional amounts totaling \$190.6 million and \$174.9 million, respectively.

(6) Property and Equipment

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

	2022	2021
	(in thousands)	
Building and building improvements	\$ 89,991	\$ 85,405
Software and hardware	46,479	52,059
Furniture and equipment	10,784	11,082
Land	12,538	12,643
Vehicles	6,733	6,208
Assets in progress	3,608	3,447
	<u>170,133</u>	<u>170,844</u>
Less accumulated depreciation	<u>(101,862)</u>	<u>(103,440)</u>
Property and equipment, net	<u>\$ 68,271</u>	<u>\$ 67,404</u>

Depreciation expense totaled approximately \$6.9 million and \$10.2 million for the years ended June 30, 2022 and 2021, respectively.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

(7) Net Assets without Donor Restrictions

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

	2022	2021
	(in thousands)	
Board-designated:		
Future participant payment	\$ 46,922	\$ 46,148
CDSP reserve	30,000	52,457
Total board-designated	76,922	98,605
Property and equipment	68,271	67,404
Unrestricted	218,915	151,981
Net assets without donor restrictions	<u>\$ 364,108</u>	<u>\$ 317,990</u>

The CDSP reserve declined \$22.5 million during the period ending June 30, 2022, due to the release of Board-designated funds during the year. The Board of Directors elected to release amounts in the CDSP reserve in excess of the total needed to ensure stability of the support rate. The released funds are now available to be invested in activities to catalyze Compassion's integrated strategy.

(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	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Specific purpose	\$ 33,472	\$ 30,272	\$ 228,065	\$ 181,036
Passage of Time	474	912	6	13
Investment in perpetuity:				
Child sponsorship endowment	7,671	9,166	350	336
Leadership endowment	3,461	4,750	334	326
	<u>\$ 45,078</u>	<u>\$ 45,100</u>	<u>\$ 228,755</u>	<u>\$ 181,711</u>

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2022 and 2021

(9) GPA Contributions

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

	2022	2021
	(in thousands)	
Compassion Korea (South Korea)	\$ 58,908	\$ 57,586
Compassion Australia	57,663	54,653
Compassion United Kingdom	52,951	53,339
Compassion Canada	49,841	48,248
Compassion Netherlands	24,089	24,072
Compassion Deutschland (Germany)	13,200	13,069
Compassion Schweiz (Switzerland)	8,706	7,995
Compassion Italia Onlus (Italy)	5,167	5,476
Service d'Entraide et de Liaison (France)	4,353	4,447
Tearfund New Zealand	3,660	3,810
Compassion Norden (Nordic countries)	2,338	2,357
	<u>\$ 280,876</u>	<u>\$ 275,052</u>

(10) Liquidity

Financial assets available for general expenditure within one year at June 30, 2022 are as follows:

	2022
	(in thousands)
Cash and cash equivalents	\$ 276,256
Investments	137,714
Receivables from Global Partner Alliance	9,559
Accounts Receivable	1,418
Foreign exchange contracts, at fair value	13,571
Total restricted assets	<u>17,139</u>
Total financial assets, at year-end	455,657
Less those unavailable for general expenditure within one year, due to:	
Restricted for specific purpose	(33,472)
Restricted for passage of time	(474)
Restricted for endowment	(11,132)
Less amounts unavailable to management without board approval:	
Total board-designated net assets	<u>(76,922)</u>
Financial assets not available to be used within one year	<u>(122,000)</u>
Financial assets to meet cash needs for general expenditures within one year	<u>\$ 333,657</u>

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

Fiscal years ended June 30, 2022 and 2021

(11) Lease Commitments

Compassion is committed under certain operating leases for building facilities at June 30, 2022. All operating leases are non-cancelable and expire on various dates through 2027. Lease and rent expense for fiscal years 2022 and 2021 were \$3.0 million and \$2.7 million, respectively, and included in "Operating Expenses" in the consolidated statements of functional expenses. Future minimum rental commitments required by all non-cancelable leases as of June 30, 2022, are approximately as follows:

	2022
	(in thousands)
2023	\$ 3,070
2024	2,094
2025	1,086
2026	438
2027	171
Thereafter	89
	<u>\$ 6,948</u>

(12) Subsequent Events

Compassion has evaluated subsequent events through August 26, 2022, the date the consolidated financial statements were available to be issued, and there were none to be reported.