



COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Financial Statements
June 30, 2024 and 2023
(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 (the Company), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, functional expenses, and cash flows for each of the fiscal 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, 2024 and 2023, and the results of its operations and its cash flows for each of 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 4, 2024

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2024 and 2023
(Amounts in thousands)

Assets	2024	2023
Current assets:		
Cash and cash equivalents	\$ 197,038	\$ 223,937
Investments	229,764	191,868
Receivables from Global Partner Alliance	2,419	7,122
Accounts receivable	3,218	2,123
Prepaid expenses and other	17,589	18,018
Assets held for sale	13,797	—
Foreign exchange contracts, at fair value	13,500	14,858
Total current assets	<u>477,325</u>	<u>457,926</u>
Non-current assets:		
Right of use assets - operating leases	6,519	6,901
Long-term investments	10,746	—
Property and equipment, net	95,683	82,350
Foreign exchange contracts, at fair value, less current portion	5,734	—
Total non-current assets	<u>118,682</u>	<u>89,251</u>
Restricted assets:		
Cash, cash equivalents and investments restricted for split-interest agreements	3,130	3,048
Cash, cash equivalents and investments restricted for long-term purposes	14,706	13,585
Total restricted assets	<u>17,836</u>	<u>16,633</u>
Total assets	<u>\$ 613,843</u>	<u>\$ 563,810</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 37,531	\$ 38,320
Funds committed to sponsorship projects	120,343	94,444
Foreign exchange contracts, at fair value	12,497	7,237
Lease liability	3,211	2,067
Split-interest agreements	301	316
Total current liabilities	<u>173,883</u>	<u>142,384</u>
Long-term liabilities:		
Accrued liabilities, less current portion	3,426	2,621
Funds committed to sponsorship projects, less current portion	15,546	7,844
Foreign exchange contracts, at fair value, less current portion	5,459	—
Lease liability, less current portion	4,744	5,773
Split-interest agreements, less current portion	1,397	1,656
Total long-term liabilities	<u>30,572</u>	<u>17,894</u>
Total liabilities	<u>204,455</u>	<u>160,278</u>
Net assets:		
Without donor restrictions	338,511	357,636
With donor restrictions	70,877	45,896
Total net assets	<u>409,388</u>	<u>403,532</u>
Total liabilities and net assets	<u>\$ 613,843</u>	<u>\$ 563,810</u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Activities

Fiscal years ended June 30, 2024 and 2023

(Amounts in thousands)

	2024		
	Without donor restrictions	With donor restrictions	Total
Revenue, gains, and other support:			
Contributions	\$ 849,178	\$ 223,787	\$ 1,072,965
Contributions from Global Partner Alliance	161,724	43,307	205,031
Inherent contributions from acquisition of Compassion Australia	22,442	3,408	25,850
Investment income and other income	27,415	1,394	28,809
Net realized and unrealized gain on foreign exchange contracts	4,096	—	4,096
Net assets released from restrictions	246,915	(246,915)	—
Total revenue, gains, and other support	<u>1,311,770</u>	<u>24,981</u>	<u>1,336,751</u>
Expenses:			
Program activities:			
Child development programs	1,066,768	—	1,066,768
Supporting activities:			
Fundraising	165,193	—	165,193
Management and general	98,934	—	98,934
Total supporting activities	<u>264,127</u>	<u>—</u>	<u>264,127</u>
Total expenses	<u>1,330,895</u>	<u>—</u>	<u>1,330,895</u>
Change in net assets	(19,125)	24,981	5,856
Net assets, beginning of year	357,636	45,896	403,532
Net assets, end of year	<u>\$ 338,511</u>	<u>\$ 70,877</u>	<u>\$ 409,388</u>

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Consolidated Statements of Activities

Fiscal years ended June 30, 2024 and 2023

(Amounts in thousands)

	2023		
	Without donor restrictions	With donor restrictions	Total
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 Functional Expenses
Fiscal years ended June 30, 2024 and 2023
(Amounts in thousands)

	2024			
	Program activities	Supporting activities		
	Child Development Programs	Fundraising	Management and General	Total Expenses
Program grants	\$ 866,899	\$ —	\$ —	\$ 866,899
Personnel expenses	133,132	94,520	67,218	294,870
Services expenses	13,507	29,195	4,261	46,963
Information technology	15,379	6,756	7,871	30,006
Travel and related	19,077	6,632	1,521	27,230
Operating expenses	12,525	5,883	3,345	21,753
Advertising and promotions	650	19,698	464	20,812
Other expenses	5,599	2,509	14,254	22,362
Total	\$ 1,066,768	\$ 165,193	\$ 98,934	\$ 1,330,895

	2023			
	Program activities	Supporting activities		
	Child Development Programs	Fundraising	Management and General	Total Expenses
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
Information technology	16,106	4,454	5,564	26,124
Travel and related	16,645	9,290	1,524	27,459
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

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
Fiscal years ended June 30, 2024 and 2023
(Amounts in thousands)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 5,856	\$ (5,654)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,977	6,134
Loss (gain) on disposition of equipment, net	51	(220)
Investment returns, net	(12,085)	(8,733)
Non-cash contributions of securities	(6,719)	—
Proceeds from sales of contributed securities for operations	4,832	—
Net unrealized loss (gain) on foreign exchange contracts	6,342	(3,609)
Receipt of restricted endowment funds	(116)	(1,983)
Inherent contribution from acquisition	(25,850)	—
Changes in assets and liabilities:		
Decrease in receivables from Global Partner Alliance	4,703	2,437
Increase in accounts receivable	(845)	(727)
Decrease (increase) in prepaid expenses and other	790	(3,227)
(Decrease) increase in accounts payable and accrued liabilities	(2,972)	7,025
Decrease (increase) in right-of-use assets - operating leases	306	(6,885)
(Decrease) increase in operating lease liability, net	(527)	6,667
Increase in finance lease liability	1,742	1,924
Increase in funds committed to sponsorship projects	36,701	23,244
Net cash provided by operating activities	21,186	16,393
Cash flows from investing activities:		
Purchases of investments	(106,845)	(221,981)
Proceeds from sales of investments	70,388	177,596
Purchases of property and equipment	(24,516)	(22,144)
Proceeds from sales of property and equipment	127	351
Cash acquired from acquisition	16,394	—
Net cash used in investing activities	(44,452)	(66,178)
Cash flows from financing activities:		
Funds received restricted for endowments	116	1,982
Payment of finance lease liability	(1,102)	(759)
Decrease in split-interest agreements	(273)	(557)
Net cash (used in) provided by financing activities	(1,259)	666
Net decrease in cash and cash equivalents	(24,525)	(49,119)
Effect of foreign currency on cash	(2,957)	(2,671)
Cash and cash equivalents, beginning of year	225,149	276,939
Cash and cash equivalents, end of year	\$ 197,667	\$ 225,149
<u>Supplemental disclosure:</u>		
Unrestricted cash and cash equivalents	\$ 197,038	\$ 223,937
Restricted cash and cash equivalents within restricted assets on the Consolidated Statements of Financial Position	629	1,212
Total cash and cash equivalents	\$ 197,667	\$ 225,149

See accompanying notes to consolidated financial statements.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(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: spiritual, physical, social, emotional, and their economic circumstances. 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) operating in 29 countries. The organization's programs are concentrated in various countries within Africa, Asia, Central America, the Caribbean, and South America. Compassion also has a fundraising affiliate in Australia.

Affiliates

Compassion's consolidated international affiliates at June 30, 2024 and 2023 include:

- Compassion Australia (new in 2024)
- Compassion (Darunathorn) 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 (Malawi) (new in 2024)
- Compassion International Tanzania
- Compassion International Togo
- Compassion International (Uganda)
- Compassion International Zambia (new in 2024)
- 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 2024 and 2023. 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 represented approximately 67% and 70% of total grants in 2024 and 2023, respectively. The CDSP is based on a holistic child/youth development Global Outcomes Framework based on 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 individual child. 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:

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(1) Organization Mission and Structure (Continued)

medical care, clean water and hygiene, nutrition, education, HIV/AIDS care, Bibles, and spiritual development. 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. Many field countries experienced significant inflationary challenges in 2024 due to the uncertainty surrounding the global economy and the ongoing wars in Ukraine and Israel/Gaza. Though inflationary pressures eased somewhat as the year progressed, there are several countries where inflation remains historically entrenched, especially in Haiti and in portions of Africa. Local church partners, in coordination with Compassion, worked hard to minimize the effects of inflation on the children in our program and in their surrounding communities by providing increased direct support to the children and the local churches, and also by providing income generation and vocational training and repairing and improving 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 a related-party relationship with an alliance of international organizations, referred to as covenant partners, 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.

One covenant partner, Compassion Australia, is a wholly owned affiliate and was acquired effective July 1, 2023 (see footnote 11). Results of Compassion Australia are included in Compassion's consolidated results.

The remaining covenant partners within the GPA are unaffiliated with Compassion. Apart from donor-imposed restrictions, Compassion has control over the ultimate distribution of amounts received from these covenant partners, and as such the reimbursed amounts are included as revenue (see footnote 9). Revenue and related program payments are included as expenses in the accompanying consolidated financial statements. Other than noted above, Compassion does not exercise the level of control necessary to consolidate covenant partners, 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 include the accounts of Compassion International, Inc. and its majority-owned subsidiaries (collectively, Compassion). All significant intercompany balances and transactions have been eliminated in consolidation. 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 ensure the stability of the support rate against circumstances such as unhedged foreign currency exposure. See Note 7 to the consolidated financial statements for further information.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(2) Summary of Significant Accounting Policies (Continued)

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 CIVs and other giving which is complementary to CDSP. Passage of time restrictions include split-interest agreements. Some donor-imposed restrictions are perpetual in nature and stipulate that 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 restriction. 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 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 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 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.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(2) Summary of Significant Accounting Policies (Continued)

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 corporate and 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 held one Level 3 investment at the end of Fiscal Year 2024 and zero in 2023, which was a single equity investment and a related put option. The investment is not traded in an active market and lacks observable inputs, such as share prices from recent trades, in order to record the investment at fair value. Compassion records this investment using the cost method. The put option is valued at present value.

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 short-term promises to give and are valued at the original commitment amount. There are no uncollectible accounts for the years ended June 30, 2024 and 2023.

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 determines the reasonable certainty of renewing each lease based on existing evidence such as existing lease language and management intent.

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 twenty-four 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.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(2) Summary of Significant Accounting Policies (Continued)

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.

Assets Held for Sale

Compassion classifies long-lived assets as held for sale when the sale is probable within one year, the asset is available for immediate sale in its present condition, it is being actively marketed with a plan to locate a buyer, and it is unlikely that the decision to sell will change. Assets classified as held for sale are measured at the lower of the carrying amount and the fair value less costs to sell. Assets classified as held for sale are presented separately from other assets on the consolidated statements of financial position. Once assets are classified as held for sale, they are no longer subject to depreciation.

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 \$16.7 million and \$14.9 million for the years ended June 30, 2024 and 2023, 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, 2024 and 2023 was \$4.9 million and \$3.6 million, respectively, and is included in "Accounts payable and accrued liabilities" on the accompanying consolidated statements of financial position. Compassion's severance expense was \$7.8 million and \$5.0 million for the years ended June 30, 2024 and 2023, respectively, and is included in "Personnel expenses" on the consolidated statements of functional expenses.

Self-Funded Medical Insurance

Compassion has established plans for self-funding medical and dental claims of employees in the U.S. 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, 2024 and 2023. Potential incurred but unreported claims totaled approximately \$1.7 million for the years ended June 30, 2024 and 2023, 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 will be distributed to sponsorship projects in July. Long-term balances exist for projects that will be carried out over a period in excess of one year. 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 INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(2) Summary of Significant Accounting Policies (Continued)

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 2024 and 2023.

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 Enduring Sponsorships Endowment fund is established for the purpose of providing ongoing support for children participating in Compassion's child sponsorship program. The Youth 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 classify 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.

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 and 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, 2024 and 2023. 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, 2024 and 2023. 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.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(2) Summary of Significant Accounting Policies (Continued)

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to current year presentation.

(3) Liquidity

Financial assets available for general expenditure within one year at June 30, 2024 and 2023 are as follows:

	2024	2023
	(in thousands)	
Cash and cash equivalents	\$ 197,038	\$ 223,937
Investments	240,510	191,868
Receivables from Global Partner Alliance	2,419	7,122
Accounts Receivable	3,218	2,123
Foreign exchange contracts, at fair value	19,234	14,858
Total restricted assets	17,836	16,633
Total financial assets, at year-end	480,255	456,541
Less those unavailable for general expenditure within one year:		
Long term investments	(10,746)	—
Foreign exchange contracts at fair value, less current portion	(5,734)	—
Restricted for specific purpose	(55,390)	(31,711)
Restricted for passage of time	(781)	(600)
Restricted for endowment	(14,706)	(13,585)
Financial assets not available to be used within one year	(87,357)	(45,896)
Total board-designated net assets	(77,521)	(71,095)
Financial assets to meet cash needs for general expenditures within one year	\$ 315,377	\$ 339,550

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2024 and 2023

(4) Investments and Fair Value Measurements

The following table represents investments that are measured at fair value at June 30, 2024:

	Level 1	Level 2	Level 3	Fair value June 30, 2024
	(in thousands)			
Unrestricted investments:				
Corporate bonds	\$ —	\$ 58,728	\$ —	\$ 58,728
Government obligations	58,561	22,084	—	80,645
Corporate stocks	87,520	—	—	87,520
Private-equity investment	—	—	10,000	10,000
Mutual funds	2,698	—	—	2,698
Other	39	134	746	919
Total unrestricted investments	<u>\$ 148,818</u>	<u>\$ 80,946</u>	<u>\$ 10,746</u>	<u>\$ 240,510</u>
Restricted investments:				
Corporate bonds	88	—	—	88
Mutual funds	15,663	—	—	15,663
Exchange traded funds	1,456	—	—	1,456
Total restricted investments	<u>\$ 17,207</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 17,207</u>
Total assets:				
Foreign exchange contracts	\$ —	\$ 19,234	\$ —	\$ 19,234
Total liabilities:				
Foreign exchange contracts	\$ —	\$ 17,956	\$ —	\$ 17,956

Restricted investments are included in total restricted assets in the consolidated statements of financial position. Compassion purchased \$10.7 million of Level 3 investments during fiscal year 2024.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2024 and 2023

(4) Investments and Fair Value Measurements (Continued)

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

	Level 1	Level 2	Level 3	Fair value June 30, 2023
	(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>
Total assets:				
Foreign exchange contracts	\$ —	\$ 14,858	\$ —	\$ 14,858
Total liabilities:				
Foreign exchange contracts	\$ —	\$ 7,237	\$ —	\$ 7,237

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

(5) Foreign Exchange Contracts

At June 30, 2024 and 2023, Compassion had in place foreign exchange contracts for sales of U.S. dollars with notional amounts totaling \$475.1 million and \$291.8 million, respectively, and purchases of U.S. dollars with notional amounts totaling \$245.8 million and \$175.4 million, respectively.

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2024 and 2023

(6) Property and Equipment

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Building and building improvements	\$ 106,049	\$ 91,367
Software and hardware	24,705	29,207
Furniture and equipment	15,717	10,180
Land	11,400	12,499
Vehicles	8,018	7,850
Finance Leases	4,977	3,318
Assets in progress	2,323	16,415
	<u>173,189</u>	<u>170,836</u>
Less accumulated depreciation and amortization	(77,506)	(88,486)
Property and equipment, net	<u>\$ 95,683</u>	<u>\$ 82,350</u>

Depreciation expense totaled approximately \$7.9 million and \$5.4 million for the years ended June 30, 2024 and 2023, respectively. Amortization expense for finance leases totaled approximately \$1.1 million and \$0.8 million for the years ended June 30, 2024 and 2023, respectively.

As of June 30, 2024, building and land known collectively as Compassion West is available for sale. These assets were converted to assets held for sale on the consolidated statements of financial position at their \$13.8 million net book value, consisting of \$22.1 million in assets and \$8.3 million in accumulated depreciation. This resulted in a reduction in the building and land categories of \$11.4 million and \$2.4 million, respectively.

Outstanding commitments related to renovation of Compassion headquarters were zero and approximately \$17.5 million at June 30, 2024 and 2023, respectively.

(7) Net Assets without Donor Restrictions

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Board-designated:		
Future payments to participants	\$ 47,521	\$ 41,095
CDSP reserve	30,000	30,000
Total Board-designated	<u>77,521</u>	<u>71,095</u>
Property and equipment	95,683	82,350
Unrestricted	165,307	204,191
Net assets without donor restrictions	<u>\$ 338,511</u>	<u>\$ 357,636</u>

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(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	
	2024	2023	2024	2023
	(in thousands)		(in thousands)	
Specific purpose	\$ 55,390	\$ 31,711	\$ 246,734	\$ 248,722
Passage of time	781	600	6	8
Investment in perpetuity:				
Enduring sponsorships endowment	11,128	10,128	—	—
Youth endowment	3,578	3,457	175	213
	<u>\$ 70,877</u>	<u>\$ 45,896</u>	<u>\$ 246,915</u>	<u>\$ 248,943</u>

(9) Related-party Contributions

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

	2024	2023
	(in thousands)	
Compassion Korea (South Korea)	\$ 50,140	\$ 62,489
Compassion Australia	—	49,831
Compassion United Kingdom	48,439	45,755
Compassion Canada	43,363	44,124
Compassion Netherlands	26,038	22,897
Compassion Deutschland (Germany)	13,394	12,853
Compassion Schweiz (Switzerland)	9,595	8,596
Compassion Italia Onlus (Italy)	4,634	4,755
Service d'Entraide et de Liaison (France)	3,990	4,016
Tearfund New Zealand	3,169	3,414
Compassion Norden (Nordic countries)	2,269	2,116
	<u>\$ 205,031</u>	<u>\$ 260,846</u>

COMPASSION INTERNATIONAL, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Fiscal years ended June 30, 2024 and 2023

(10) Leases

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Right-of-use assets:		
Finance leases, net	\$ 1,752	\$ 1,130
Operating leases	6,519	6,901
Total	<u>\$ 8,271</u>	<u>\$ 8,031</u>
Finance lease liability	\$ 1,810	\$ 1,165
Operating lease liability	6,145	6,675
Total	<u>\$ 7,955</u>	<u>\$ 7,840</u>

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Finance lease expense:		
Amortization of right-of-use assets	\$ 1,099	\$ 763
Interest on lease liabilities	147	91
Operating lease expense	3,426	1,746
Total	<u>\$ 4,672</u>	<u>\$ 2,600</u>

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

	<u>2024</u>	<u>2023</u>
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	\$ 1,102	\$ 759
Operating cash flows from finance leases	\$ 121	\$ 53
Operating cash flows from operating leases	\$ 3,282	\$ 2,169
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,770	\$ 1,130
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,409	\$ 6,901
Weighted-average remaining lease term for finance leases	4.10 years	1.84 years
Weighted-average remaining lease term for operating leases	3.57 years	3.78 years
Weighted-average discount rate for finance leases	5.92 %	4.19 %
Weighted-average discount rate for operating leases	6.77 %	10.94 %

COMPASSION INTERNATIONAL, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
Fiscal years ended June 30, 2024 and 2023

(10) Leases (Continued)

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

Fiscal year	Finance	Operating	Total
2025	\$ 869	\$ 2,538	\$ 3,407
2026	323	1,634	1,957
2027	213	1,510	1,723
2028	213	853	1,066
2029	213	322	535
Thereafter	231	122	353
Less: amounts representing interest	252	834	1,086
Present value of net minimum lease payments	\$ 1,810	\$ 6,145	\$ 7,955

(11) Australia Acquisition

On July 1, 2023, Compassion acquired control of Compassion Australia for no consideration. This acquisition provides greater alignment between the two entities, in support of Compassion's multi-year strategy of advancing evidence-based outcomes with more children and youth more quickly. The net assets acquired by Compassion in this transaction are as follows, and include donor-restricted contributions of \$3.4 million:

	<u>July 1, 2023</u> (in thousands)
Assets:	
Cash and cash equivalents	\$ 16,394
Other receivables	294
Prepaid and other assets	459
Property and equipment	12,136
Right of use assets	231
Total assets	\$ 29,514
Liabilities:	
Accounts payable and accrued liabilities	\$ 3,432
Lease liabilities	232
Total liabilities	3,664
Fair value of total consideration transferred	—
Inherent contribution of net identifiable assets assumed	\$ 25,850

(12) Subsequent Events

Management has evaluated subsequent events through September 4, 2024, which is the date the consolidated financial statements were available to be issued, and there were none to be reported.