



**WORLD VISION, INC. AND AFFILIATES**

Consolidated Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 2900  
1918 Eighth Avenue  
Seattle, WA 98101

## Independent Auditors' Report

The Board of Directors  
World Vision, Inc.:

We have audited the accompanying consolidated financial statements of World Vision, Inc. and affiliates, which comprise the consolidated statements of net position as of September 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of World Vision, Inc. and affiliates as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in note 2(w) to the financial statements, on October 1, 2018, World Vision, Inc. and affiliates adopted Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, requiring a change in the presentation of net assets and enhanced financial statement disclosures. Our opinion is not modified with respect to this matter.

KPMG LLP

Seattle, Washington  
December 9, 2019

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**WORLD VISION, INC. AND AFFILIATES**

Consolidated Statements of Financial Position

September 30, 2019 and 2018

(In thousands of dollars)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 4,841	6,392
Accounts and other receivables, net	4,543	4,611
Due from World Vision International	—	12,072
Grants receivable	26,311	27,354
Investments (note 3)	99,176	95,087
Inventory, net (note 6)	29,307	37,693
Other assets	17,189	15,065
Total current assets	181,367	198,274
Noncurrent assets:		
Investments (note 3)	22,430	22,885
Donated real estate	2,356	3,541
Fixed assets, net (note 7)	45,429	47,710
Charitable trusts receivable (note 3)	10,855	11,892
Assets held in trust (note 3)	13,177	13,917
Prepaid pension asset (note 16)	2,309	4,612
Other assets	696	527
Total noncurrent assets	97,252	105,084
Total assets	\$ 278,619	303,358
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,467	33,723
Due to World Vision International	5,279	—
Deferred revenue	18,275	23,829
Notes payable (note 8)	4,730	4,619
Total current liabilities	61,751	62,171
Noncurrent liabilities:		
Deferred revenue	1,388	854
Charitable gift annuities	5,185	5,134
Amounts held for others (note 10)	9,383	10,130
Notes payable, net of current portion (note 8)	7,638	12,068
Total noncurrent liabilities	23,594	28,186
Total liabilities	85,345	90,357
Net assets (note 11):		
Without donor restrictions	77,170	84,589
With donor restrictions	116,104	128,412
Total net assets	193,274	213,001
Total liabilities and net assets	\$ 278,619	303,358

See accompanying notes to consolidated financial statements.

**WORLD VISION, INC. AND AFFILIATES**

Consolidated Statement of Activities

Year ended September 30, 2019

(In thousands of dollars)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenue:			
Contributions, primarily private cash	\$ 40,298	506,543	546,841
Public cash and food commodity grants (note 12)	392,690	—	392,690
Gifts-in-kind (note 13)	134,334	55,783	190,117
Other income, net	6,910	1,327	8,237
Net assets released from restriction:			
Due to expiration of time (split-interest agreements)	630	(630)	—
Due to satisfaction of program restrictions	575,331	(575,331)	—
Total operating revenue	<u>1,150,193</u>	<u>(12,308)</u>	<u>1,137,885</u>
Operating expenses (note 1):			
Program services (note 14):			
International programs	834,131	—	834,131
Domestic programs	158,516	—	158,516
Public awareness and education	3,389	—	3,389
Total program services	<u>996,036</u>	<u>—</u>	<u>996,036</u>
Supporting services:			
Management and general	60,122	—	60,122
Fundraising	93,779	—	93,779
Total supporting services	<u>153,901</u>	<u>—</u>	<u>153,901</u>
Total operating expenses	<u>1,149,937</u>	<u>—</u>	<u>1,149,937</u>
Change in net assets from operating activities	256	(12,308)	(12,052)
Nonoperating activities:			
Investment and other losses, net	(482)	—	(482)
Unrealized loss on investments	(2,208)	—	(2,208)
Interest expense	(362)	—	(362)
Pension actuarial loss (note 16)	(4,623)	—	(4,623)
Change in net assets	<u>(7,419)</u>	<u>(12,308)</u>	<u>(19,727)</u>
Net assets, beginning of year	<u>84,589</u>	<u>128,412</u>	<u>213,001</u>
Net assets, end of year	\$ <u><u>77,170</u></u>	<u><u>116,104</u></u>	<u><u>193,274</u></u>

See accompanying notes to consolidated financial statements.

**WORLD VISION, INC. AND AFFILIATES**

Consolidated Statement of Activities

Year ended September 30, 2018

(In thousands of dollars)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenue:			
Contributions, primarily private cash	\$ 38,230	513,401	551,631
Public cash and food commodity grants (note 12)	328,747	—	328,747
Gifts-in-kind (note 13)	104,572	63,769	168,341
Other income, net	7,083	233	7,316
Net assets released from restriction:			
Due to expiration of time (split-interest agreements)	345	(345)	—
Due to satisfaction of program restrictions	582,331	(582,331)	—
Total operating revenue	<u>1,061,308</u>	<u>(5,273)</u>	<u>1,056,035</u>
Operating expenses (note 1):			
Program services (note 14):			
International programs	772,668	—	772,668
Domestic programs	131,915	—	131,915
Public awareness and education	2,880	—	2,880
Total program services	<u>907,463</u>	<u>—</u>	<u>907,463</u>
Supporting services:			
Management and general	56,302	—	56,302
Fundraising	90,637	—	90,637
Total supporting services	<u>146,939</u>	<u>—</u>	<u>146,939</u>
Total operating expenses	<u>1,054,402</u>	<u>—</u>	<u>1,054,402</u>
Change in net assets from operating activities	6,906	(5,273)	1,633
Nonoperating activities:			
Investment and other losses, net	(953)	—	(953)
Unrealized loss on investments	(600)	—	(600)
Interest expense	(470)	—	(470)
Pension actuarial gain (note 16)	7,494	—	7,494
Change in net assets	<u>12,377</u>	<u>(5,273)</u>	<u>7,104</u>
Net assets, beginning of year	<u>72,212</u>	<u>133,685</u>	<u>205,897</u>
Net assets, end of year	\$ <u><u>84,589</u></u>	<u><u>128,412</u></u>	<u><u>213,001</u></u>

See accompanying notes to consolidated financial statements.

**WORLD VISION, INC. AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended September 30, 2019

(In thousands of dollars)

	Program services			Supporting services			Total	
	International programs	Domestic programs	Public awareness and education	Total program services	Management and general	Fundraising	Total supporting services	2019
Funding of World Vision International and U.S. domestic programs:								
Child sponsorship	\$ 245,616	—	—	245,616	—	—	—	245,616
Relief and rehabilitation, community development, and Christian impact and leadership projects	482,286	509	—	482,795	—	—	—	482,795
Gifts-in-kind	39,044	130,234	—	169,278	—	—	—	169,278
Gifts to other ministries	40,801	18,569	—	59,370	—	—	—	59,370
Salaries and benefits	16,541	4,395	2,527	23,463	36,887	47,768	84,655	108,118
Professional services	5,580	190	181	5,951	4,953	14,720	19,673	25,624
Media and advertising	222	3	269	494	2,306	9,881	12,187	12,681
Freight and postage	370	8	17	395	186	5,892	6,078	6,473
Printing	204	53	32	289	122	5,351	5,473	5,762
Travel	1,567	206	197	1,970	1,131	7,318	8,449	10,419
Occupancy	132	1,513	13	1,658	830	582	1,412	3,070
Supplies	1,063	1,020	99	2,182	546	1,090	1,636	3,818
Equipment, repairs, and maintenance	294	380	13	687	4,619	553	5,172	5,859
Depreciation and amortization	326	1,184	—	1,510	2,091	528	2,619	4,129
Other	85	252	41	378	6,451	96	6,547	6,925
Totals	\$ 834,131	158,516	3,389	996,036	60,122	93,779	153,901	1,149,937

See accompanying notes to consolidated financial statements.



**WORLD VISION, INC. AND AFFILIATES**

Consolidated Statement of Functional Expenses

Year ended September 30, 2018

(In thousands of dollars)

	Program services			Supporting services			Total	
	International programs	Domestic programs	Public awareness and education	Total program services	Management and general	Fundraising	Total supporting services	2018
Funding of World Vision International and U.S. domestic programs:								
Child sponsorship	\$ 243,120	—	—	243,120	—	—	—	243,120
Relief and rehabilitation, community development, and Christian impact and leadership projects	421,440	968	—	422,408	—	—	—	422,408
Gifts-in-kind	33,274	102,569	—	135,843	—	—	—	135,843
Gifts to other ministries	47,681	17,846	—	65,527	—	—	—	65,527
Salaries and benefits	16,382	4,635	2,043	23,060	31,764	45,797	77,561	100,621
Professional services	2,968	237	120	3,325	7,898	12,203	20,101	23,426
Media and advertising	81	13	239	333	1,884	10,044	11,928	12,261
Freight and postage	187	17	33	237	517	6,655	7,172	7,409
Printing	128	51	63	242	287	6,059	6,346	6,588
Travel	2,134	223	206	2,563	1,092	6,175	7,267	9,830
Occupancy	220	1,525	15	1,760	908	636	1,544	3,304
Supplies	4,443	2,157	109	6,709	572	1,490	2,062	8,771
Equipment, repairs, and maintenance	173	529	23	725	3,739	1,002	4,741	5,466
Depreciation and amortization	282	929	—	1,211	1,844	476	2,320	3,531
Other	155	216	29	400	5,797	100	5,897	6,297
Totals	\$ 772,668	131,915	2,880	907,463	56,302	90,637	146,939	1,054,402

See accompanying notes to consolidated financial statements.

**WORLD VISION, INC. AND AFFILIATES**  
Consolidated Statements of Cash Flows  
Years ended September 30, 2019 and 2018  
(In thousands of dollars)

	<b>2019</b>	<b>2018</b>
Cash flows provided by/(used in) operating activities:		
Change in net assets	\$ (19,727)	7,104
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Pension actuarial loss/(gain)	4,623	(7,494)
Depreciation and amortization	4,129	3,531
Net realized and unrealized loss on investments	2,677	2,170
Loss on disposal of equipment	72	792
Noncash contributions	(8,521)	(12,035)
Proceeds from the sale of donated marketable securities	6,269	9,404
Noncash decrease in inventory, net	8,386	14,926
Contributions restricted for investment in endowment	(45)	(800)
Loss on sale of donated real estate	46	—
Other changes in operating assets and liabilities:		
Accounts and other receivables, net	1,423	1,873
Grants receivable	1,043	(4,893)
Other assets	(2,124)	940
Charitable trusts receivable	1,791	2,707
Assets held in trust	740	176
Accrued pension contribution	(2,320)	2,267
Accounts payable and accrued expenses	(256)	(5,394)
Due to/(due from) World Vision International	17,351	5,770
Deferred revenue	(5,020)	(3,078)
Charitable gift annuities	51	205
Amounts held for others	(747)	(82)
Net cash provided by operating activities	9,841	18,089
Cash flows provided by/(used in) investing activities:		
Purchase of investments	(202,299)	(189,675)
Proceeds from the sale of investments	195,961	169,495
Acquisition of fixed assets	(1,934)	(3,715)
Proceeds from sale of fixed assets	14	178
Proceeds from the sale of donated real estate held as investment	1,139	—
Principal collected on notes receivable	1	20
Net cash used in investing activities	(7,118)	(23,697)
Cash flows provided by/(used in) financing activities:		
Contributions restricted for investment in endowment	45	800
Principal payments on notes payable	(4,319)	(4,212)
Net cash used in financing activities	(4,274)	(3,412)
Net change in cash and cash equivalents	(1,551)	(9,020)
Cash and cash equivalents, beginning of year	6,392	15,412
Cash and cash equivalents, end of year	\$ 4,841	6,392
Cash paid during the year for interest	\$ 362	470

See accompanying notes to consolidated financial statements.

## WORLD VISION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

### (1) Organization Mission and Structure

#### (a) Mission

World Vision, Inc. and its wholly owned and combined affiliates (World Vision or the Organization) is a Christian humanitarian organization dedicated to working with children, families, and their communities worldwide to reach their full potential by tackling the root causes of poverty and injustice. The Organization provides emergency relief and long-term community development programs in nearly 100 countries around the world. The Organization also educates the public on poverty and justice-related issues and advocates on behalf of the impoverished and oppressed. World Vision serves all people, regardless of religion, race, ethnicity, or gender. The Organization strives to maximize its impact by partnering with other development groups, local organizations, churches, and governments.

World Vision's activities were comprised of the following during the fiscal years ended September 30, 2019 and 2018:

*International Programs* – The Organization partners with families and communities around the world to design and implement sustainable plans to overcome poverty by helping to establish ongoing access to basic resources such as clean water, nutritious food, basic healthcare, education, income-generating opportunities, and other essentials. One of the Organization's primary funding sources for this work is child sponsorship, through which the Organization partners with long-term individual child sponsors to improve the physical, emotional, and spiritual well-being of children in impoverished communities. Additionally, the Organization responds to natural and man-made disasters to save lives and help restore livelihoods. The majority of World Vision's international programs are carried out by World Vision International and World Vision International's affiliated entities.

*Domestic Programs* – The Organization works with local churches, teachers, business owners, local nonprofit organizations, students, and volunteers throughout the United States to serve distressed communities and neighborhoods in a variety of U.S. locations. This work is carried out in part through the Organization's network of product distribution warehouses, partners, emergency response efforts, and tutoring and youth development programs.

*Public Awareness and Education* – The Organization seeks to make government officials and the public aware of and take action on poverty and justice-related issues. World Vision advocates on behalf of children and the poor to increase understanding of issues and involvement in solutions.

*Management and General* – The Organization invests to provide executive direction, financial management, audit and accountability, human resource services, planning, and coordination of the Organization's activities.

*Fundraising* – The Organization works to secure vital financial support from the public to fund the life-changing programs of the Organization.

#### (b) Structure

The consolidated financial statements include the accounts of World Vision, Inc. and its wholly owned and controlled affiliates: World Vision Foundation (Foundation), World Vision Properties LLC

## **WORLD VISION, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

(WVPLLC), and World Vision Real Properties LLC (WVRPLLC). All intercompany transactions and accounts have been eliminated.

The Foundation is a trust established by World Vision, Inc. in 2002 under the laws of the State of California, as a supporting organization. The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. The Foundation holds no assets or liabilities and there was no activity for the years ended September 30, 2019 and 2018.

WVPLLC is a single-purpose entity organized by World Vision, Inc. in 2002 under the laws of the District of Columbia for the purpose of holding legal title to the land and building in Washington, D.C., where World Vision has offices.

WVRPLLC is a single-member entity organized by World Vision, Inc. in 2007 under the laws of the State of Nevada for the purpose of holding legal title to donated real estate.

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

#### **(a) Basis of Accounting**

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

#### **(b) Use of Estimates**

In preparing the Organization's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **(c) Cash Equivalents**

Cash equivalents consist primarily of money market instruments with original maturities of three months or less at the date of acquisition.

#### **(d) Concentration of Credit Risk**

The Organization maintains interest-bearing deposits in a commercial bank that are in excess of Federal Deposit Insurance Corporation insurance limits at September 30, 2019 and 2018. The Organization performs an ongoing evaluation of the commercial bank to limit its concentration of credit risk exposure. Additionally, the Organization is exposed to risk of credit loss for certain investments in the event of nonperformance by the other parties to the investment transactions. Those investments include all collective funds or mutual funds that invest in credit instruments such as bonds. However, the Organization does not anticipate nonperformance by the other parties.

## **WORLD VISION, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

### **(e) Grants, Accounts and Other Receivables**

Grants receivable consist of grant funds receivable from the United States Agency for International Development (USAID), the United States Department of Agriculture (USDA), and other grantors. Grant receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts.

Additionally, the Organization has recorded accounts receivable consisting primarily of donor contributions to be settled by credit card processors, pledges receivable, and other receivables. Pledges receivable are unconditional promises to give. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed at the rate commensurate with the risks involved and upon the rate applicable to the year in which the promise is received.

Conditional promises to give are not included as revenue or pledges receivable until such time as the conditions are substantially met. As of September 30, 2019, the Organization had outstanding \$16,057 in conditional promises to give, excluding public grants. Of the conditional promises to give outstanding, \$8,412 is conditioned upon the raising of matching funds and \$7,645 is conditioned upon the completion of specific programmatic performance milestones. The Organization also had outstanding \$537,974 in conditional promises to give directly related to public grants as of September 30, 2019. Of the outstanding conditional promises to give related to public grants, \$413,406 was awarded by U.S. government donors and \$124,568 was awarded by multilateral agencies or other donors.

### **(f) Due to/from World Vision International**

The majority of the Organization's programs are carried out worldwide through World Vision International and World Vision International's affiliated entities. The Organization makes funding commitments to World Vision International during each fiscal year. Any amount of the annual commitment unpaid by the Organization is due to World Vision International, while any amount of cash funding remitted to World Vision International in excess of the Organization's annual commitment is due from World Vision International.

### **(g) Investments**

Investments are stated at fair value as determined by quoted or published market prices. The investment objective of the Organization for the majority of its investment portfolio is to achieve a total rate of return consistent with acceptable risk that ensures the safety of principal and adequacy of liquidity in order to meet the on-going ministry projects funded by our donor's generous commitments. The investment goal for the remainder of the portfolio is to generate the highest level of income within permitted limits of an asset allocation matrix to provide additional return for the benefit of the children and communities we serve.

The Organization's marketable securities consist of securities held in trust, securities held at various brokerage firms, and securities donated to the Organization not yet liquidated.

## **WORLD VISION, INC. AND AFFILIATES**

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

The Organization pools its investments to manage its cash needs and to maximize returns. These pooled investments include those internally or donor-designated for various purposes such as working capital, endowments, donor advised funds, and others. To achieve the overall investment goal, some investment risk is taken. To moderate such risk, the Organization diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers.

The majority of the Organization's financial assets are invested in money market instruments, mutual funds, corporate bonds, and equities. Investment transactions are recognized on a trade-date basis.

Investments are reviewed each year or whenever events or changes in business circumstances indicate that the carrying value of the assets may be impaired. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values. Impairment losses of \$865 and \$944 were recognized during the years ended September 30, 2019 and 2018, respectively, and reported as investment and other losses.

#### **(h) Donor Advised Funds and Designated Funds**

These assets represent amounts available for distribution in donor advised funds and designated funds (the Funds). The Funds are established only for charitable, religious, or educational purposes and are used for the support of charitable organizations whose purposes are not contrary to the values of the Organization. Assets of the Funds include the initial gift made in creating the fund, any subsequent gifts made into the Funds, and all income and other proceeds from the foregoing assets less any distributions. The Organization recognizes income to the Funds when assets are contributed. The Funds are the property of the Organization and may be commingled with other funds held by it. The Organization has ultimate authority and control over all assets in the Funds; however, some designated funds have donor-imposed restrictions. Grants from the Funds are initiated differently for donor advised funds and designated funds. For donor advised funds, donors typically recommend which other organizations should receive grants from their donor advised fund. The Organization usually follows such recommendations, though it is not required to do so. All grants made to other organizations from donor advised funds are recorded as gifts to other ministries under program expenses. For designated funds, agreements generally include terms stating the recommendations of the donor as to the amount, timing, and purpose of the distributions to the Organization's programs, which the Organization typically follows. Donor-imposed restrictions are honored by the Organization.

#### **(i) Fixed assets, net**

Land, buildings and leasehold improvements, equipment, and computer software are recorded at cost when purchased and at estimated fair value at the date of gift if donated. Depreciation of buildings, equipment, and computer software, including amortization of assets recorded under capital leases, is provided on a straight-line basis over the estimated useful lives of the respective assets, generally three to ten years for equipment, ten to forty years for buildings and building improvements, three to eight years for computer software, and lesser of useful life or life of the lease on leasehold improvements.

## WORLD VISION, INC. AND AFFILIATES

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

The cost of repairs and maintenance are charged to expense when incurred. Upon sale or retirement of the property and equipment, the related cost and accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in the consolidated statements of activities.

Property and equipment are reviewed each year for impairment or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values. No impairment losses related to property and equipment were recognized during the years ended September 30, 2019 and 2018.

#### **(j) Charitable Trusts Receivable**

Charitable trusts receivable represents the Organization's interest in trust accounts whereby the Organization is not the trustee. These trusts are created by donors independently of the Organization and are neither in the possession nor under the control of the Organization. The trusts are administered by outside agents as designated by the donor. The Organization records the fair value, using present value calculations and discounted at the rate that is commensurate with risks involved. The trusts are recognized as revenue when the Organization is notified that it has been named as an irrevocable beneficiary. The Organization acts as trustee for similar trusts as noted under assets held in trust.

#### **(k) Assets Held in Trust**

The Organization acts as trustee, or has been named as successor trustee, for various revocable and irrevocable trusts. These trusts are governed by their respective written agreements, which provide for the assets to become the property of the Organization, in whole or in part, after the occurrence of specific events. Accordingly, the assets of such trusts, where the Organization acts as trustee, are reflected in the accompanying consolidated financial statements of the Organization at fair value with a related liability at net present value, which is reported as amounts held for others. The Organization discharges its fiduciary duties pursuant to these agreements under the direction of the board of directors and management. Generally, any trust assets held by the Organization are held in the name of the Organization as trustee for a particular trust. The irrevocable and revocable trusts, where the Organization acts as trustee, are administered by an external trustee.

#### **(l) Charitable Gift Annuities**

Under charitable gift annuity contracts, the Organization receives irrevocable title to contributed assets and agrees to make fixed payments over various periods, generally the life of the donor. Contributed assets are recorded at fair value at the date of receipt and a liability is established for the present value of future annuity payments. The assets to fund these liabilities are maintained in a separate and distinct fund and are invested in accordance with applicable state laws and reserve requirements. In addition to these separate and distinct assets, the Organization designated a portion of investments in pooled funds to be an additional reserve in the amount of \$3,217 as of September 30, 2019 and 2018. The excess of contributed assets over the annuity liability is recorded as contribution revenue without donor restrictions. Any actuarial gain or loss resulting from the computation of the liability for the present value of future annuity payments is recorded as change in the value of split-interest agreements. Upon termination of the annuity contract, the remaining liability is recognized as change in value of split-interest revenue.

## **WORLD VISION, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

### **(m) Net Assets**

Net assets are classified based on the existence or absence of donor-imposed restrictions. The Organization's net assets and changes therein are classified and reported as follows:

With donor restrictions – Net assets that are comprised of gifts, including pledges and trusts, that are subject to donor-imposed restrictions. Such restrictions include: (1) purpose restrictions wherein donors have specified the purpose for which the net assets are to be spent; or (2) time restrictions, which are imposed or implied by the nature of the gift (pledges to be paid in the future, life-income funds, and permanent endowments). When the conditions related to donor-imposed restrictions are fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Without donor restrictions – Net assets without donor restrictions are all the remaining net assets of the Organization. The only limits on these net assets are broad limits resulting from the nature of the Organization and purposes specified in its articles of incorporation or bylaws and any limits resulting from contractual agreements.

### **(n) Contributions**

Contributions are recorded as revenue when an unconditional promise to give has been made. Contributions are recorded as with donor restrictions or without donor restrictions, depending on the donor intent.

### **(o) Grant Revenue**

Cash grant revenue is recognized as a contribution in the period the Organization meets the conditions for revenue recognition, namely it incurs reimbursable program expenditures. Grant commodities and freight reimbursement received through USAID are valued using guidelines published by the USDA and USAID. Food inventory and deferred revenue are recorded when the Organization receives title to the food. Fair value is determined by reference to values provided by the donor and reviewed for appropriateness by the Organization.

Food revenue granted for distribution is generally recognized when the commodities are delivered to the ultimate destination. Proceeds received from commodities that are monetized (sold) are recorded as other assets and deferred revenue. Revenue is recognized on the proceeds for food granted for monetization when the proceeds are utilized for program activities.

### **(p) Gifts-in-Kind**

Gifts-in-kind (GIK) received through private donations are recorded in accordance with U.S. GAAP and industry standards, including the Interagency GIK Standards developed by the Accord Network and the Private Voluntary Organization (PVO) Standards developed by InterAction. The Accord Network and InterAction are two industry networks which collaborate to eliminate poverty and establish common reporting and operating principles. GIK are valued and recorded as revenue at their estimated fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal exit markets considering the goods condition and utility for use at the



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time of contribution. The Organization does not sell donated GIK and only distributes the goods for program use.

Pharmaceutical contributions legally permissible for sale in the United States are valued using a hierarchy of pricing inputs that approximates wholesale prices in the United States. Pharmaceutical contributions not legally permissible for sale in the United States are valued based upon wholesale market price data, obtained from reliable third-party sources, representing principal exit markets where such products are approved for sale.

Nonpharmaceutical contributions received by the Organization have been valued at their estimated wholesale value as provided by the donor, as well as "like-kind" methodology that references United States wholesale pricing data for similar products.

GIK expense is recorded when the goods are distributed for program use. The inventory is valued using the same methodologies discussed above. The Organization believes that this approximates the lower of cost or net realizable value in the market.

#### **(g) Other Income**

Other income consists primarily of interest and dividend income, program fees, gains and losses from planned gift instruments, and change in value of split interest agreements.

#### **(r) Contributed Services**

A substantial number of volunteer workers have donated significant amounts of their time to the Organization that are not reflected in the accompanying consolidated financial statements, as these services provided do not meet the required criteria for recognition of revenue.

#### **(s) Self-Insurance**

The Organization is self-insured for losses and liabilities related primarily to employee health and welfare claims. Provisions for expenses expected under this program are included in accounts payable and accrued expenses based upon the Organization's estimate of the aggregate liability for claims incurred. The Organization holds a stop-loss policy that limits the maximum liability for benefits payable under such claims. The Organization does not anticipate any significant change in loss trends, settlements, or other costs that would cause a significant change in net assets.

#### **(t) Functional Allocation of Expenses**

The costs of providing certain activities of the Organization have been summarized on a functional basis in the consolidated statements of activities. Where practicable, expenses are directly classified to specific program or supporting service categories. Costs that are not specifically identifiable within functional categories are classified using allocation methods such as time studies, square footage and other methodologies. Accordingly, certain costs of joint activities related to fundraising, management and general, international programs, and public awareness have been allocated as indicated in note 15 to the program and supporting services that received the benefit.

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### **(u) Non-Operating Activities**

Nonoperating activities consists primarily of pension actuarial gains or losses and realized and unrealized investment gains and losses, impairment losses, and interest expense.

### **(v) Income Taxes**

World Vision, Inc. is organized as a nonprofit corporation under the laws of the State of California and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. Donors of cash and/or property are entitled to the maximum charitable contribution deduction allowed by law. The Organization follows the guidance of Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There are no such uncertain tax positions for the Organization for the years ended September 30, 2019 and 2018.

### **(w) Newly Adopted Accounting Pronouncements**

The Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* for its fiscal year ended September 30, 2019. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit's liquidity, financial performance, and cash flows.

The main provisions include the reduction in the number of net asset categories from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets.

This guidance also includes quantitative and qualitative disclosures regarding liquidity and availability of resources, recognition of underwater endowment funds as a reduction in net assets with donor restrictions, presentation of expenses by both their natural and functional classification, investment return net of external and direct internal investment expenses, and enhanced disclosures for board designated endowments.

### **(x) Reclassification**

Certain amounts have been reclassified in the 2018 consolidated financial statements to conform to the presentation of the 2019 consolidated financial statements.

### **(3) Fair Value and Investments**

Fair value is defined as the price that the Organization would receive upon selling an asset in an orderly transaction to an independent buyer in the principal market of the asset. A three-tier hierarchy, based upon observable and unobservable inputs, is used for fair value measurements. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Observable inputs are those that reflect assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

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Unobservable inputs are those that reflect the reporting entity's own assumptions in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Organization 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, including the Organization's own assumptions in determining the fair value of assets.

In some cases, inputs used to measure fair value might fall in different levels of the fair value hierarchy. In such cases, the level within which the asset falls is determined based on the lowest level input that is significant to the asset in its entirety. Assessing the significance of a particular input to the asset in its entirety requires judgment and considers factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization's perceived risk of liquidity for that asset.

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The following table presents financial instruments measured at fair value as of September 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2019</u>
Current investments:				
Cash equivalents	\$ 60,351	—	—	60,351
Equity securities	13,511	—	—	13,511
Mutual funds:				
Equities	11,375	—	—	11,375
Bonds	6,806	—	—	6,806
Corporate bonds	—	301	—	301
Real estate investment trusts	3,681	—	—	3,681
Master limited partnerships	3,133	—	—	3,133
Other assets	—	2	16	18
Total current investments	<u>\$ 98,857</u>	<u>303</u>	<u>16</u>	<u>99,176</u>
Noncurrent investments:				
Cash equivalents	\$ 10,006	—	—	10,006
Government securities	—	296	—	296
Equity securities	2,236	—	—	2,236
Mutual funds:				
Equities	4,112	—	—	4,112
Bonds	4,594	—	—	4,594
Corporate bonds	—	50	—	50
Real estate investment trusts	612	—	—	612
Master limited partnerships	521	—	—	521
Other assets	—	—	3	3
Total noncurrent investments	<u>\$ 22,081</u>	<u>346</u>	<u>3</u>	<u>22,430</u>
Total investments	<u>\$ 120,938</u>	<u>649</u>	<u>19</u>	<u>121,606</u>
Charitable trusts receivable	\$ —	—	10,855	10,855
Assets held in trust:				
Cash equivalents	294	—	—	294
Mutual funds:				
Equities	7,230	—	—	7,230
Bonds	5,653	—	—	5,653
Total assets held in trust	<u>\$ 13,177</u>	<u>—</u>	<u>—</u>	<u>13,177</u>

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The following table presents financial instruments measured at fair value as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2018</u>
Current investments:				
Cash equivalents	\$ 41,365	—	—	41,365
Equity securities	15,038	—	—	15,038
Mutual funds:				
Equities	14,971	—	—	14,971
Bonds	7,129	—	—	7,129
Corporate bonds	7,487	287	—	7,774
Real estate investment trusts	3,627	—	—	3,627
Master limited partnerships	5,132	—	—	5,132
Other assets	—	3	48	51
	<u>94,749</u>	<u>290</u>	<u>48</u>	<u>95,087</u>
Total current investments				
	\$ <u>94,749</u>	<u>290</u>	<u>48</u>	<u>95,087</u>
Noncurrent investments:				
Cash equivalents	\$ 7,666	—	—	7,666
Government securities	—	320	—	320
Equity securities	2,764	—	—	2,764
Mutual funds:				
Equities	4,461	—	—	4,461
Bonds	4,608	—	—	4,608
Corporate bonds	1,387	53	—	1,440
Real estate investment trusts	672	—	—	672
Master limited partnerships	951	—	—	951
Other assets	—	—	3	3
	<u>22,509</u>	<u>373</u>	<u>3</u>	<u>22,885</u>
Total noncurrent investments				
	\$ <u>22,509</u>	<u>373</u>	<u>3</u>	<u>22,885</u>
Total investments				
	<u>\$ 117,258</u>	<u>663</u>	<u>51</u>	<u>117,972</u>
Charitable trusts receivable	\$ —	—	11,892	11,892
Assets held in trust:				
Cash equivalents	503	—	—	503
Mutual funds:				
Equities	7,600	—	—	7,600
Bonds	5,814	—	—	5,814
	<u>13,917</u>	<u>—</u>	<u>—</u>	<u>13,917</u>
Total assets held in trust				
	\$ <u>13,917</u>	<u>—</u>	<u>—</u>	<u>13,917</u>

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The majority of the investments held by the Organization have been classified within Level 1. The Organization holds some investments and marketable securities within Level 2 in which the fair value is determined through the use of models or other valuation methodologies. Level 2 investments primarily include corporate bonds and government securities.

The Organization records the fair value of charitable trusts receivable using present value calculations discounted at the rate commensurate with the risks involved. This method of valuation is considered to be Level 3. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments and receivables been available, but the Organization does not expect the difference to be material. The following table is a rollforward of the consolidated statements of financial position amounts for investments and charitable trusts receivable classified by the Organization within Level 3 of the fair value hierarchy. The net change in value for charitable trusts receivable is the change in value from actuarially derived fluctuations. There were no transfers between Level 1 and Level 2 during the year ended September 30, 2019.

	<u>Investments</u>	<u>Charitable trusts receivable</u>
Balance at September 30, 2017	\$ 202	13,161
New contributions	40	1,468
Sales	(19)	—
Net change in value	<u>(172)</u>	<u>(2,737)</u>
Balance at September 30, 2018	51	11,892
New contributions	—	754
Sales	—	—
Net change in value	<u>(32)</u>	<u>(1,791)</u>
Balance at September 30, 2019	<u>\$ 19</u>	<u>10,855</u>

**(4) Liquidity and Availability**

For the purposes of analyzing resources available to meet general expenditures over a twelve-month period, the Organization considers all expenditures related to its ongoing activities of providing services for families and communities around the world and in the U.S., public awareness and education, as well as the conduct of activities to support those service operations to be general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that all of its obligations will be discharged.

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The Organization monitors its working capital and liquidity to maintain financial assets to fund thirty days operating expenses. Liquidity at September 30 is as follows:

	<u>2019</u>	<u>2018</u>
Current financial assets at September 30:		
Cash and cash equivalents	\$ 4,841	6,392
Accounts and other receivables, net	4,543	4,611
Due from World Vision International	—	12,072
Grants receivable	26,311	27,354
Investments	<u>99,176</u>	<u>95,087</u>
Total current financial assets	134,871	145,516
Less amounts not available to be used within one year:		
Bank liquidity covenant	<u>(9,276)</u>	<u>(12,515)</u>
Total financial assets available to meet cash needs for general expenditures within one year	\$ <u>125,595</u>	<u>133,001</u>

During the years ended September 30, 2019 and 2018, the Organization held \$14,347 and \$20,614 in short-term donor advised funds and designated funds, all of which are included in investments. The Organization generally uses these assets for grant making based on donor recommendations as described in note 2(h).

With approval of the Board, the Organization has the ability to draw on a margin loan not to exceed \$15,000 which is secured by marketable securities. There was no outstanding margin loan balance at September 30, 2019 or 2018.

**(5) Endowments**

The Organization's board has interpreted the California State Uniform Prudent Management of Institutional Funds Act as allowing the Organization to appropriate for expenditure or accumulate as much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of a donor expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

During the year ended September 30, 2019, the Organization had seven donor-restricted endowment funds totaling \$8,849 and one board-designated endowment fund totaling \$442. The purpose of the board-designated endowment is to supplement the Organization's sponsorship programs. During the year ended September 30, 2018, the Organization had seven donor-restricted endowment funds totaling \$8,662 and one board-designated endowment fund totaling \$441. During the years ended September 30, 2019

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and 2018, these endowments had net investment returns of \$238 and \$269, and amounts appropriated for expenditure of \$275 and \$340, respectively.

**(6) Inventory, net**

Inventory, which comprises GIK and food commodities held for monetization or distribution, fluctuates primarily due to the timing of items received and distributed. Balances were as follows at September 30:

	<u>2019</u>	<u>2018</u>
GIK inventory, net	\$ 26,052	36,774
Food received for monetization or distribution	3,255	919
	<u>\$ 29,307</u>	<u>37,693</u>

**(7) Fixed Assets, net**

Fixed assets comprised the following at September 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 6,792	6,792
Buildings and leasehold improvements	53,898	53,789
Equipment	13,816	15,230
Internally developed computer software	11,635	41,628
	86,141	117,439
Less accumulated depreciation and amortization	<u>(40,712)</u>	<u>(69,729)</u>
	<u>\$ 45,429</u>	<u>47,710</u>

A significant amount of fully depreciated internally developed computer software was written off in 2019 due to the implementation of various cloud-based enterprise solutions. Depreciation and amortization expense for the years ended September 30, 2019 and 2018 was \$4,129 and \$3,531, respectively.



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**(8) Notes Payable**

Notes payable consisted of the following at September 30:

	<b>2019</b>	<b>2018</b>
Note payable, due in monthly installments of \$390 including interest at 2.5%; final payment due May 2022	\$ 12,068	16,387
Charitable notes payable, interest only at 1.0% – 2.5%	300	300
	12,368	16,687
Less current portion	(4,730)	(4,619)
Long-term portion of notes payable	\$ 7,638	12,068

Scheduled principal payments are due as follows:

Year ending September 30:	
2020	\$ 4,730
2021	4,544
2022	3,094
	\$ 12,368

The Organization's note payable includes covenants that require the Organization to maintain certain financial ratios. The Organization was in compliance with its covenant requirements as of and for the years ended September 30, 2019 and 2018.

Charitable notes payable are loans from donors where the repayment obligation of any unpaid principal or interest payable will be canceled upon the occurrence of certain events.

**(9) Obligations under Operating Leases**

The Organization has commitments related to operating leases for buildings, facilities and equipment at September 30, 2019 and 2018. All operating leases are noncancelable and expire on various dates through 2024.

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Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one year or more at September 30, 2019 are as follows:

	<b>Operating leases</b>
Year ending September 30:	
2020	\$ 1,122
2021	976
2022	728
2023	305
2024	123
	\$ 3,254

Lease and rent expenses for the years ended September 30, 2019 and 2018 were \$1,586 and \$1,874, respectively.

**(10) Amounts Held for Others**

The Organization has entered into a variety of trusts for which the Organization is the trustee. Amounts held for others represents the exchange portion of irrevocable split-interest agreements (usually, an agreement to pay an annuity to the donor) and refundable advances of revocable agreements (usually, the fair value of assets held in trust). The estimated present value of future payments was determined on the basis of published actuarial factors for ages of the respective beneficiaries discounted using a rate commensurate with the risks involved, which range between 2.0% and 7.0%. The amounts held belong to various investment funds held in trust by the Organization and totaled \$9,383 and \$10,130 for the years ended September 30, 2019 and 2018, respectively.

**(11) Net Assets**

Net assets without donor restrictions are comprised of the following at September 30:

	<b>2019</b>	<b>2018</b>
Undesignated	\$ 42,477	38,940
Board designated endowment	442	441
Donor advised funds and designated funds	17,579	23,797
Undistributed GIK contributions	12,028	14,672
Charitable gift annuities	2,335	2,127
Over funded status of pension plan	2,309	4,612
	\$ 77,170	84,589

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Net assets with donor restrictions are comprised of the following at September 30:

	<u>2019</u>	<u>2018</u>
Purpose restricted:		
Child sponsorship and childcare ministries	\$ 54,474	57,012
Relief and rehabilitation, community development, and Christian impact and leadership projects	23,180	22,942
Undistributed GIK contributions	14,024	22,102
Domestic programs	348	1,409
Designated funds	1,434	1,455
Total purpose restricted	<u>93,460</u>	<u>104,920</u>
Time restricted:		
Split-interest agreements, the income from which is unrestricted upon expiration of certain time restrictions	11,687	13,010
Endowments	8,849	8,662
Perpetual trusts	2,108	1,820
Total time restricted	<u>22,644</u>	<u>23,492</u>
	<u>\$ 116,104</u>	<u>128,412</u>

**(12) Public Cash and Food Commodity Grants**

Public cash grants are received primarily through United States government agencies to further the exempt purpose of the Organization. Commodity grants are received primarily from USAID's Office of Food for Peace and the United Nations World Food Program. Food commodities are either distributed directly to beneficiaries or monetized. Sales proceeds are used to fund international relief and development programs. Nonfood commodities are distributed directly to beneficiaries.

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Cash and food commodity grant revenue are as follows for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Cash grants:		
Cash awards from USAID	\$ 168,846	118,121
Cash awards from World Food Program	14,176	9,121
Cash awards from other agencies	<u>57,680</u>	<u>73,252</u>
Total cash grants	<u>240,702</u>	<u>200,494</u>
Monetization grants	16,717	27,605
Commodity grants:		
Food commodities from USAID	29,434	22,680
Food commodities from World Food Program	99,263	60,713
Food commodities from other agencies	582	1,158
Non-food products from USAID	633	224
Non-food products from other agencies	—	8,300
Cash freight awards from USAID	5,052	6,723
Cash freight awards from other agencies	<u>307</u>	<u>850</u>
Total commodity grants	<u>135,271</u>	<u>100,648</u>
	<u>\$ 392,690</u>	<u>328,747</u>

**(13) Gifts-in-Kind Revenue and Expense**

GIK revenue consisted of donations for the years ended September 30 as follows:

	<u>2019</u>	<u>2018</u>
Household goods	\$ 90,641	71,125
Building supplies	30,916	34,992
School and office supplies	25,051	10,312
Books	15,038	9,031
Clothing	14,295	19,342
Toys	4,359	7,778
Medical supplies	4,324	7,324
Pharmaceuticals	1,122	2,607
Other	<u>4,371</u>	<u>5,830</u>
	<u>\$ 190,117</u>	<u>168,341</u>

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GIK expense included in-kind goods distributed for the years ended September 30 as follows:

	<u>2019</u>	<u>2018</u>
Domestic programs	\$ 130,234	102,569
World Vision International	39,044	33,274
Partner agencies	<u>31,802</u>	<u>35,107</u>
	<u>\$ 201,080</u>	<u>170,950</u>

**(14) Program Services**

Program services have been funded by the following resources for the years ended September 30:

	<u>2019</u>			<u>2018</u>		
	<u>International programs</u>	<u>Domestic programs</u>	<u>Public awareness and education</u>	<u>International programs</u>	<u>Domestic programs</u>	<u>Public awareness and education</u>
Cash	\$ 639,671	16,625	3,389	612,038	20,947	2,880
Gifts-in-kind	59,189	141,891	—	59,982	110,968	—
Commodity grants	<u>135,271</u>	<u>—</u>	<u>—</u>	<u>100,648</u>	<u>—</u>	<u>—</u>
Total program services	<u>\$ 834,131</u>	<u>158,516</u>	<u>3,389</u>	<u>772,668</u>	<u>131,915</u>	<u>2,880</u>

**(15) Joint Cost Allocation**

The Organization incurred expenses that were identifiable with a particular function but served multiple purposes. Expenses related to certain events, donor communication, and program materials support various international programs, public awareness, fundraising, or management and general activities. These expenses were allocated by their functional classification as follows at September 30:

	<u>2019</u>	<u>2018</u>
Management and general	\$ 730	608
Fundraising	1,057	1,638
International programs	536	544
Public awareness and education	<u>131</u>	<u>180</u>
	<u>\$ 2,454</u>	<u>2,970</u>

**(16) Cash Balance Retirement Plan**

The Organization participates jointly with World Vision International in a noncontributory cash balance retirement plan (the Plan). Effective September 30, 2018, the plan was frozen and no additional pay credits were earned after that date. The Plan covered substantially all regular full-time employees of the Organization. Under the Plan, the Organization added an annual pay credit and interest credit to a

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participant's account each December. The annual pay credit was discontinued in connection with the plan freeze. The annual interest credit is determined by multiplying a participant's previous year account balance by the interest rate. The interest rate is set each November for the following calendar year, and the amount is the higher of the 30-year Treasury rate or another rate adopted by the Organization. The amount of employer contributions is determined based on actuarial valuations and recommendations as to the amounts required to fund benefits under this Plan.

The following table sets forth the actuarial assumptions related to the Plan. Assumptions as of September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Discount rate	2.65 %	3.85 %
Expected return on plan assets	5.50	6.50

Each year, the Organization determines the discount rate as of the measurement date based on a review of interest rates associated with long-term high-quality debt instruments. The rate is based on management's understanding of the current economic environment and the Plan's expected future benefit payments. The expected return on plan assets represents the long-term rate of return that the Organization assumes will be earned over the life of the plan assets. Management believes the assumed rate is appropriate based on historical returns.

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The following table provides a reconciliation of benefit obligations, plan assets, and funded status of the Plan for the years ended September 30:

	<u>2019</u>		<u>2018</u>	
	<u>World Vision, Inc.</u>	<u>Total Plan</u>	<u>World Vision, Inc.</u>	<u>Total Plan</u>
Projected benefit obligations				
at beginning of year	\$ 87,631	123,250	92,187	135,132
Change in projected benefit obligations:				
Service cost	143	200	4,744	6,671
Interest cost	3,148	4,393	2,921	4,107
Curtailment	—	—	(6,949)	(9,774)
Changes in assumptions	6,894	9,789	(2,103)	(6,688)
Actuarial loss	773	1,079	1,450	2,039
Benefits paid	(4,927)	(8,006)	(4,500)	(8,070)
Expenses paid	(143)	(200)	(119)	(167)
Projected benefit obligations				
at end of year	<u>93,519</u>	<u>130,505</u>	<u>87,631</u>	<u>123,250</u>
Accumulated benefit obligations				
at end of year	93,519	130,505	87,631	123,250
Plan assets at fair value at				
beginning of year	92,243	129,737	91,572	134,230
Change in plan assets:				
Actual return on plan assets	8,748	12,207	2,662	3,744
Employer contributions	—	—	—	—
Benefits paid	(4,927)	(8,006)	(4,500)	(8,070)
Expenses paid	(152)	(212)	(119)	(167)
Changes in assumptions	(84)	—	2,628	—
Plan assets at fair value				
at end of year	<u>95,828</u>	<u>133,726</u>	<u>92,243</u>	<u>129,737</u>
Funded status	<u>\$ 2,309</u>	<u>3,221</u>	<u>4,612</u>	<u>6,487</u>
Asset recognized in the statement of				
financial position as prepaid pension	\$ 2,309		4,612	
Pension actuarial loss/(gain) recognized	4,623		(7,494)	

**WORLD VISION, INC. AND AFFILIATES**

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(In thousands of dollars)

Net periodic benefit (credit)/cost for the Plan includes the following components for the years ended September 30:

	2019		2018	
	World Vision, Inc.	Total Plan	World Vision, Inc.	Total Plan
Service cost	\$ 143	200	4,744	6,671
Interest cost	3,148	4,393	2,921	4,107
Expected return on plan assets	(5,611)	(7,829)	(5,800)	(8,155)
Amortization of net loss	—	—	402	565
Net periodic benefit (credit)/cost	\$ (2,320)	(3,236)	2,267	3,188

**(a) Fair Value of Plan Assets**

The Plan employs an asset allocation investment strategy designed to achieve a diversified portfolio mix that will maximize return while maintaining a moderate risk profile. The Plan does not employ leverage and is prohibited by policy from investing in certain derivative financial instruments.

The following table presents assets that are measured at fair value at September 30, 2019:

	Level 1	Level 2	Level 3	2019
Cash equivalents	\$ 166	461	—	627
Equity securities	12,419	—	—	12,419
Commingled funds:				
Equities	11,600	—	—	11,600
Bonds	5,024	—	—	5,024
Other fixed income	99,135	—	—	99,135
Total plan assets measured at fair value	128,344	461	—	128,805
Plan assets measured at NAV	—	—	—	4,921
Total plan assets	\$ 128,344	461	—	133,726



**WORLD VISION, INC. AND AFFILIATES**  
Notes to Consolidated Financial Statements  
September 30, 2019 and 2018  
(In thousands of dollars)

The following table presents assets that are measured at fair value at September 30, 2018:

	Level 1	Level 2	Level 3	2018
Cash equivalents	\$ 226	710	—	936
Equity securities	11,990	—	—	11,990
Comingled funds:				
Equities	11,748	—	—	11,748
Bonds	4,664	—	—	4,664
Other fixed income	95,786	—	—	95,786
	<u>124,414</u>	<u>710</u>	<u>—</u>	<u>125,124</u>
Total plan assets measured at fair value				
Plan assets measured at NAV	—	—	—	4,613
	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,613</u>
Total plan assets	<u>\$ 124,414</u>	<u>710</u>	<u>—</u>	<u>129,737</u>

Plan assets measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. Assets measured at NAV consist of one real estate fund which may only be traded quarterly and requires a notification period of at least 90 days.

**(b) Estimated Future Payments**

Due to the funded status of the Plan, the Plan contribution for the year ending September 30, 2020 is expected to be \$0. Assuming the majority of participants began receiving benefit payments at the end of their employment in the form of an immediate lump-sum payout, the following schedule estimates future benefit payments over the next ten years, as of the year ended September 30:

	World Vision, Inc.	Total Plan
2020	\$ 12,696	19,043
2021	9,111	13,666
2022	8,495	12,743
2023	8,470	12,706
2024	6,037	9,057
2025–2029	23,283	34,923
	<u>\$ 68,092</u>	<u>102,138</u>

**(17) Defined Contribution Retirement Plan**

The Organization also provides eligible employees a defined contribution plan, which is a qualified plan under Section 403(b) of the Internal Revenue Code. Effective October 1, 2018, employees began receiving enhanced benefits in existing 403(b) plans in lieu of further contributions to the frozen cash balance plan.

**WORLD VISION, INC. AND AFFILIATES**  
Notes to Consolidated Financial Statements  
September 30, 2019 and 2018  
(In thousands of dollars)

The Organization contributed \$6,904 and \$1,832 for the years ended September 30, 2019 and 2018, respectively.

**(18) Contingencies**

Claims arise for the Organization in the normal course of business. Management does not expect the ultimate resolution of these actions to have a material adverse effect on the financial position of the Organization.

Grant funding from government agencies is subject to additional audit requirements under Office of Management and Budget (OMB) 2 CFR Part 200 and review by the grantor. Based on historical experience and results of prior 2 CFR Part 200 audits, which have been completed through fiscal year 2018, the Organization's management believes costs disallowed and claims remitted, if ultimately any, would not materially affect the financial position, changes in net assets, or cash flows of the Organization.

**(19) Subsequent Events**

Subsequent events have been evaluated through December 9, 2019, which is the date the consolidated financial statements were available to be issued. The Organization determined that no additional disclosures were required.



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World Vision is a Christian humanitarian organization dedicated to working with children, families, and their communities worldwide to reach their full potential by tackling the causes of poverty and injustice. We serve all people, regardless of religion, race, ethnicity, or gender.

