Building a better world for children

# WORLD VISION, INC. AND AFFILIATES

## Consolidated Financial Statements

(With Independent Auditors' Report Thereon)

September 30, 2012 and 2013

**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 financial position as of September 30, 2012 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of World Vision, Inc. and affiliates as of September 30, 2012 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Seattle, Washington
December 16, 2013

*In Thousands of Dollars | September 30, 2012 and 2013*

## Consolidated Statements of Financial Position

| Assets | Notes | 2012 | 2013 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | | $4,983 | $8,920 |
| Accounts receivable from the United States Agency for International Development (USAID) | | 17,311 | 17,058 |
| Accounts, notes, and other receivables, net | | 1,700 | 2,332 |
| Marketable securities | *note 3* | 13,043 | 12,325 |
| Investments in pooled funds | *note 3* | 38,101 | 32,987 |
| Other assets | | 10,501 | 10,135 |
| Inventory, net | *note 5* | 54,948 | 60,512 |
| **Total current assets** | | **$140,587** | **$144,269** |
| Non-current assets | | | |
| Marketable securities | *note 3* | $6,682 | $7,304 |
| Investments in pooled funds | *note 3* | 12,606 | 8,270 |
| Real estate held as investment | | 3,049 | 2,504 |
| Fixed assets, net | *note 6* | 59,217 | 59,219 |
| Other assets | | 1,561 | 4,352 |
| Charitable trusts receivable | *note 3* | 10,403 | 9,680 |
| Assets held in trust | *note 3* | 15,108 | 9,904 |
| **Total non-current assets** | | **$108,626** | **$101,233** |
| **TOTAL ASSETS** | | **$249,213** | **$245,502** |

| Liabilities and net assets | Notes | 2012 | 2013 |
|---|---|---|---|
| Current liabilities | | | |
| Accounts payable and accrued expenses | | $24,543 | $23,505 |
| Due to World Vision International | *note 7* | 80,851 | 77,106 |
| Deferred revenue | | 4,569 | 3,617 |
| **Total current liabilities** | | **$109,963** | **$104,228** |
| Non-current liabilities | | | |
| Charitable gift annuities | | $4,914 | $5,186 |
| Amounts held for others | *note 10* | 11,022 | 6,328 |
| Accrued pension liability | *note 16* | 7,826 | — |
| Notes payable | *note 8* | 5,041 | — |
| Deferred revenue | | 1,219 | 1,112 |
| **Total non-current liabilities** | | **$30,022** | **$12,626** |
| **TOTAL LIABILITIES** | | **$139,985** | **$116,854** |
| Net assets | | | |
| Unrestricted | *note 11* | $43,065 | $63,452 |
| Temporarily restricted | *note 11* | 58,851 | 57,587 |
| Permanently restricted | *note 11* | 7,312 | 7,609 |
| **Total net assets** | | **$109,228** | **$128,648** |
| **TOTAL LIABILITIES AND NET ASSETS** | | **$249,213** | **$245,502** |

*See accompanying notes to consolidated financial statements.*

In Thousands of Dollars | September 30, 2012 and 2013

## Consolidated Statement of Activities

| | 2012 | | | | |
|---|---|---|---|---|---|
| | Notes | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| **Revenue raised to support programs and operations** | | | | | |
| Contributions, primarily private cash | | $55,339 | $510,903 | $484 | $566,726 |
| Public cash and food commodity grants | *note 12* | 174,520 | — | — | 174,520 |
| Gifts-in-kind | *note 13* | 37,971 | 221,376 | — | 259,347 |
| Other income, net | | 13,775 | 4,358 | (17) | 18,116 |
| Net assets released due to expiration of time | | | | | |
| Split-interest agreements | | 563 | (563) | — | — |
| Net assets released due to satisfaction of program restrictions | | 770,104 | (770,104) | — | — |
| **Total support and revenue** | | **1,052,272** | **(34,030)** | **467** | **1,018,709** |
| **Operating expenses** | | | | | |
| Program services | *note 1* | | | | |
| International programs | | 813,710 | — | — | 813,710 |
| Domestic programs | | 83,932 | — | — | 83,932 |
| Public awareness and education | | 4,954 | — | — | 4,954 |
| **Total program services** | | **902,596** | **—** | **—** | **902,596** |
| Supporting services | *note 1* | | | | |
| Management and general | | 52,688 | — | — | 52,688 |
| Fundraising | | 106,977 | — | — | 106,977 |
| **Total suporting services** | | **159,665** | **—** | **—** | **159,665** |
| **TOTAL OPERATING EXPENSES** | | **1,062,261** | **—** | **—** | **1,062,261** |
| Change in net assets before the pension actuarial gain | | (9,989) | (34,030) | 467 | (43,552) |
| Pension actuarial gain | *note 16* | 4,231 | — | — | 4,231 |
| **CHANGE IN NET ASSETS** | | **(5,758)** | **(34,030)** | **467** | **(39,321)** |
| Net assets, beginning of year | | 48,823 | 92,881 | 6,845 | 148,549 |
| **NET ASSETS, END OF YEAR** | | **$43,065** | **$58,851** | **$7,312** | **$109,228** |

*See accompanying notes to consolidated financial statements.*

In Thousands of Dollars | September 30, 2012 and 2013 World Vision, Inc. and Affiliates

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Notes | Unrestricted | Temporarily restricted | Permanently restricted | Total |
| **Revenue raised to support programs and operations** | | | | | |
| Contributions, primarily private cash | | $36,468 | $562,101 | $234 | $598,803 |
| Public cash and food commodity grants | *note 12* | 178,684 | — | — | 178,684 |
| Gifts-in-kind | *note 13* | 56,883 | 139,117 | — | 196,000 |
| Other income, net | | 8,174 | 174 | 63 | 8,411 |
| Net assets released due to expiration of time | | | | | |
| Split-interest agreements | | 348 | (348) | — | — |
| Net assets released due to satisfaction of program restrictions | | 702,308 | (702,308) | — | — |
| **Total support and revenue** | | **982,865** | **(1,264)** | **297** | **981,898** |
| **Operating expenses** | | | | | |
| Program services | *note 1* | | | | |
| International programs | | 745,037 | — | — | 745,037 |
| Domestic programs | | 54,383 | — | — | 54,383 |
| Public awareness and education | | 5,035 | — | — | 5,035 |
| **Total program services** | | **804,455** | **—** | **—** | **804,455** |
| Supporting services | *note 1* | | | | |
| Management and general | | 52,003 | — | — | 52,003 |
| Fundraising | | 114,441 | — | — | 114,441 |
| **Total suporting services** | | **166,444** | **—** | **—** | **166,444** |
| **TOTAL OPERATING EXPENSES** | | **970,899** | **—** | **—** | **970,899** |
| Change in net assets before the pension actuarial gain | | 11,966 | (1,264) | 297 | 10,999 |
| Pension actuarial gain | *note 16* | 8,421 | — | — | 8,421 |
| **CHANGE IN NET ASSETS** | | **20,387** | **(1,264)** | **297** | **19,420** |
| Net assets, beginning of year | | 43,065 | 58,851 | 7,312 | 109,228 |
| **NET ASSETS, END OF YEAR** | | **$63,452** | **$57,587** | **$7,609** | **$128,648** |

*See accompanying notes to consolidated financial statements.*

In Thousands of Dollars | September 30, 2012 and 2013

## Consolidated Statement of Functional Expenses

| | 2012 Program Services | | | |
|---|---|---|---|---|
| | International programs | Domestic programs | Public awareness and education | Total program services |
| Funding of World Vision International and U.S. domestic programs: | | | | |
| Child sponsorship | $262,921 | $— | $— | $262,921 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | 308,006 | — | — | 308,006 |
| Gifts-in-kind | 154,227 | 61,329 | — | 215,556 |
| Other international relief and development programs | 63,244 | — | — | 63,244 |
| Gifts to other ministries | — | 7,691 | — | 7,691 |
| Community development and subgrantee expenses | — | 161 | — | 161 |
| Salaries and benefits | 17,316 | 8,482 | 3,352 | 29,150 |
| Professional services | 1,669 | 561 | 542 | 2,772 |
| Media and advertising | 9 | 47 | 163 | 219 |
| Freight and postage | 350 | 74 | 101 | 525 |
| Printing | 56 | 18 | 63 | 137 |
| Travel | 1,349 | 768 | 385 | 2,502 |
| Occupancy | 1,101 | 2,412 | 161 | 3,674 |
| Equipment, repairs, and maintenance | 302 | 538 | 45 | 885 |
| Depreciation | 441 | 1,123 | 12 | 1,576 |
| Other | 2,719 | 728 | 130 | 3,577 |
| **TOTALS** | **$813,710** | **$83,932** | **$4,954** | **$902,596** |

In Thousands of Dollars | September 30, 2012 and 2013 World Vision, Inc. and Affiliates

| | 2012 Supporting Services | | | |
|---|---|---|---|---|
| | Management and general | Fundraising | Total supporting services | Total 2012 |
| Funding of World Vision International and U.S. domestic programs: | | | | |
| Child sponsorship | $— | $— | $— | $262,921 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | — | — | — | 308,006 |
| Gifts-in-kind | — | — | — | 215,556 |
| Other international relief and development programs | — | — | — | 63,244 |
| Gifts to other ministries | — | — | — | 7,691 |
| Community development and subgrantee expenses | — | — | — | 161 |
| Salaries and benefits | 26,892 | 45,291 | 72,183 | 101,333 |
| Professional services | 6,467 | 18,302 | 24,769 | 27,541 |
| Media and advertising | 388 | 13,828 | 14,216 | 14,435 |
| Freight and postage | 533 | 9,095 | 9,628 | 10,153 |
| Printing | 218 | 8,633 | 8,851 | 8,988 |
| Travel | 1,441 | 5,116 | 6,557 | 9,059 |
| Occupancy | 2,540 | 3,231 | 5,771 | 9,445 |
| Equipment, repairs, and maintenance | 4,189 | 861 | 5,050 | 5,935 |
| Depreciation | 4,453 | 1,623 | 6,076 | 7,652 |
| Other | 5,567 | 997 | 6,564 | 10,141 |
| **TOTALS** | **$52,688** | **$106,977** | **$159,665** | **$1,062,261** |

*See accompanying notes to consolidated financial statements.*

*In Thousands of Dollars | September 30, 2012 and 2013*

## Consolidated Statement of Functional Expenses

| | 2013 Program Services | | | |
|---|---|---|---|---|
| | International programs | Domestic programs | Public awareness and education | Total program services |
| Funding of World Vision International and U.S. domestic programs: | | | | |
| Child sponsorship | $265,610 | $— | $— | $265,610 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | 281,060 | — | — | 281,060 |
| Gifts-in-kind | 128,020 | 32,634 | — | 160,654 |
| Other international relief and development programs | 43,731 | — | — | 43,731 |
| Gifts to other ministries | — | 6,071 | — | 6,071 |
| Community development and subgrantee expenses | — | 236 | — | 236 |
| Salaries and benefits | 18,080 | 8,655 | 3,363 | 30,098 |
| Professional services | 1,328 | 479 | 593 | 2,400 |
| Media and advertising | 34 | 355 | 259 | 648 |
| Freight and postage | 250 | 289 | 80 | 619 |
| Printing | 123 | 217 | 100 | 440 |
| Travel | 1,569 | 756 | 316 | 2,641 |
| Occupancy | 1,162 | 1,981 | 162 | 3,305 |
| Equipment, repairs, and maintenance | 242 | 600 | 21 | 863 |
| Depreciation | 436 | 1,166 | 12 | 1,614 |
| Other | 3,392 | 944 | 129 | 4,465 |
| **TOTALS** | **$745,037** | **$54,383** | **$5,035** | **$804,455** |

In Thousands of Dollars | September 30, 2012 and 2013

| | 2013 Supporting Services | | | |
|---|---|---|---|---|
| | Management and general | Fundraising | Total supporting services | Total 2013 |
| Funding of World Vision International and U.S. domestic programs: | | | | |
| Child sponsorship | $— | $— | $— | $265,610 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | — | — | — | 281,060 |
| Gifts-in-kind | — | — | — | 160,654 |
| Other international relief and development programs | — | — | — | 43,731 |
| Gifts to other ministries | — | — | — | 6,071 |
| Community development and subgrantee expenses | — | — | — | 236 |
| Salaries and benefits | 27,963 | 44,359 | 72,322 | 102,420 |
| Professional services | 7,007 | 27,692 | 34,699 | 37,099 |
| Media and advertising | 481 | 13,387 | 13,868 | 14,516 |
| Freight and postage | 607 | 9,156 | 9,763 | 10,382 |
| Printing | 259 | 7,921 | 8,180 | 8,620 |
| Travel | 1,129 | 4,940 | 6,069 | 8,710 |
| Occupancy | 2,573 | 3,755 | 6,328 | 9,633 |
| Equipment, repairs, and maintenance | 2,882 | 836 | 3,718 | 4,581 |
| Depreciation | 2,931 | 1,554 | 4,485 | 6,099 |
| Other | 6,171 | 841 | 7,012 | 11,477 |
| **TOTALS** | **$52,003** | **$114,441** | **$166,444** | **$970,899** |

*See accompanying notes to consolidated financial statements.*

In Thousands of Dollars | September 30, 2012 and 2013

## Consolidated Statements of Cash Flows

| Cash flows from operating activities | 2012 | 2013 |
|---|---|---|
| Change in net assets | ($39,321) | $19,420 |
| Adjustment to reconcile change in net assets to net cash provided by/(used in) operating activities: | | |
| Pension actuarial gain | (4,231) | (8,421) |
| Depreciation and amortization | 7,652 | 6,099 |
| Realized and unrealized gain on marketable securities and investment in pooled funds | (4,673) | (108) |
| Loss on disposal of equipment | 52 | 48 |
| Securities and non-cash contributions | (16,506) | (11,523) |
| Non-cash decrease/(increase) in inventory, net | 2,472 | (5,564) |
| Contributions restricted for investment in endowment | (484) | (234) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable from USAID | 5,434 | 253 |
| Accounts and other receivables | (1,002) | 566 |
| Other assets | 3,037 | (2,470) |
| Charitable trusts receivable | 927 | 2,409 |
| Assets held in trust | (716) | 163 |
| Accounts payable and accrued expenses | 4,560 | (1,038) |
| Accrued pension contribution | (1,013) | 595 |
| Due to World Vision International | 3,983 | (3,745) |
| Charitable gift annuities | 101 | 272 |
| Deferred revenue | (3,396) | (1,059) |
| Amounts held for others | 753 | 347 |
| **Net cash used in operating activities** | **(42,371)** | **(3,990)** |
| **Cash flows from investing activities** | | |
| Purchase of marketable securities | (15,203) | (7,053) |
| Proceeds from the sale of marketable securities | 20,427 | 16,429 |
| Purchase of investment in pooled funds | (191,765) | (199,465) |
| Proceeds from the sale of investment in pooled funds | 230,513 | 203,466 |
| Acquisition of fixed assets | (5,942) | (6,176) |
| Proceeds from sale of equipment | — | 27 |
| Proceeds from sales of donated real estate held as investment | 1,249 | 463 |
| Principal collected on notes receivable | 2 | 2 |
| **Net cash provided by investing activities** | **39,281** | **7,693** |
| **Cash flows from financing activities** | | |
| Contributions restricted for investment in endowment | $484 | $234 |
| Principal payments on notes payable | (66) | — |
| **Net cash provided by financing activities** | **418** | **234** |
| **Net change in cash and cash equivalents** | **(2,672)** | **3,937** |
| Cash and cash equivalents, beginning of year | **7,655** | **4,983** |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | **$4,983** | **$8,920** |
| **Cash paid during the year for interest** | **$1** | **$17** |

*See accompanying notes to consolidated financial statements.*

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## (1) Organization Mission and Structure

### Mission

World Vision ("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 causes of poverty and injustice. The Organization provides emergency relief and long-term community development programs, including local leadership training, 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, and churches.

World Vision's activities comprised the following during fiscal years 2012 and 2013:

*International Programs* – The Organization partners with families and communities around the world to find ways to overcome poverty, helping them obtain sustainable access to basic resources such as clean water, nutritious food, basic healthcare, education, income-generating opportunities, and other services. One of the Organization's primary funding sources for this work is child sponsorship, through which the Organization, in partnership with long-term individual child sponsors, seeks 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, a related party.

*Domestic Programs* – The Organization works with local churches, teachers, business owners, students, and volunteers throughout the United States as they seek 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, emergency response efforts, and tutoring and youth development programs.

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

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

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

### Structure

The consolidated financial statements include the accounts of World Vision, Inc. and its wholly owned and controlled affiliates (collectively, the Organization): World Vision Foundation (Foundation), World Vision Properties LLC (WVPLLC), World Vision Real Properties LLC (WVRPLLC), and Tower Business Park LLC (TBPLLC). 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.

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-purpose 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.

TBPLLC is a single-purpose entity created under the laws of the State of Oregon for the purpose of property development. On December 1, 2003, 100% of the membership interest of TBPLLC was contributed to World Vision, Inc.

## (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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (c) Assets and Liabilities Measured and Reported at Fair Value

The carrying value of cash and cash equivalents, grants and other receivables, loan funds receivable and payable, and borrowings approximate fair value as of September 30, 2012 and 2013, due to the relatively short maturity of these instruments.

### (d) Cash Equivalents

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

### (e) 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, 2012 and 2013. 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. However, the Organization does not anticipate nonperformance by the other parties.

### (f) Accounts Receivable

Accounts receivable consist mainly of grant funds receivable from the United States Agency for International Development (USAID). Additionally, the Organization has a small amount of trade receivables, notes receivable, and pledges receivable. Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, considering the debtor's financial condition and current economic conditions, and using historical experience applied to an aging of the trade receivables. Trade receivables are expensed when deemed uncollectible. Recoveries of trade receivables previously expensed are recorded when received.

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 support or pledges receivable until such time as the conditions are substantially met. As of September 30, 2013, the Organization had outstanding $24,451 in conditional promises to give. Of the conditional promises to give outstanding, $15,272 was conditioned upon the raising of matching funds and $9,179 was conditioned upon the completion of specific programmatic performance milestones.

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

### (g) Investments

Investments are stated at fair value, except for certain notes receivable included in investments, which are stated at cost. The investment goal of the Organization is to invest its assets in a manner that will achieve a total rate of return that exceeds the rate of inflation and meets or exceeds the investment return objectives of World Vision, Inc. funds and reserves.

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

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 this goal, some investment risk must be taken. To minimize such risk, the Organization diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies and investment managers. All financial assets are held in custody for the Organization in propriety accounts.

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

### (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 property gifts made into the Funds, and all income and other proceeds from the foregoing property. 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 property 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. Grants of designated funds are recorded as program expenses.

### (i) Property and Equipment

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, seven 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.

The costs of repairs and maintenance, and depreciation, 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.

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

### (j) Charitable Trusts Receivable

Charitable trusts represent the Organization's interest in outside trust accounts. 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 Kaspick & Company.

### (l) Charitable Gift Annuities

Under charitable gift annuity contracts, the Organization receives irrevocable title to contributed assets and agrees to make fixed period 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 assets, the Organization set aside an additional gift annuity reserve of $2,645 and $2,694 at September 30, 2012 and 2013, respectively, which is included in investments in pooled funds. The excess of contributed assets over the annuity liability is recorded as unrestricted contribution revenue. Any actuarial gain or loss resulting from the computation of the liability for the present value of future annuity payments is recorded as an unrestricted 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.

### (m) Net Assets

The Organization's net assets and changes therein are classified and reported as follows:

*Permanently Restricted Net Assets* – Permanently restricted net assets represent the historical dollar amounts of gifts, including pledges and trusts, subject to donor-imposed stipulations to be invested in perpetuity, and only the income may be available for program operations.

*Temporarily Restricted Net Assets* – Temporarily restricted net assets comprise gifts, including pledges and trusts, as well as income and gains that can be expended, but for which restrictions have not yet been met. Such restrictions include purpose restrictions wherein donors have specified the purpose for which the net assets are to be spent or time restrictions are imposed or implied by the nature of the gift (pledges to be paid in the future, life-income funds, and unappropriated earnings of permanent endowments). When a restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released due to satisfaction of program restrictions.

*Unrestricted Net Assets* – Unrestricted net assets are all the remaining net assets of the Organization. The only limits on unrestricted 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.

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

### (n) Contributions

Contributions are recorded as revenue when an unconditional promise to give has been made. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the donor intent.

### (o) Grant Revenue

Cash grant revenue is recognized in the period the Organization incurs reimbursable program expenditures. Food commodities and freight reimbursement received through the United States Agency for International Development (USAID) are valued using guidelines published by the United States Department of Agriculture and USAID. Food inventory and deferred revenue are recorded when the Organization receives title to the food. Fair value is determined by reference to cost values provided by the donor, as well as costs incurred by World Vision.

Food revenue granted for distribution is generally recognized when the commodities are delivered to the ultimate destination. Proceeds received on commodities that are monetized (sold) are recorded as prepaid funding 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 GAAP and industry standards, referred to as the Interagency GIK Standards, as developed by an interagency task force appointed by Accord. Accord is an organization that serves Christian organizations and churches involved in the shared vision of eliminating poverty, working to achieve the highest standards, principles, and effectiveness in relief and development. 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 its principal exit market considering the goods' condition and utility for use at the time they are contributed by the donor. 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 a reliable third-party source, in countries 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. While it is the Organization's policy to distribute GIK as promptly as possible, undistributed GIK is recorded as inventory. The inventory is valued at wholesale values estimated by the Organization. The Organization believes that this approximates the lower of cost or market.

### (q) Other Income

Other income consists primarily of actuarial adjustments, as well as realized and unrealized investment revenue, gains, and losses.

### (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 the 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 accrued based upon the Organization's estimate of the

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

aggregate liability for claims incurred. The Organization holds a stop-loss policy that limits the maximum liability for benefits payable under such claims. Adjustments to expenses resulting from changes in historical loss trends have been insignificant for the years ended September 30, 2012 and 2013. Further, 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. Accordingly, certain costs of joint activities related to fundraising, management and general, international programs, and public awareness have been allocated as indicated among the ministry and supporting services benefited.

### (u) 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* (ASC 740), 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, 2012 and 2013.

### (v) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current presentation.

## (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. 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.

World Vision, Inc. and Affiliates In Thousands of Dollars | September 30, 2012 and 2013

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

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2012:

| Marketable securities | September 30, 2012 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Government securities | $358 | $— | $358 | $— |
| Equity securities | 295 | 152 | — | 143 |
| Mutual funds | | | | |
| Domestic equities | 8,360 | 8,360 | — | — |
| International equities | 1,905 | 1,905 | — | — |
| Domestic bonds | 8,807 | 8,807 | — | — |
| **Total marketable securities** | **$19,725** | **$19,224** | **$358** | **$143** |
| **Investments in pooled funds** | | | | |
| Cash equivalents | $2,202 | $2,202 | $— | $— |
| Equity securities | 18,294 | 18,294 | — | — |
| Mutual funds | | | | |
| Domestic equities | 5,108 | 5,108 | — | — |
| International equities | 1,402 | 1,402 | — | — |
| Domestic bonds | 3,196 | 3,196 | — | — |
| Real estate investment trusts | 1,365 | 1,365 | — | — |
| Residential mortgage-backed securities | 94 | — | 94 | — |
| Corporate bonds | 1,125 | 1 | 1,124 | — |
| Master limited partnerships | 10,345 | 10,345 | — | — |
| Other assets | 2,228 | — | — | 2,228 |
| **Total investments** | **$45,359** | **$41,913** | **$1,218** | **$2,228** |
| Charitable trusts receivable | $10,403 | $— | $— | $10,403 |

| Assets held in trust | September 30, 2012 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Cash equivalents | $316 | $316 | $— | $— |
| Mutual funds | | | | |
| Domestic equities | 2,621 | 2,621 | — | — |
| International equities | 1,592 | 1,592 | — | — |
| Domestic bonds | 5,538 | 5,538 | — | — |
| **Total assets held in trust** | **$10,067** | **$10,067** | **$—** | **$—** |

In the consolidated statements of financial position, total investments in pooled funds include $5,348 of notes receivable and total assets held in trust include $5,041 of notes receivable in addition to the assets held at fair value. These notes receivable are held at face value and thus excluded from this disclosure.

Investments are presented in the balance sheet as of September 30, 2012 as follows:

| | Current investments | Investments held for long-term purposes | **Total** |
|---|---|---|---|
| Marketable securities | $13,043 | $6,682 | **$19,725** |
| Investments in pooled funds | $38,101 | $12,606 | **$50,707** |

In Thousands of Dollars | September 30, 2012 and 2013 World Vision, Inc. and Affiliates

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

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2013:

| Marketable securities | September 30, 2013 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Government securities | $340 | $— | $340 | $— |
| Equity securities | 150 | 5 | — | 145 |
| Mutual funds | | | | |
| Domestic equities | 7,570 | 7,570 | — | — |
| International equities | 2,857 | 2,857 | — | — |
| Domestic bonds | 8,712 | 8,712 | — | — |
| **Total marketable securities** | **$19,629** | **$19,144** | **$340** | **$145** |
| **Investments in pooled funds** | | | | |
| Cash equivalents | $571 | $571 | $— | $— |
| Equity securities | 16,083 | 16,083 | — | — |
| Mutual funds | | | | |
| Domestic equities | 4,845 | 4,845 | — | — |
| International equities | 1,188 | 1,188 | — | — |
| Domestic bonds | 2,543 | 2,543 | — | — |
| Real estate investment trusts | 1,628 | 1,628 | — | — |
| Residential mortgage-backed securities | 43 | — | 43 | — |
| Corporate bonds | 267 | — | 267 | — |
| Master limited partnerships | 11,562 | 11,562 | — | — |
| Other assets | 2,228 | — | — | 2,228 |
| **Total investments** | **$40,958** | **$38,420** | **$310** | **$2,228** |
| Charitable trusts receivable | $9,680 | $— | $— | $9,680 |
| **Assets held in trust** | | | | |
| Cash equivalents | $311 | $311 | $— | $— |
| Mutual funds | | | | |
| Domestic equities | 2,615 | 2,615 | — | — |
| International equities | 1,571 | 1,571 | — | — |
| Domestic bonds | 5,407 | 5,407 | — | — |
| **Total assets held in trust** | **$9,904** | **$9,904** | **$—** | **$—** |

In the consolidated statements of financial position, total investments in pooled funds include $299 of notes receivable. These notes receivable are held at face value and thus excluded from this disclosure.

Investments are presented in the balance sheet as of September 30, 2013 as follows:

| | Current investments | Investments held for long-term purposes | **Total** |
|---|---|---|---|
| Marketable securities | $12,325 | $7,304 | **$19,629** |
| Investments in pooled funds | $32,987 | $8,270 | **$41,257** |

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

*In Thousands of Dollars | September 30, 2012 and 2013*

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

The Organization holds investments in four limited partnerships classified within Level 3. The value of these investments is based upon appraisals. The Organization also 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 existed, but the Organization does not expect the difference to be material. The following table is a roll forward of the consolidated statements of financial position amounts for marketable securities, 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 actuarial derived fluctuations. There were no transfers between Level 1 and Level 2 during the year ended September 30, 2013.

| | Marketable securities | Investments | Charitable trusts receivable |
|---|---|---|---|
| **Balance at September 30, 2011** | $155 | $2,228 | $10,244 |
| New contributions | 71 | — | 1,086 |
| Sales | (83) | — | — |
| Net change in value | — | — | (927) |
| **Balance at September 30, 2012** | 143 | 2,228 | 10,403 |
| New contributions | 120 | — | 1,686 |
| Sales | (118) | — | — |
| Net change in value | — | — | (2,409) |
| **Balance at September 30, 2013** | $145 | $2,228 | $9,680 |

## (4) Endowments

The Organization's board has interpreted the California State Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, 2012, the Organization had five donor-restricted endowment funds totaling $7,123 and one board-designated endowment fund totaling $135. During the year ended September 30, 2013, the Organization had five donor-restricted endowment funds totaling $7,782 and one board-designated endowment fund totaling $190. During the years ended September 30, 2012 and 2013, these endowments had a net investment return of $235 and $746, and amounts appropriated for expenditure of $312 and $364, respectively.

## (5) Inventory

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

| | 2012 | 2013 |
|---|---|---|
| GIK inventory | $54,140 | $61,033 |
| Food held for monetization | 1,172 | — |
| | 55,312 | 61,033 |
| Provision for GIK obsolescence | (364) | (521) |
| | **$54,948** | **$60,512** |

In Thousands of Dollars | September 30, 2012 and 2013

## (6) Fixed Assets

Fixed assets comprised the following at September 30:

| | 2012 | 2013 |
|---|---|---|
| Land | $6,830 | $6,830 |
| Buildings and leasehold improvements | 51,110 | 51,957 |
| Equipment | 24,276 | 26,055 |
| Computer software | 43,758 | 46,884 |
| | 125,974 | 131,726 |
| Less accumulated depreciation and amortization | (66,757) | (72,507) |
| | **$59,217** | **$59,219** |

Depreciation and amortization expense for the years ended September 30, 2012 and 2013 was $7,652 and $6,099, respectively.

## (7) Related Parties

The majority of World Vision, Inc. programs are carried out worldwide through World Vision International, a related entity. World Vision, Inc. makes funding commitments to World Vision International during each fiscal year. As a result, World Vision, Inc. incurs a payable to World Vision International and satisfies this payable by remitting cash throughout the year.

## (8) Notes Payable

As of September 30, 2012, the balance of notes payable was $5,041. The balance consisted of one note payable with an interest rate of 7.07% and monthly interest-only payments. During 2013, the note came due. Because of the unique arrangement of the note payable, the Organization also held the related note receivable and a trust asset and liability. Therefore, retirement of the note resulted in no cash exchanged, but a reduction of $5,041 in the balances of investments in pooled funds, assets held in trust, notes payable, and amounts held for others.

## (9) Obligations Under Operating Leases

The Organization has commitments related to operating leases for building facilities and equipment at September 30, 2012 and 2013. All operating leases are noncancellable and expire on various dates by 2021.

Future minimum lease payments under noncancellable operating leases with initial or remaining terms of one year or more at September 30, 2013 are as follows:

| **Year ending September 30** | Operating leases |
|---|---|
| 2014 | $1,696 |
| 2015 | 1,335 |
| 2016 | 1,220 |
| 2017 | 1,239 |
| 2018 | 794 |
| Thereafter | 849 |
| | **$7,133** |

Lease and rent expenses for the years ended September 30, 2012 and 2013 were $2,871 and $3,393, respectively.

World Vision, Inc. and Affiliates *In Thousands of Dollars | September 30, 2012 and 2013*

## (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 have ranged between 2.8% and 7.0%. The amounts held belong to various investment funds held in trust by the Organization and were as follows at September 30:

| | 2012 | 2013 |
|---|---|---|
| Exchange portion of charitable lead trusts, charitable remainder trusts, and life estates | $10,871 | $6,192 |
| Refundable advances of revocable trusts and missions agreements | 151 | 136 |
| | **$11,022** | **$6,328** |

## (11) Net Assets

Unrestricted net assets comprise the following at September 30:

| | 2012 | 2013 |
|---|---|---|
| Working capital and net fixed assets | ($7,744) | ($8,807) |
| Donor advised funds and designated funds | 30,946 | 32,588 |
| Charitable gift annuities | 1,893 | 2,243 |
| Undistributed GIK contributions | 25,796 | 34,604 |
| (Underfunded)/overfunded status of pension plan | (7,826) | 2,824 |
| | **$43,065** | **$63,452** |

The deficit position for working capital and net fixed assets represents a decision to increase cash funding to programs benefiting families and communities despite a shortfall in donations. The Organization expects to recover this shortfall in future years. The Organization's objective for financial liquidity and reserves is to operate in a prudent range of stability, while recognizing the imperative of distributing maximum funds to mission as quickly as possible. In doing so, the Organization takes into account available borrowings for real estate which has been purchased outright rather than financed.

Temporarily restricted net assets are available for the following purposes at September 30:

| | 2012 | 2013 |
|---|---|---|
| Child sponsorship and childcare ministries | $4,397 | $— |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | 11,156 | 17,309 |
| Domestic programs | 514 | 1,038 |
| Term endowments, the income from which is expendable to support World Vision programs | 1,095 | 1,094 |
| Split-interest agreements, the income from which is unrestricted upon the expiration of certain time restrictions | 11,844 | 10,700 |
| Designated funds | 1,865 | 1,538 |
| Undistributed GIK contributions | 27,980 | 25,908 |
| | **$58,851** | **$57,587** |

Permanently restricted net assets consist of the following at September 30:

| | 2012 | 2013 |
|---|---|---|
| Endowments invested in perpetuity, the income from which is expendable to support World Vision programs | $5,871 | $6,150 |
| Perpetual trusts | 1,441 | 1,459 |
| | **$7,312** | **$7,609** |

In Thousands of Dollars | September 30, 2012 and 2013 World Vision, Inc. and Affiliates

## (12) Public Cash and Food Commodity Grants

Cash grants are received primarily through United States government agencies to further the exempt purpose of the Organization. Food commodity grants are received primarily from USAID's Office of Food for Peace and the World Food Program. Such goods are valued using guidelines published by the United States Department of Agriculture and USAID. Food commodities are either distributed directly to beneficiaries or sold. Sales proceeds are used to fund international relief and development programs.

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

| **Cash grants** | **2012** | **2013** |
|---|---|---|
| Cash awards from USAID | $96,978 | $82,397 |
| Cash awards from other agencies | 21,467 | 24,249 |
| **Total cash grants** | **$118,445** | **$106,646** |
| | | |
| **Food monetization grants** | | |
| Cash and freight awards from USAID | $3,990 | $1,895 |
| Cash and freight awards from other agencies | 14 | 55 |
| **Total food monetization grants** | **$4,004** | **$1,950** |
| | | |
| **Food distribution grants** | | |
| Food commodities from USAID | $8,824 | $7,885 |
| Food commodities from World Food Program | 29,579 | 43,832 |
| Food commodities from other agencies | 5,604 | 2,748 |
| Cash freight awards from USAID | 1,570 | 768 |
| Cash freight awards from World Food Program | 6,393 | 12,218 |
| Cash freight awards from other agencies | 101 | 2,637 |
| **Total food distribution grants** | **52,071** | **70,088** |
| **TOTAL CASH & FOOD COMMODITY GRANTS** | **$174,520** | **$178,684** |

## (13) Gift-in-Kind Revenue

GIK revenue has been allocated for use as follows:

| | **2012** | **2013** |
|---|---|---|
| World Vision programs | $192,447 | $154,775 |
| Other nonprofit organizations | 66,900 | 41,225 |
| | **$259,347** | **$196,000** |

GIK revenue for the year consisted of donations of:

| | **2012** | **2013** |
|---|---|---|
| Pharmaceuticals | $89,312 | $80,193 |
| Clothing and household goods | 79,789 | 55,954 |
| Books | 63,230 | 33,571 |
| Building supplies | 10,761 | 9,541 |
| Office supplies | 7,200 | 4,481 |
| Medical supplies | 5,698 | 6,985 |
| Other | 3,357 | 5,275 |
| | **$259,347** | **$196,000** |

World Vision, Inc. and Affiliates    In Thousands of Dollars | September 30, 2012 and 2013

## (14) Program Services

Program services have been funded by the following resources:

| | 2012 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | International programs | Domestic programs | Public awareness and education | International programs | Domestic programs | Public awareness and education |
| Cash | $566,093 | $22,603 | $4,954 | $530,320 | $21,749 | $5,035 |
| Gifts-in-kind | 201,056 | 61,329 | — | 156,878 | 32,634 | — |
| Food commodities | 46,561 | — | — | 57,839 | — | — |
| **TOTAL PROGRAM SERVICES** | **$813,710** | **$83,932** | **$4,954** | **$745,037** | **$54,383** | **$5,035** |

## (15) Joint Cost Allocation

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

| | 2012 | 2013 |
|---|---|---|
| Management and general | $1,011 | $1,425 |
| Fundraising | 3,526 | 3,959 |
| Public awareness and education | 498 | 591 |
| International programs | 1,541 | 985 |
| | **$6,576** | **$6,960** |

## (16) Cash Balance Retirement Plan

The Organization has a noncontributory Cash Balance Retirement Plan (the Plan) covering substantially all regular employees. Under the Plan, the Organization will add an annual pay credit and interest credit to a participant's account each December. The annual pay credit is based on a participant's pay and age. 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 year, and the amount will be 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. In 1989, the Organization began acting as trustee of the assets of the Plan for the Organization and World Vision International. The assets of the Plan are held in trust by the Organization.

The following table sets forth the actuarial assumptions related to the Plan. Assumptions as of September 30, 2012 and 2013 are as follows:

| | 2012 | 2013 |
|---|---|---|
| Discount rate | 3.05% | 4.00% |
| Expected return on plan assets | 7.00 | 7.00 |
| Rate of compensation increase | 4.00 | 4.00 |

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 conservative based on historical returns.

In Thousands of Dollars | September 30, 2012 and 2013

## (16) Cash Balance Retirement Plan, *continued*

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

| | 2012 | | 2013 | |
|---|---|---|---|---|
| **Change in projected benefit obligations** | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| **Projected benefit obligations at beginning of year** | $69,759 | $99,841 | $78,893 | $114,172 |
| Service cost | 4,283 | 6,186 | 4,859 | 7,087 |
| Interest cost | 2,402 | 3,632 | 2,106 | 3,192 |
| Changes in assumptions | 3,639 | 7,590 | (4,688) | (7,651) |
| Actuarial loss | 1,600 | 2,315 | 706 | 1,011 |
| Benefits paid | (2,678) | (5,231) | (2,996) | (4,915) |
| Expenses paid | (112) | (161) | (116) | (165) |
| **Projected benefit obligations at end of year** | $78,893 | $114,172 | $78,764 | $112,731 |
| **Accumulated benefit obligations at end of year** | $70,059 | $101,388 | $70,392 | $100,748 |

| | 2012 | | 2013 | |
|---|---|---|---|---|
| **Change in plan assets** | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| Plan assets at fair value at beginning of year | $56,689 | $81,135 | $71,067 | $102,847 |
| Actual return on plan assets | 13,028 | 18,854 | 7,515 | 10,755 |
| Employer contributions | 5,500 | 8,250 | 5,500 | 8,250 |
| Benefits paid | (2,678) | (5,231) | (2,996) | (4,915) |
| Expenses paid | (112) | (161) | (116) | (165) |
| Changes in assumptions | (1,360) | — | 618 | — |
| **Plan assets at fair value at end of year** | $71,067 | $102,847 | $81,588 | $116,772 |

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| Funded status | ($7,826) | ($11,325) | $2,824 | $4,041 |
| (Liability)/Asset recognized in the statement of financial position as Accrued pension liability/Other non-current assets | (7,826) | (11,325) | 2,824 | 4,041 |
| Pension actuarial gain recognized in the change in unrestricted net assets under ASC 715 | (4,231) | (5,624) | (8,421) | (11,798) |

*In Thousands of Dollars | September 30, 2012 and 2013*

## (16) Cash Balance Retirement Plan, *continued*

Net periodic benefit cost for the Plan includes the following components for the years ended September 30:

| | 2012 | | 2013 | |
|---|---|---|---|---|
| | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| Service cost | $4,283 | $6,186 | $4,859 | $7,087 |
| Interest cost | 2,402 | 3,632 | 2,106 | 3,192 |
| Expected return on plan assets | (3,528) | (5,335) | (4,502) | (6,821) |
| Amortization of net loss | 1,330 | 2,010 | 808 | 1,223 |
| **Net periodic benefit cost** | **$4,487** | **$6,493** | **$3,271** | **$4,681** |

World Vision 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 Board policy from investing in derivative financial instruments.

## (a) Fair Value of Plan Assets

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2012:

| | September 30, 2012 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Cash equivalents | $228 | $228 | $— | $— |
| Mutual funds | | | | |
| Domestic equities | 44,477 | 44,477 | — | — |
| International equities | 13,003 | 13,003 | — | — |
| Domestic bonds | 20,439 | 20,439 | — | — |
| Equity securities | 13,285 | 13,153 | 132 | — |
| Real estate investment trusts | 1,225 | 1,225 | — | — |
| Corporate bonds | 1,179 | — | 1,179 | — |
| Master limited partnerships | 8,412 | 8,412 | — | — |
| Other assets | 599 | 599 | — | — |
| **Total plan assets** | **$102,847** | **$101,536** | **$1,311** | **$—** |

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2013:

| | September 30, 2013 | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|---|---|---|---|---|
| Cash equivalents | $414 | $414 | $— | $— |
| Mutual funds | | | | |
| Domestic equities | 50,647 | 50,647 | — | — |
| International equities | 14,866 | 14,866 | — | — |
| Domestic bonds | 22,558 | 22,558 | — | — |
| Equity securities | 14,518 | 14,518 | — | — |
| Real estate investment trusts | 1,564 | 1,564 | — | — |
| Corporate bonds | 1,101 | — | 1,101 | — |
| Master limited partnerships | 10,537 | 10,537 | — | — |
| Other assets | 567 | 567 | — | — |
| **Total plan assets** | **$116,772** | **$115,671** | **$1,101** | **$—** |

In Thousands of Dollars | September 30, 2012 and 2013 World Vision, Inc. and Affiliates

## (16) Cash Balance Retirement Plan, *continued*

The majority of the investments held by the Plan have been classified within Level 1. The Plan holds some investments within Level 2 in which the fair value is determined through other significant observable inputs. Level 2 investments include mortgage-backed securities, government securities, and corporate bonds.

### (b) Estimated Future Payments

The Plan contribution for the year ending September 30, 2014 is expected to be $5,500 and $8,250 for World Vision, Inc. and the total Plan, respectively. Assuming all participants commenced benefit payments at the end of their employment in the form of an immediate lump-sum payout, the following schedule estimates future benefit payments, including expected future service, in the years ended September 30:

| | World Vision Inc. | Total Plan |
|---|---|---|
| 2014 | $9,683 | $14,525 |
| 2015 | 7,012 | 10,519 |
| 2016 | 7,368 | 11,051 |
| 2017 | 7,901 | 11,852 |
| 2018 | 6,903 | 10,354 |
| Thereafter | 35,250 | 52,875 |
| | $74,117 | $111,176 |

## (17) Defined Contribution Retirement Plan

The Organization also provides eligible employees a defined contribution plan, which qualifies under Section 403(b) of the Internal Revenue Code. Under the Plan, the Organization contributes to a participant's account depending on years of service, not to exceed 5% of the participant's eligible earnings. The Organization contributed $1,355 and $1,416 for the years ended September 30, 2012 and 2013, respectively.

## (18) Contingencies

The Organization is involved in various legal proceedings and claims arising 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) Circular A-133 and review by the grantor. Based on historical experience and results of prior OMB Circular A-133 audits, which have been completed through fiscal year 2012, the Organization's management believes costs ultimately disallowed, if 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 16, 2013, which is the date the consolidated financial statements were available to be issued.

World Vision®

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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.