



WORLD VISION, INC. AND AFFILIATES

Consolidated Financial Statements

September 30, 2018 and 2017

(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.:

Report on the Financial Statements

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, 2018 and 2017, 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 auditor's 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 controls 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, 2018 and 2017, 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.

KPMG LLP

Seattle, Washington
December 10, 2018

WORLD VISION, INC. AND AFFILIATES
Consolidated Statements of Financial Position
September 30, 2018 and 2017
(In thousands of dollars)

| Assets | 2018 | 2017 |
|--|-------------|-------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 6,392 | 15,412 |
| Accounts and other receivables, net | 17,156 | 7,634 |
| Due from World Vision International | 12,072 | 17,842 |
| Grants receivable | 14,809 | 21,323 |
| Marketable securities (note 3) | 10,005 | 10,236 |
| Investments in pooled funds (note 3) | 85,082 | 68,501 |
| Inventory, net (note 5) | 37,693 | 52,619 |
| Other assets | 15,065 | 16,054 |
| Total current assets | 198,274 | 209,621 |
| Noncurrent assets: | | |
| Marketable securities (note 3) | 7,126 | 8,458 |
| Investments in pooled funds (note 3) | 15,759 | 12,626 |
| Donated real estate | 3,541 | 2,482 |
| Fixed assets, net (note 6) | 47,710 | 48,496 |
| Charitable trusts receivable (note 3) | 11,892 | 13,161 |
| Assets held in trust (note 3) | 13,917 | 14,093 |
| Prepaid pension asset (note 15) | 4,612 | — |
| Other assets | 527 | 498 |
| Total noncurrent assets | 105,084 | 99,814 |
| Total assets | \$ 303,358 | 309,435 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 33,723 | 39,117 |
| Deferred revenue | 23,829 | 26,841 |
| Notes payable (note 7) | 4,619 | 4,517 |
| Total current liabilities | 62,171 | 70,475 |
| Noncurrent liabilities: | | |
| Deferred revenue | 854 | 920 |
| Charitable gift annuities | 5,134 | 4,929 |
| Amounts held for others (note 9) | 10,130 | 10,212 |
| Accrued pension liability (note 15) | — | 615 |
| Notes payable, net of current portion (note 7) | 12,068 | 16,387 |
| Total noncurrent liabilities | 28,186 | 33,063 |
| Total liabilities | 90,357 | 103,538 |
| Net assets (note 10): | | |
| Unrestricted | 84,589 | 72,212 |
| Temporarily restricted | 118,912 | 124,730 |
| Permanently restricted | 9,500 | 8,955 |
| Total net assets | 213,001 | 205,897 |
| Total liabilities and net assets | \$ 303,358 | 309,435 |

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)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| Operating revenue: | | | | |
| Contributions, primarily private cash | \$ 38,230 | 512,885 | 516 | 551,631 |
| Public cash and food commodity grants (note 11) | 328,747 | — | — | 328,747 |
| Gifts-in-kind (note 12) | 104,572 | 63,769 | — | 168,341 |
| Other income, net | 7,083 | 204 | 29 | 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 | 1,061,308 | (5,818) | 545 | 1,056,035 |
| Operating expenses (note 1): | | | | |
| Program services (note 13): | | | | |
| International programs | 776,486 | — | — | 776,486 |
| Domestic programs | 128,097 | — | — | 128,097 |
| Public awareness and education | 2,880 | — | — | 2,880 |
| Total program services | 907,463 | — | — | 907,463 |
| Supporting services: | | | | |
| Management and general | 56,302 | — | — | 56,302 |
| Fundraising | 90,637 | — | — | 90,637 |
| Total supporting services | 146,939 | — | — | 146,939 |
| Total operating expenses | 1,054,402 | — | — | 1,054,402 |
| Change in net assets from operating activities | 6,906 | (5,818) | 545 | 1,633 |
| Non-operating activities: | | | | |
| Investment and other losses | (953) | — | — | (953) |
| Unrealized loss on investments | (600) | — | — | (600) |
| Interest expense | (470) | — | — | (470) |
| Pension actuarial gain (note 15) | 7,494 | — | — | 7,494 |
| Change in net assets | 12,377 | (5,818) | 545 | 7,104 |
| Net assets, beginning of year | 72,212 | 124,730 | 8,955 | 205,897 |
| Net assets, end of year | \$ 84,589 | 118,912 | 9,500 | 213,001 |

See accompanying notes to consolidated financial statements.

WORLD VISION, INC. AND AFFILIATES

Consolidated Statement of Activities

Year ended September 30, 2017

(In thousands of dollars)

| | Unrestricted | Temporarily restricted | Permanently restricted | Total |
|---|---------------------|-----------------------------------|-----------------------------------|------------------|
| Operating revenue: | | | | |
| Contributions, primarily private cash | \$ 44,692 | 526,886 | 320 | 571,898 |
| Public cash and food commodity grants (note 11) | 302,420 | — | — | 302,420 |
| Gifts-in-kind (note 12) | 47,017 | 111,106 | — | 158,123 |
| Other income, net | 9,700 | 1,305 | 208 | 11,213 |
| Net assets released from restriction: | | | | |
| Due to expiration of time (split-interest agreements) | 708 | (708) | — | — |
| Due to satisfaction of program restrictions | 603,202 | (603,202) | — | — |
| Total operating revenue | 1,007,739 | 35,387 | 528 | 1,043,654 |
| Operating expenses (note 1): | | | | |
| Program services (note 13): | | | | |
| International programs | 756,891 | — | — | 756,891 |
| Domestic programs | 94,187 | — | — | 94,187 |
| Public awareness and education | 3,634 | — | — | 3,634 |
| Total program services | 854,712 | — | — | 854,712 |
| Supporting services: | | | | |
| Management and general | 57,161 | — | — | 57,161 |
| Fundraising | 88,765 | — | — | 88,765 |
| Total supporting services | 145,926 | — | — | 145,926 |
| Total operating expenses | 1,000,638 | — | — | 1,000,638 |
| Change in net assets from operating activities | 7,101 | 35,387 | 528 | 43,016 |
| Non-operating activities: | | | | |
| Investment and other losses | (2,053) | — | — | (2,053) |
| Unrealized gain on investments | 3,990 | — | — | 3,990 |
| Interest expense | (575) | — | — | (575) |
| Pension actuarial gain (note 15) | 7,951 | — | — | 7,951 |
| Change in net assets | 16,414 | 35,387 | 528 | 52,329 |
| Net assets, beginning of year | 55,798 | 89,343 | 8,427 | 153,568 |
| Net assets, end of year | \$ 72,212 | 124,730 | 8,955 | 205,897 |

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 | 6,597 | — | 428,037 | — | — | — | 428,037 |
| Gifts-in-kind | 33,274 | 102,569 | — | 135,843 | — | — | — | 135,843 |
| Gifts to other ministries | 51,499 | 8,399 | — | 59,898 | — | — | — | 59,898 |
| 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 | 242 | 1,525 | 15 | 1,782 | 1,281 | 636 | 1,917 | 3,699 |
| Equipment, repairs, and maintenance | 173 | 529 | 23 | 725 | 3,739 | 1,002 | 4,741 | 5,466 |
| Depreciation | 282 | 929 | — | 1,211 | 1,844 | 476 | 2,320 | 3,531 |
| Other | 4,576 | 2,373 | 138 | 7,087 | 5,996 | 1,590 | 7,586 | 14,673 |
| Totals | \$ 776,486 | 128,097 | 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 Statement of Functional Expenses
Year ended September 30, 2017
(In thousands of dollars)

| | <u>Program services</u> | | | | <u>Supporting services</u> | | | <u>Total</u> |
|--|-------------------------------|--------------------------|---------------------------------------|-------------------------------|-------------------------------|--------------------|----------------------------------|------------------|
| | <u>International programs</u> | <u>Domestic programs</u> | <u>Public awareness and education</u> | <u>Total program services</u> | <u>Management and general</u> | <u>Fundraising</u> | <u>Total supporting services</u> | <u>2017</u> |
| Funding of World Vision International and U.S. domestic programs: | | | | | | | | |
| Child sponsorship | \$ 218,935 | — | — | 218,935 | — | — | — | 218,935 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | 393,101 | 189 | — | 393,290 | — | — | — | 393,290 |
| Gifts-in-kind | 57,231 | 76,725 | — | 133,956 | — | — | — | 133,956 |
| Gifts to other ministries | 57,843 | 8,359 | — | 66,202 | — | — | — | 66,202 |
| Salaries and benefits | 19,796 | 3,799 | 2,749 | 26,344 | 29,036 | 47,151 | 76,187 | 102,531 |
| Professional services | 5,559 | 289 | 218 | 6,066 | 6,542 | 11,151 | 17,693 | 23,759 |
| Media and advertising | 111 | 24 | 217 | 352 | 4,690 | 8,824 | 13,514 | 13,866 |
| Freight and postage | 276 | 11 | 46 | 333 | 474 | 6,605 | 7,079 | 7,412 |
| Printing | 199 | 13 | 22 | 234 | 225 | 5,613 | 5,838 | 6,072 |
| Travel | 1,968 | 295 | 203 | 2,466 | 1,087 | 4,935 | 6,022 | 8,488 |
| Occupancy | 363 | 1,820 | — | 2,183 | 2,456 | 529 | 2,985 | 5,168 |
| Equipment, repairs, and maintenance | 156 | 387 | 35 | 578 | 4,425 | 1,174 | 5,599 | 6,177 |
| Depreciation | 486 | 949 | — | 1,435 | 2,060 | 1,249 | 3,309 | 4,744 |
| Other | 867 | 1,327 | 144 | 2,338 | 6,166 | 1,534 | 7,700 | 10,038 |
| Totals | <u>\$ 756,891</u> | <u>94,187</u> | <u>3,634</u> | <u>854,712</u> | <u>57,161</u> | <u>88,765</u> | <u>145,926</u> | <u>1,000,638</u> |

See accompanying notes to consolidated financial statements.

WORLD VISION, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2018 and 2017

(In thousands of dollars)

| | <u>2018</u> | <u>2017</u> |
|--|-----------------|-----------------|
| Cash flows provided by/(used in) operating activities: | | |
| Change in net assets | \$ 7,104 | 52,329 |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Pension actuarial gain | (7,494) | (7,951) |
| Depreciation and amortization | 3,531 | 4,744 |
| Net realized and unrealized loss/(gain) on marketable securities and investments in pooled funds | 2,170 | (1,369) |
| Loss on disposal of equipment | 792 | 182 |
| Noncash contributions | (12,035) | (14,576) |
| Proceeds from the sale of donated marketable securities | 9,404 | 7,831 |
| Noncash decrease in inventory, net | 14,926 | 1,145 |
| Contributions restricted for investment in endowment | (800) | (581) |
| Other changes in operating assets and liabilities: | | |
| Accounts and other receivables, net | (9,534) | 442 |
| Grants receivable | 6,514 | (2,518) |
| Other assets | 940 | (2,628) |
| Assets held in trust | 176 | (553) |
| Charitable trusts receivable | 2,707 | 3,305 |
| Accounts payable and accrued expenses | (5,394) | 6,867 |
| Due to/(due from) World Vision International | 5,770 | (20,714) |
| Deferred revenue | (3,078) | 6,626 |
| Charitable gift annuities | 205 | (25) |
| Amount held for others | (82) | 449 |
| Accrued pension contribution | 2,267 | 2,322 |
| Net cash provided by operating activities | <u>18,089</u> | <u>35,327</u> |
| Cash flows provided by/(used in) investing activities: | | |
| Purchase of marketable securities | (1,618) | (2,134) |
| Proceeds from the sale of marketable securities | 3,465 | 7,217 |
| Purchase of investments in pooled funds | (188,057) | (180,737) |
| Proceeds from the sale of investments in pooled funds | 166,030 | 153,539 |
| Acquisition of fixed assets | (3,715) | (1,654) |
| Proceeds from sale of fixed assets | 178 | 10 |
| Principal collected on notes receivable | 20 | 13 |
| Net cash used in investing activities | <u>(23,697)</u> | <u>(23,746)</u> |
| Cash flows provided by/(used in) financing activities: | | |
| Contributions restricted for investment in endowment | 800 | 581 |
| Principal payments on notes payable | (4,212) | (4,106) |
| Net cash used in financing activities | <u>(3,412)</u> | <u>(3,525)</u> |
| Net change in cash and cash equivalents | (9,020) | 8,056 |
| Cash and cash equivalents, beginning of year | 15,412 | 7,356 |
| Cash and cash equivalents, end of year | \$ <u>6,392</u> | <u>15,412</u> |
| Cash paid during the year for interest | \$ 470 | 575 |

See accompanying notes to consolidated financial statements.

WORLD VISION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(In thousands of dollars)

(1) Organization Mission and Structure

Mission

World Vision, Inc. (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, 2018 and 2017:

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 non-profit 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 time and money 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.

WORLD VISION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

(In thousands of dollars)

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), 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, 2018 and 2017.

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.

(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, 2018 and 2017. 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, 2018 and 2017

(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, 2018, the Organization had outstanding \$24,913 in conditional promises to give, excluding public grants. Of the conditional promises to give outstanding, \$16,000 is conditioned upon the raising of matching funds and \$8,913 is conditioned upon the completion of specific programmatic performance milestones. The Organization also had outstanding \$713,765 in conditional promises to give directly related to public grants as of September 30, 2018. Of the outstanding conditional promises to give related to public grants, \$548,571 was awarded by U.S. government donors and \$165,194 was awarded by multi-lateral 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 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 the Organization.

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, 2018 and 2017

(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 minimize 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 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. Impairment losses of \$944 and \$3,421 were recognized during the years ended September 30, 2018 and 2017, 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) 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, 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, 2018 and 2017

(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, 2018 and 2017.

(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 and \$1,702 as of September 30, 2018 and 2017, respectively. 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.

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(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 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 are comprised of gifts, including pledges and trusts, as well as income and gains that can be expended, for which restrictions placed by the donor have not yet been met. 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 unappropriated earnings of permanent endowments). When the conditions related to temporary restrictions are fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from 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.

(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 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, referred to as the Interagency GIK Standards, as developed by an interagency task force appointed by Accord Network. Accord Network is an industry network which collaborates to eliminate poverty and establish common reporting and operating principles. GIK are valued and

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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 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.

Non-pharmaceutical 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. Adjustments to expenses resulting from changes in historical loss trends have been insignificant for the years ended September 30, 2018 and 2017. 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 in note 14 to the program and supporting services that received the benefit.

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(u) Non-Operating Activities

Non-operating 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, 2018 and 2017.

(w) Reclassification

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.

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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> |
|-----------------------------------|-------------------|----------------|----------------|----------------|
| Marketable securities: | | | | |
| Government securities | \$ — | 320 | — | 320 |
| Equity securities | 121 | — | — | 121 |
| Mutual funds: | | | | |
| Equities | 8,856 | — | — | 8,856 |
| Bonds | 7,834 | — | — | 7,834 |
| Total marketable securities | <u>\$ 16,811</u> | <u>320</u> | <u>—</u> | <u>17,131</u> |
| Investments in pooled funds: | | | | |
| Cash equivalents | \$ 49,031 | — | — | 49,031 |
| Equity securities | 17,681 | — | — | 17,681 |
| Mutual funds: | | | | |
| Equities | 10,578 | — | — | 10,578 |
| Bonds | 3,903 | — | — | 3,903 |
| Corporate bonds | 8,874 | 340 | — | 9,214 |
| Real estate investment trusts | 4,297 | — | — | 4,297 |
| Master limited partnerships | 6,083 | — | — | 6,083 |
| Other assets | — | 3 | 51 | 54 |
| Total investments in pooled funds | <u>\$ 100,447</u> | <u>343</u> | <u>51</u> | <u>100,841</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 |
| Total assets held in trust | <u>\$ 13,917</u> | <u>—</u> | <u>—</u> | <u>13,917</u> |

Investments are presented in the statement of financial position as of September 30, 2018 as follows:

| | <u>Current investments</u> | <u>Investments held for long- term purposes</u> | <u>Total</u> |
|-----------------------------|--------------------------------|---|--------------|
| Marketable securities | \$ 10,005 | 7,126 | 17,131 |
| Investments in pooled funds | 85,082 | 15,759 | 100,841 |

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The following table presents financial instruments measured at fair value as of September 30, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>2017</u> |
|-----------------------------------|------------------|----------------|----------------|---------------|
| Marketable securities: | | | | |
| Government securities | \$ — | 303 | — | 303 |
| Equity securities | 37 | — | — | 37 |
| Mutual funds: | | | | |
| Equities | 9,189 | — | — | 9,189 |
| Bonds | 9,165 | — | — | 9,165 |
| Total marketable securities | <u>\$ 18,391</u> | <u>303</u> | <u>—</u> | <u>18,694</u> |
| Investments in pooled funds: | | | | |
| Cash equivalents | \$ 32,384 | — | — | 32,384 |
| Equity securities | 18,561 | — | — | 18,561 |
| Mutual funds: | | | | |
| Equities | 10,363 | — | — | 10,363 |
| Bonds | 3,885 | — | — | 3,885 |
| Corporate bonds | 5,587 | 510 | — | 6,097 |
| Real estate investment trusts | 3,967 | — | — | 3,967 |
| Master limited partnerships | 5,663 | — | — | 5,663 |
| Other assets | — | 5 | 202 | 207 |
| Total investments in pooled funds | <u>\$ 80,410</u> | <u>515</u> | <u>202</u> | <u>81,127</u> |
| Charitable trusts receivable | \$ — | — | 13,161 | 13,161 |
| Assets held in trust: | | | | |
| Cash equivalents | \$ 447 | — | — | 447 |
| Mutual funds: | | | | |
| Equities | 7,568 | — | — | 7,568 |
| Bonds | 6,078 | — | — | 6,078 |
| Total assets held in trust | <u>\$ 14,093</u> | <u>—</u> | <u>—</u> | <u>14,093</u> |

Investments are presented in the statement of financial position as of September 30, 2017 as follows:

| | <u>Current investments</u> | <u>Investments held for long- term purposes</u> | <u>Total</u> |
|-----------------------------|--------------------------------|---|--------------|
| Marketable securities | \$ 10,236 | 8,458 | 18,694 |
| Investments in pooled funds | 68,501 | 12,626 | 81,127 |

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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, 2018.

| | <u>Investments</u> | <u>Charitable trusts receivable</u> |
|-------------------------------|--------------------|---|
| Balance at September 30, 2016 | \$ 203 | 11,735 |
| New contributions | 48 | 4,731 |
| Sales | (43) | — |
| Net change in value | <u>(6)</u> | <u>(3,305)</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 | \$ <u>51</u> | <u>11,892</u> |

(4) 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.

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During the year ended September 30, 2018, the Organization had seven donor-restricted endowment funds totaling \$8,823 and one board-designated endowment fund totaling \$441. During the year ended September 30, 2017, the Organization had seven donor-restricted endowment funds totaling \$8,223 and one board-designated endowment fund totaling \$341. During the years ended September 30, 2018 and 2017, these endowments had net investment returns of \$269 and \$470, and amounts appropriated for expenditure of \$340 and \$245, respectively.

(5) Inventory

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

| | <u>2018</u> | <u>2017</u> |
|--|------------------|---------------|
| GIK inventory | \$ 36,774 | 39,861 |
| Food received for monetization or distribution | 919 | 12,758 |
| | <u>\$ 37,693</u> | <u>52,619</u> |

(6) Fixed Assets

Fixed assets comprised the following at September 30:

| | <u>2018</u> | <u>2017</u> |
|--|------------------|-----------------|
| Land | \$ 6,792 | 6,792 |
| Buildings and leasehold improvements | 53,789 | 53,463 |
| Equipment | 15,230 | 17,537 |
| Computer software | 41,628 | 47,041 |
| | 117,439 | 124,833 |
| Less accumulated depreciation and amortization | <u>(69,729)</u> | <u>(76,337)</u> |
| | <u>\$ 47,710</u> | <u>48,496</u> |

Depreciation and amortization expense for the years ended September 30, 2018 and 2017 was \$3,531 and \$4,744, respectively.

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(7) Notes Payable

Notes payable consisted of the following at September 30:

| | 2018 | 2017 |
|--|-------------|-------------|
| Note payable, due in monthly installments of \$390 including interest at 2.5%; final payment due May 2022 | \$ 16,387 | 20,599 |
| Charitable notes payable, interest only at 1.0% – 2.5% | 300 | 300 |
| Charitable note payable, interest at 0%, \$5 is annually released to revenue | — | 5 |
| | 16,687 | 20,904 |
| Less current portion | (4,619) | (4,517) |
| Long-term portion of notes payable | \$ 12,068 | 16,387 |

Scheduled principal payments are due as follows:

| Year ending September 30: | |
|---------------------------|-----------|
| 2019 | \$ 4,619 |
| 2020 | 4,430 |
| 2021 | 4,544 |
| 2022 | 3,094 |
| | \$ 16,687 |

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, 2018 and 2017.

Charitable notes payable are loans from donors where the repayment obligation of any unpaid principal or interest payable will be canceled at the donor's death.

(8) Obligations under Operating Leases

The Organization has commitments related to operating leases for buildings, facilities and equipment at September 30, 2018 and 2017. All operating leases are noncancelable and expire on various dates through 2023.

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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, 2018 are as follows:

| | Operating leases |
|---------------------------|-----------------------------|
| Year ending September 30: | |
| 2019 | \$ 1,096 |
| 2020 | 913 |
| 2021 | 771 |
| 2022 | 577 |
| 2023 | 186 |
| | \$ 3,543 |

Lease and rent expenses for the years ended September 30, 2018 and 2017 were \$1,874 and \$2,556, respectively.

(9) 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 2.3% and 7.0%. The amounts held belong to various investment funds held in trust by the Organization and totaled \$10,130 and \$10,212 for the years ended September 30, 2018 and 2017, respectively.

(10) Net Assets

Unrestricted net assets comprise the following at September 30:

| | 2018 | 2017 |
|--|-------------|-------------|
| Working capital and net fixed assets | \$ 38,779 | 26,495 |
| Donor advised funds and designated funds | 24,399 | 27,217 |
| Charitable gift annuities | 2,127 | 3,667 |
| Undistributed GIK contributions | 14,672 | 15,448 |
| Over (under) funded status of pension | 4,612 | (615) |
| | \$ 84,589 | 72,212 |

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

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|----------------|
| Child sponsorship and childcare ministries | \$ 57,012 | 48,820 |
| Relief and rehabilitation, community development, and Christian impact and leadership projects | 22,942 | 31,519 |
| Domestic programs | 1,409 | 3,212 |
| Term endowments, the income from which is expendable to support World Vision programs | 982 | 1,083 |
| Split-interest agreements, the income from which is unrestricted upon the expiration of certain time restrictions | 13,010 | 14,176 |
| Designated funds | 1,455 | 1,531 |
| Undistributed GIK contributions | 22,102 | 24,389 |
| | <u>\$ 118,912</u> | <u>124,730</u> |

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

| | <u>2018</u> | <u>2017</u> |
|--|-----------------|--------------|
| Endowments invested in perpetuity, the income from which is expendable to support World Vision programs | \$ 7,680 | 7,004 |
| Perpetual trusts | 1,820 | 1,951 |
| | <u>\$ 9,500</u> | <u>8,955</u> |

(11) 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. Non-food 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>2018</u> | <u>2017</u> |
|---|-------------------|----------------|
| Cash grants: | | |
| Cash awards from USAID | \$ 118,121 | 124,752 |
| Cash freight awards from World Food Program | 9,121 | 9,705 |
| Cash awards from other agencies | <u>73,252</u> | <u>46,690</u> |
| Total cash grants | <u>200,494</u> | <u>181,147</u> |
| Monetization grants | 27,605 | 15,805 |
| Commodity grants: | | |
| Food commodities from USAID | 22,680 | 26,551 |
| Food commodities from World Food Program | 60,713 | 64,363 |
| Food commodities from other agencies | 1,158 | 1,116 |
| Non-food products from USAID | 224 | — |
| Non-food products from other agencies | 8,300 | — |
| Cash freight awards from USAID | 6,723 | 12,643 |
| Cash freight awards from other agencies | <u>850</u> | <u>795</u> |
| Total commodity grants | <u>100,648</u> | <u>105,468</u> |
| | <u>\$ 328,747</u> | <u>302,420</u> |

(12) Gifts-in-Kind Revenue and Expense

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

| | <u>2018</u> | <u>2017</u> |
|----------------------------|-------------------|----------------|
| Household goods | \$ 71,125 | 12,500 |
| Building supplies | 34,992 | 25,248 |
| Clothing | 19,342 | 36,805 |
| School and office supplies | 10,312 | 9,700 |
| Books | 9,031 | 18,215 |
| Toys | 7,778 | 25,401 |
| Medical supplies | 7,324 | 7,383 |
| Pharmaceuticals | 2,607 | 17,384 |
| Other | <u>5,830</u> | <u>5,487</u> |
| | <u>\$ 168,341</u> | <u>158,123</u> |

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

| | <u>2018</u> | <u>2017</u> |
|----------------------------|-------------------|----------------|
| Domestic programs | \$ 102,569 | 76,725 |
| World Vision International | 33,274 | 57,231 |
| Partner agencies | <u>35,107</u> | <u>32,845</u> |
| | <u>\$ 170,950</u> | <u>166,801</u> |

(13) Program Services

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

| | <u>2018</u> | | | <u>2017</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 | \$ 588,251 | 17,129 | 2,880 | 548,970 | 14,034 | 3,634 |
| Gifts-in-kind | 59,982 | 110,968 | — | 86,648 | 80,153 | — |
| Grant commodities | <u>128,253</u> | <u>—</u> | <u>—</u> | <u>121,273</u> | <u>—</u> | <u>—</u> |
| Total program services | <u>\$ 776,486</u> | <u>128,097</u> | <u>2,880</u> | <u>756,891</u> | <u>94,187</u> | <u>3,634</u> |

(14) 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>2018</u> | <u>2017</u> |
|--------------------------------|-----------------|--------------|
| Management and general | \$ 608 | 744 |
| Fundraising | 1,638 | 1,467 |
| International programs | 544 | 632 |
| Public awareness and education | <u>180</u> | <u>167</u> |
| | <u>\$ 2,970</u> | <u>3,010</u> |

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(15) Cash Balance Retirement Plan

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

The following table sets forth the actuarial assumptions related to the Plan. Assumptions as of September 30, 2018 and 2017 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 3.85 % | 3.25 % |
| Expected return on plan assets | 6.50 | 6.50 |
| Rate of compensation increase | N/A | 3.50 |

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:

| | 2018 | | 2017 | |
|--|-------------------------------|-----------------------|-------------------------------|-----------------------|
| | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| Projected benefit obligations at beginning of year | \$ 92,187 | 135,132 | 93,265 | 139,347 |
| Change in projected benefit obligations: | | | | |
| Service cost | 4,744 | 6,671 | 5,150 | 7,510 |
| Interest cost | 2,921 | 4,107 | 2,580 | 3,725 |
| Curtailment | (6,949) | (9,774) | — | — |
| Changes in assumptions | (2,103) | (6,688) | (3,035) | (4,541) |
| Actuarial (gain)/loss | 1,450 | 2,039 | (1,598) | (2,342) |
| Benefits paid | (4,500) | (8,070) | (4,043) | (8,374) |
| Expenses paid | (119) | (167) | (132) | (193) |
| Projected benefit obligations at end of year | <u>\$ 87,631</u> | <u>123,250</u> | <u>92,187</u> | <u>135,132</u> |
| Accumulated benefit obligations at end of year | \$ 87,631 | 123,250 | 84,788 | 124,287 |
| Plan assets at fair value at beginning of year | \$ 91,572 | 134,230 | 87,021 | 130,017 |
| Change in plan assets: | | | | |
| Actual return on plan assets | 2,662 | 3,744 | 7,627 | 11,180 |
| Employer contributions | — | — | 1,066 | 1,600 |
| Benefits paid | (4,500) | (8,070) | (4,043) | (8,374) |
| Expenses paid | (119) | (167) | (132) | (193) |
| Changes in assumptions | 2,628 | — | 33 | — |
| Plan assets at fair value at end of year | <u>\$ 92,243</u> | <u>129,737</u> | <u>91,572</u> | <u>134,230</u> |
| Funded status | \$ 4,612 | 6,487 | (615) | (902) |
| Asset/(liability) recognized in the statement of financial position as prepaid pension/(accrued pension liability) | \$ 4,612 | | (615) | |
| Pension actuarial gain recognized in the change in unrestricted net assets under ASC 715 | \$ (7,494) | | (7,951) | |

WORLD VISION, INC. AND AFFILIATES
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(In thousands of dollars)

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

| | 2018 | | 2017 | |
|--------------------------------|-----------------------|---------------|-----------------------|---------------|
| | World Vision, Inc. | Total Plan | World Vision, Inc. | Total Plan |
| Service cost | \$ 4,744 | 6,671 | 5,150 | 7,510 |
| Interest cost | 2,921 | 4,107 | 2,580 | 3,725 |
| Expected return on plan assets | (5,800) | (8,155) | (5,601) | (8,086) |
| Amortization of net loss | 402 | 565 | 1,259 | 1,818 |
| Net periodic benefit cost | <u>\$ 2,267</u> | <u>3,188</u> | <u>3,388</u> | <u>4,967</u> |

(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, 2018:

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

WORLD VISION, INC. AND AFFILIATES
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The following table presents assets that are measured at fair value at September 30, 2017:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>2017</u> |
|--|----------------|----------------|----------------|-------------|
| Cash equivalents | \$ 183 | 780 | — | 963 |
| Equity securities | 24,560 | — | 2 | 24,562 |
| Mutual funds: | | | | |
| Equities | 24,839 | — | — | 24,839 |
| Bonds | 9,396 | — | — | 9,396 |
| Government agencies | 12,689 | — | — | 12,689 |
| Other fixed income | 49,622 | — | — | 49,622 |
| Total plan assets measured at fair value | 121,289 | 780 | 2 | 122,071 |
| Plan assets measured at NAV | — | — | — | 12,159 |
| Total plan assets | \$ 121,289 | 780 | 2 | 134,230 |

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, 2019 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, in the years ended September 30:

| | <u>World Vision, Inc.</u> | <u>Total Plan</u> |
|-----------|-------------------------------|-----------------------|
| 2019 | \$ 12,308 | 18,462 |
| 2020 | 8,617 | 12,925 |
| 2021 | 8,978 | 13,466 |
| 2022 | 8,433 | 12,650 |
| 2023 | 6,036 | 9,054 |
| 2024-2028 | 22,525 | 33,789 |
| | \$ 66,897 | 100,346 |

WORLD VISION, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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(16) 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 will begin receiving enhanced benefits in existing 403(b) plans in lieu of further contributions to the frozen cash balance plan. The Organization contributed \$1,832 and \$1,743 for the years ended September 30, 2018 and 2017, respectively.

(17) 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 2017, 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.

(18) Subsequent Events

Subsequent events have been evaluated through December 10, 2018, 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.

