



**WORLD VISION INTERNATIONAL
AND CONSOLIDATED AFFILIATES**

Consolidated Financial Statements

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
World Vision International:

We have audited the accompanying consolidated financial statements of World Vision International and consolidated affiliates (the Organization), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of World Vision International and consolidated affiliates as of September 30, 2016 and 2015, 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

April 21, 2017

**WORLD VISION INTERNATIONAL
AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Financial Position

September 30, 2016 and 2015

(Amounts in thousands)

Assets	2016	2015
Cash and cash equivalents	\$ 333,649	324,238
Investments (note 4)	76,503	89,319
Due from unconsolidated affiliates (note 5)	4,449	41,568
Accounts receivable	11,774	9,311
Microfinance loans receivable, net (note 6)	489,114	470,848
Inventories	100,972	109,043
Prepaid expenses	32,182	34,112
Land, buildings and equipment, net (note 7)	87,747	94,374
Foreign exchange contracts (notes 4 and 8)	17,033	27,950
Other assets	17,718	14,247
Total assets	\$ 1,171,141	1,215,010
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 98,386	93,789
Accrued expenses	95,529	94,018
Deposits from microfinance institution clients	56,781	39,877
Due to unconsolidated affiliates (note 5)	225	619
Notes payable (note 9)	317,759	300,518
Foreign exchange contracts (notes 4 and 8)	21,930	12,872
Other liabilities	20,353	18,475
Total liabilities	610,963	560,168
Net assets (note 10):		
Unrestricted:		
Noncontrolling financial interest in subsidiaries	(8,650)	6,236
Other unrestricted	283,657	307,729
Total unrestricted net assets	275,007	313,965
Temporarily restricted	285,171	340,877
Total net assets	560,178	654,842
Total liabilities and net assets	\$ 1,171,141	1,215,010

See accompanying notes to consolidated financial statements.

**WORLD VISION INTERNATIONAL
AND CONSOLIDATED AFFILIATES**

Consolidated Statements of Activities

Year ended September 30, 2016

(Amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues, gains, and other support from donors (note 12):			
Contributions	\$ 150,676	1,277,875	1,428,551
Gifts-in-kind	—	452,135	452,135
Net assets released from restrictions	<u>1,785,716</u>	<u>(1,785,716)</u>	<u>—</u>
Total revenues from donors	1,936,392	(55,706)	1,880,686
Other revenue and gains	196,674	—	196,674
Change in cumulative unrealized gain (loss) on exchange contracts (note 8)	<u>(19,975)</u>	<u>—</u>	<u>(19,975)</u>
Total revenues, gains, and other support	<u>2,113,091</u>	<u>(55,706)</u>	<u>2,057,385</u>
Expenses:			
Program services:			
International relief and community development	1,781,513	—	1,781,513
Microenterprise development	188,301	—	188,301
Program support services	<u>81,201</u>	<u>—</u>	<u>81,201</u>
Total program services	<u>2,051,015</u>	<u>—</u>	<u>2,051,015</u>
Administrative costs:			
Supporting services	79,173	—	79,173
Fund-raising	<u>23,569</u>	<u>—</u>	<u>23,569</u>
Total administrative costs	<u>102,742</u>	<u>—</u>	<u>102,742</u>
Total expenses	<u>2,153,757</u>	<u>—</u>	<u>2,153,757</u>
Change in net assets before the pension actuarial gain	(40,666)	(55,706)	(96,372)
Pension actuarial gain (note 13)	<u>1,708</u>	<u>—</u>	<u>1,708</u>
Change in net assets before discontinued operations	(38,958)	(55,706)	(94,664)
Gain on sale of subsidiary	<u>—</u>	<u>—</u>	<u>—</u>
Change in net assets	(38,958)	(55,706)	(94,664)
Net assets at beginning of year	<u>313,965</u>	<u>340,877</u>	<u>654,842</u>
Net assets at end of year	<u>\$ 275,007</u>	<u>285,171</u>	<u>560,178</u>

See accompanying notes to consolidated financial statements.

**WORLD VISION INTERNATIONAL
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Consolidated Statements of Activities

Year ended September 30, 2015

(Amounts in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Revenues, gains, and other support from donors (note 12):			
Contributions	\$ 153,314	1,454,935	1,608,249
Gifts-in-kind	—	413,531	413,531
Net assets released from restrictions	<u>1,938,791</u>	<u>(1,938,791)</u>	<u>—</u>
Total revenues from donors	2,092,105	(70,325)	2,021,780
Other revenue and gains	176,718	—	176,718
Change in cumulative unrealized gain (loss) on exchange contracts (note 8)	<u>(241)</u>	<u>—</u>	<u>(241)</u>
Total revenues, gains, and other support	<u>2,268,582</u>	<u>(70,325)</u>	<u>2,198,257</u>
Expenses:			
Program services:			
International relief and community development	1,935,319	—	1,935,319
Microenterprise development	170,227	—	170,227
Program support services	<u>83,009</u>	<u>—</u>	<u>83,009</u>
Total program services	<u>2,188,555</u>	<u>—</u>	<u>2,188,555</u>
Administrative costs:			
Supporting services	71,571	—	71,571
Fund-raising	<u>24,791</u>	<u>—</u>	<u>24,791</u>
Total administrative costs	<u>96,362</u>	<u>—</u>	<u>96,362</u>
Total expenses	<u>2,284,917</u>	<u>—</u>	<u>2,284,917</u>
Change in net assets before the pension actuarial loss	(16,335)	(70,325)	(86,660)
Pension actuarial loss (note 13)	<u>(8,613)</u>	<u>—</u>	<u>(8,613)</u>
Change in net assets before discontinued operations	(24,948)	(70,325)	(95,273)
Gain on sale of subsidiary (note 17)	<u>5,299</u>	<u>—</u>	<u>5,299</u>
Change in net assets	(19,649)	(70,325)	(89,974)
Net assets at beginning of year	<u>333,614</u>	<u>411,202</u>	<u>744,816</u>
Net assets at end of year	<u>\$ 313,965</u>	<u>340,877</u>	<u>654,842</u>

See accompanying notes to consolidated financial statements.

**WORLD VISION INTERNATIONAL
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Consolidated Statements of Cash Flows

Years ended September 30, 2016 and 2015

(Amounts in thousands)

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (94,664)	(89,974)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on sale of subsidiary	—	(5,299)
Pension actuarial loss (gain)	(1,708)	8,613
Gifts-in-kind, net	8,071	52,082
Unrealized and realized loss on investments	431	894
Change in cumulative unrealized loss on foreign exchange contracts	19,975	241
Depreciation and amortization	13,721	12,539
Provision for loan losses	38,262	13,398
Foreign currency revaluation	(2,649)	23,795
Loss on disposal of equipment	437	180
Gain on restructured notes payable	(4,878)	—
Changes in assets and liabilities:		
Accounts receivables	(2,463)	9,577
Due from/to unconsolidated affiliates	36,725	30,975
Prepaid expenses	1,930	(485)
Other assets	(3,471)	2,906
Accounts payable and accrued expenses	7,817	(13,162)
Other liabilities	1,878	(5,258)
Net cash provided by operating activities	19,414	41,022
Cash flows from investing activities:		
Purchases of investments	(69,810)	(88,197)
Proceeds from sales and maturities of investments	82,195	91,297
Proceeds from repayment of microfinance loans	701,963	662,101
Issuance of microfinance loans	(759,932)	(746,994)
Purchase of land, buildings, and equipment	(10,577)	(12,720)
Proceeds from sale of equipment	3,046	1,243
Proceeds from sale of subsidiary	—	53,500
Taxes and settlement costs from sale of subsidiary	—	(11,443)
Net cash used in investing activities	(53,115)	(51,213)
Cash flows from financing activities:		
Payments on notes payable	(95,792)	(88,663)
Proceeds received on notes payable	122,000	136,015
Deposits from microfinance institution clients	16,904	9,764
Net cash provided by financing activities	43,112	57,116
Net increase in cash and cash equivalents	9,411	46,925
Cash and cash equivalents, beginning of year	324,238	277,313
Cash and cash equivalents, end of year	\$ 333,649	324,238
Supplemental cash flow disclosures:		
Cash paid during the year for interest	\$ 34,623	21,161
Cash paid during the year for taxes	3,640	3,646

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Amounts in thousands)

(1) Organization

World Vision International (WVI) and its consolidated affiliates (collectively, the Organization) is a network of international not-for-profit organizations organized exclusively for purposes which are both religious and charitable, namely to witness to Jesus Christ by life, deed, word and sign by rendering holistic Christian service throughout the world among the poor without regard to race, color, creed or sex.

WVI follows the vision statement below:

“Our vision for every child, life in all its fullness;

Our prayer for every heart, the will to make it so.”

WVI is the lead organization in a network of worldwide affiliated organizations which use the World Vision trademark and which are referred to as “the Partnership.” (The word Partnership is used in a broad, informal sense, rather than in a technical legal sense).

Offices in this Partnership can be viewed in two ways, by function and type. Function refers to the roles the offices play in the operation of the Partnership. Type describes an entity’s legal and accounting relationship within the Partnership.

Major functions in the Partnership include:

WVI – Provides the formal international structure for the Partnership. WVI establishes global governance and standards, and consolidates donations, the majority of which are received from Support Offices. WVI uses donations received for relief aid and community development work in Ministry Offices. WVI is also the operating entity in many Ministry Office countries, and some Support Office countries.

Ministry Offices – Primarily carry out the relief aid and community development work in their respective countries. Some Ministry Offices also raise local funds for relief aid and community development.

Regional and International Offices – Carry out the regional and global functions of WVI.

Support Offices – Raise funds to support WVI’s programs outside of their home countries; provide technical and other forms of support and in many cases assume contractual liability for the programs they fund. Some also perform relief or development programs within their own countries. Most of the Support Offices are not consolidated. Refer to note 1 for affiliates WVI elects to consolidate.

VisionFund International (VFI) – VFI is a not-for-profit corporation that was established for the purpose of developing and administering the Partnership’s microfinance network. The activities of VFI involve ownership of certain microfinance institutions (MFIs), and lending of funds and providing oversight to MFIs not owned by VFI.

Microfinance Institutions (MFIs) – The MFIs’ primary purpose is making small loans to individuals who lack access to normal banking facilities. These loans are used to set up small businesses from which individuals can earn a living for themselves and their families.

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(Amounts in thousands)

There are four types of entities in the Partnership:

WVI – The legal entity of WVI (i.e., including its branch offices around the world, all consolidated into these financial statements):

Ministry offices:

Afghanistan	Laos
Americas Shared Service Center	Lebanon
Angola	Lesotho
Armenia*	Mali
Azerbaijan*	Mauritania
Bangladesh	Mongolia
Bosnia-Herzegovina	Mozambique
Burundi	Myanmar
Cambodia	Nepal
Central African Republic	Nicaragua
Chad	Niger
Chile	North Korea
China	Pakistan
Colombia	Rwanda
Congo – Democratic Republic of	Senegal
Cyprus	Sierra Leone
Dominican Republic	Somalia
East Timor***	South Caucasus
Ethiopia	South Sudan
Georgia*	Sudan
Haiti	Turkey
Iraq	Vietnam
Jordan	Zimbabwe
Kosovo**	

* reported as World Vision South Caucasus

** reported as World Vision Albania & Kosovo

*** reported as Pacific Timor Leste

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Regional offices:

East Africa	South Asia & Pacific
East Asia	Southern Africa
Latin America	West Africa
Middle East & East Europe	

International offices:

Dubai	Los Angeles
Gibraltar	Manila
Johannesburg	New York
Kuala Lumpur	Seattle
London	Washington, DC

Support offices:

Singapore

Microfinance programs:

Name	Country
Senegal Micro Finance	Senegal
World Vision Vietnam Micro Enterprise Development Program	Vietnam

Subsidiaries of WVI – Separate legal entities, which WVI owns or controls, or which are owned or controlled by an entity, which is consolidated into these financial statements. These entities are consolidated with WVI as required by U.S. Generally Accepted Accounting Principles (U.S. GAAP):

Ministry offices:

Albania**	Jerusalem West Bank Gaza
Bolivia	Malawi
Costa Rica	Papua New Guinea*
Ecuador	Solomon Islands*
Ghana	Vanuatu*

*reported as Pacific Timor Leste

**reported as World Vision Albania & Kosovo

International offices:

Geneva

Support offices:

Spain

VisionFund International (VFI)

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(Amounts in thousands)

Microfinance Institutions (consolidated by VFI):

Name	Country
VisionFund Albania LLC	Albania
SEF International Universal Credit Organization LLC	Armenia
VisionFund Azercredit LLC	Azerbaijan
VisionFund Cambodia Ltd.	Cambodia
VisionFund DRC S.A.	Congo – Democratic Republic of
VisionFund Republica Dominicana SAS	Dominican Republic
VisionFund Ecuador	Ecuador
VisionFund Caucasus LLC	Georgia
VisionFund Credo Foundation	Georgia
VisionFund Ghana Money Lending Ltd.	Ghana
VisionFund Guatemala	Guatemala
FUNED VisionFud OPDF	Honduras
VisionFund Kenya Ltd.	Kenya
VisionFund Ltd.	Malawi
Vision F Mexico, S.A. DE C.V., SOFOM E.N.R.	Mexico
VisionFund Mongolia	Mongolia
MFI Monte Credit LLC	Montenegro
VisionFund AgrolInvest LLC	Montenegro
VisionFund Myanmar Company Limited	Myanmar
VisionFund Netherlands I B.V.	Netherlands
VisionFund Netherlands II B.V.	Netherlands
EDPYME Credivision S.A.	Peru
VisionFund Rwanda Ltd.	Rwanda
AgrolInvest Fond LLC	Serbia
AgrolInvest Foundation Serbia	Serbia
VisionFund Holdings (Private) Ltd.	Sri Lanka
VisionFund Lanka Ltd.	Sri Lanka
VisionFund Tanzania MFC Limited	Tanzania
VisionFund Uganda Ltd.	Uganda
VisionFund Zambia Ltd.	Zambia

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Microfinance Institutions (not consolidated by VFI):

Name	Country
Fundación Boliviana para el Desarrollo	Bolivia
Micro Credit Organization 'EKI' Sarajevo	Bosnia
Agencia Nacional de Desenvolvimento Microempresarial	Brazil
Fondo de Inversiones para el Desarrollo de la Microempresa	Dominican Republic
Fundación Salvadoreña para El Desarrollo	El Salvador
VisionFund Microfinance Institution (S.C.)	Ethiopia
Association of Productive Entrepreneurship Development	Ghana
Asociación Gutemalteca para del Desarrollo	Guatemala
Fundación para el Desarrollo de Honduras OPD	Honduras
Innovative Microfinance for Poverty Alleviation and Community Transformation	India
Mitra Masyarakat Sejahtera Foundation	Indonesia
PT. VisionFund Indonesia	Indonesia
KosInvest	Kosovo
Reseau de Micro Institutions de Croissance de Revenue	Mali
Fundación Realidad, A.C.	Mexico
AgroInvest NVO Podgorica	Montenegro
Fundacion 4i-2000	Nicaragua
Entidad de Desarrollo de la Pequeña y Micro Empresa Credivison	Peru
Community Economic Ventures, Inc.	Philippines
World Vision International Serbia I Crane Gora Beograd	Serbia
VisionFund Lanka (Gte.) Ltd.	Sri Lanka
VisionFund Tanzania, Trust	Tanzania
World Vision Foundation of Thailand	Thailand

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Affiliates WVI elects to consolidate – Separate affiliated entities, which are not for legal or accounting purposes owned or controlled by WVI. WVI has elected to include these affiliated entities as a permissive discretionary consolidation allowed under U.S. GAAP where WVI has a level of control and economic interest in these entities and consolidation is considered meaningful to WVI's financial statements:

Ministry offices:

Brazil	Philippines
El Salvador	Romania
Guatemala	South Africa
Honduras	Sri Lanka
India	Swaziland
Indonesia	Tanzania
Kenya	Thailand
Mexico	Uganda
Peru	Zambia

Affiliates, which are not consolidated – Members of the Partnership, which are not owned or controlled by WVI and are not consolidated:

Support offices:

Australia	Japan
Austria	Korea
Brussels & European Union Representation	Malaysia
Canada	Netherlands
Finland	New Zealand
France	Switzerland
Germany	Taiwan
Hong Kong	United Kingdom
Ireland	United States
Italy	

(2) Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements of the Organization are prepared on the accrual basis of accounting in accordance with U.S. GAAP.

(b) Consolidation

All significant intercompany accounts and transactions among the consolidated entities have been eliminated in the accompanying consolidated financial statements.

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(Amounts in thousands)

(c) Financial Instruments

Financial instruments include cash and cash equivalents, accounts and microfinance loans receivable, accounts due from/to unconsolidated affiliates, accounts payable, accrued expenses, and notes payable, and are stated at carrying cost at year-end. Other financial instruments held at year-end are investments and forward exchange contracts, which are stated at fair value.

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, and money market accounts with original maturities of 90 days or less at the date of acquisition.

(e) Investments

Investments are recorded at fair value and consist of time deposits with financial institutions as well as debt and equity securities. Current investment policy for domestically held securities is to purchase investments with a credit rating of A or better. Other investments are held locally at ministry offices around the world. Ministry offices have similar credit quality policies and these investments are designed to preserve capital. Gains and losses on investments are recorded to other revenue and gains in the consolidated statements of activities.

(f) Accounts and Microfinance Loans Receivable

Accounts and microfinance loans receivable are carried at the outstanding receivable amount, less an estimate made for uncollectible receivables. Management determines the allowance for uncollectible accounts and microfinance loans receivable by identifying troubled accounts, considering the debtor's financial condition, current economic conditions, and using historical experience applied to an aging of the accounts and microfinance loans receivable. Recoveries of receivables previously written off are recorded when received.

Microfinance loans receivable primarily consist of amounts loaned to the entrepreneurial poor who lack access to normal banking facilities. Microfinance loans receivable represent the unpaid principal balance of loans, less an allowance for uncollectible loans. Interest is accrued based on the rate stated in the note and accrued on microfinance loans receivable unless the receivables are deemed uncollectible. If a loan becomes over 180 days past due, and is deemed uncollectible, it is written off. The ultimate recovery of all loans is susceptible to future market factors beyond the Organization's control. These factors may result in losses or recoveries differing significantly from those provided for in the consolidated financial statements.

(g) Inventories

The Organization's inventories consist of emergency relief supplies for disaster response, donated goods (i.e., clothing, books, pharmaceuticals, etc.), food commodities held for monetization and distribution, and other materials for humanitarian programs. Purchased inventory is stated at the lower of cost or net realizable value. Cost is principally determined by an average-cost method applied to a physical inventory. Donated inventory is recorded at the estimated fair value at the time of donation.

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(h) Land, Buildings and Equipment, Net

Land, buildings and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. Buildings and improvements are depreciated over 3 to 25 years, furniture and equipment 3 to 10 years, computers and software 2 to 10 years and vehicles 5 years. Due to the conditions associated with the Organization operating across the world, equipment purchased for projects at the Ministry Offices is expensed in the year of acquisition. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred. When assets are disposed of or sold, the related costs and accumulated depreciation are removed from the accounts and any gain or loss upon disposition is included in the consolidated statements of activities.

Land, buildings and equipment are reviewed for impairment 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 the carrying value.

(i) 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 aggregate liability for claims incurred. Actual results could differ from those estimates.

(j) Contribution Revenue Recognition

WVI receives unconditional promises to give funds from unconsolidated national support offices. Unconditional promises to give are recorded as revenue in the year the promises are made. All unconditional promises to give that were not yet fulfilled as of September 30, 2016 and 2015 are recorded in due from unconsolidated affiliates and detailed in note 5. WVI also receives cash donations from affiliated entities and unaffiliated donors. Revenue is recognized on these donations at the time of the donation.

(k) 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. 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 good's condition and utility for use at the time the goods are contributed by the donor. The Organization does not sell donated GIK and only distributes the goods for program use.

Pharmaceutical contributions are valued using a hierarchy of pricing inputs that approximates wholesale market price data obtained from a reliable third-party source, in countries representing principal exit markets where such products are approved for sale.

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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 wholesale market 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.

(l) Other Revenue and Gains

Other revenue and gains consists primarily of interest on microfinance loans and investment income.

(m) 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 have been allocated proportionately among program and administrative costs primarily based upon direct costs.

(n) Administrative Costs

Administrative costs are categorized into supporting services and fund-raising activities. Supporting services are activities that are not identifiable with a single program or fund-raising activity but that are indispensable to the conduct of those activities and to the Organization’s existence. They include oversight, business management, general record-keeping, budgeting, financing, and all general management and administration activities. Fund-raising activities are those activities that encourage potential donors to contribute money, securities, services, materials, facilities, and other assets or time.

(o) Foreign Currency Translation Adjustments

The assets and liabilities of non-U.S. WVI branch offices and consolidated affiliates, whose functional currencies are the respective country’s local currency, are translated into U.S. dollars at year-end exchange rates and revenue and expenses are translated at weighted average rates during the year. The resulting translation adjustment is included in program services expense in the consolidated statements of activities.

(p) 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 and 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. Material estimates relate primarily to the determination of the allowance for loan losses and the valuation of GIK.

(3) Other Disclosures

(a) Concentration of Credit Risk

The Organization maintains certain cash accounts at various financial institutions in the United States and foreign countries. The total deposits at institutions in the United States at times exceed the amount

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covered by bank deposit insurance. Many of the deposits held at institutions outside of the United States are not covered by local depository insurance. In the event of nonperformance by the other parties to investment transactions, the Organization is exposed to loss for the amount of cash in excess of the insurance coverage. To date, the Organization has not sustained a loss due to nonperformance of a financial institution.

(b) Net Assets

Net assets of the Organization are reported within the following categories:

Unrestricted net assets – Unrestricted net assets represent those resources of the Organization that are not subject to donor-imposed restrictions or law. The only limits on unrestricted net assets are broad limits resulting from the nature of the Organization and the purposes specified in its articles of incorporation or bylaws, and limitations resulting from contractual agreements, if any.

Temporarily restricted net assets – Temporarily restricted net assets represent contributions and other inflows of assets that are subject to donor-imposed restrictions or law, which can be fulfilled by actions of the Organization pursuant to those stipulations or by the passage of time.

Expenses are reported as decreases in unrestricted net assets. Expiration of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another is reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions are recorded as restricted revenue when received and when the restriction expires, the net assets are shown as released from restriction on the consolidated statements of activities.

(c) Tax Status

WVI is a not-for-profit organization exempt from federal income and California state franchise taxes under the provisions of Internal Revenue Code Section 501(c)(3) and Section 23701d of the California Revenue and Taxation Code. However, WVI remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements as a whole. Accounting Standards Codification (ASC) Topic 740 (ASC 740), *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. Management believes there are no such uncertain tax positions for the Organization for the years ended September 30, 2016 and 2015.

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The foreign World Vision offices that are not part of the entity of WVI (as defined in note 1) are separate not-for-profit organizations organized within their respective countries. They are subject to the respective local tax laws. Taxes recorded in program services expense and supporting services expense in the accompanying consolidated statements of activities consist entirely of non-U.S. taxes related to the operations of the foreign consolidated entities.

MFIs are subject to their respective local tax laws, pursuant to which some are taxable and some are not taxable (or tax-exempt). Taxes totaling \$4,294 and \$3,461 for the years ended September 30, 2016 and 2015, respectively, are recorded in program services expense in the accompanying consolidated statements of activities and consist entirely of non-U.S. taxes related to the operations of the foreign consolidated entities.

(4) Fair Value

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 or most advantageous market of the asset. A three-tier hierarchy was established by the Financial Accounting Standards Board (FASB) to classify measurement inputs for determining fair value for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use 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 or liabilities.

In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the asset in its entirety 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 assets that are measured at fair value on a recurring basis at September 30, 2016:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
Assets:			
Investments:			
Certificates of deposit	\$ 55,704	—	55,704
Domestic government securities	6,043	—	6,043
Foreign government securities	9,418	—	9,418
Foreign corporate stocks	9	9	—
Mutual funds and other	4,110	4,110	—
Domestic corporate debt	1,219	—	1,219
Total investments	<u>\$ 76,503</u>	<u>4,119</u>	<u>72,384</u>
Foreign exchange currency contracts	\$ 17,033	—	17,033
Liabilities:			
Foreign exchange currency contracts	\$ 21,930	—	21,930

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The following table presents assets that are measured at fair value on a recurring basis at September 30, 2015:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>
Assets:			
Investments:			
Certificates of deposit	\$ 69,842	—	69,842
Domestic government securities	8,834	—	8,834
Foreign government securities	3,914	3,914	—
Foreign corporate stocks	13	13	—
Mutual funds and other	3,447	3,447	—
Domestic corporate debt	3,269	—	3,269
Total investments	<u>\$ 89,319</u>	<u>7,374</u>	<u>81,945</u>
Foreign exchange currency contracts	\$ 27,950	—	27,950
Liabilities:			
Foreign exchange currency contracts	\$ 12,872	—	12,872

Level 2 investments primarily consist of certificates of deposit held at the National Offices' local banks. Level 2 investments also include time deposits held with the National Offices' local government and debt securities held at the Global Center. The fair value of these investments is determined through the use of other significant observable inputs (including quoted prices for similar investments, interest rates, etc.).

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(5) Due from/to Unconsolidated Affiliates

Amounts due from/to unconsolidated affiliates arise from short-term transactions relating to project commitments and investments held for unconsolidated affiliates. Amounts due from/to unconsolidated affiliates at September 30, 2016 and 2015 are as follows:

	2016	2015
Due from unconsolidated affiliates:		
World Vision United States	\$ 2,872	11,710
World Vision Germany	650	3,139
World Vision France	350	413
World Vision Canada	279	—
World Vision Switzerland	148	—
World Vision Italy	75	35
World Vision Austria	38	7
World Vision Hong Kong	24	—
World Vision Taiwan	13	—
World Vision Korea	—	25,866
World Vision Netherlands	—	398
Total due from unconsolidated affiliates	\$ 4,449	41,568
	2016	2015
Due to unconsolidated affiliates:		
World Vision Germany	\$ 225	482
World Vision Canada	—	137
Total due to unconsolidated affiliates	\$ 225	619

(6) Microfinance Loans Receivable

WVI operates microenterprise development activities in many countries primarily through microfinance institutions. These community-based loan programs are designed to assist individuals without access to normal banking resources with loans for the development of small business enterprises. These loans consist of funds lent to entrepreneurial individuals, solidarity groups, and community banks for the purpose of furthering economic development in the communities served. Amounts in microfinance loans receivable represent funds lent to the entrepreneurial poor in the respective areas of operation.

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Microfinance loans receivable, net at September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Microfinance loans receivable, gross	\$ 525,675	483,987
Less loan loss allowance	<u>(36,561)</u>	<u>(13,139)</u>
Microfinance loans receivable, net	<u>\$ 489,114</u>	<u>470,848</u>

The average loan amount varies by country from less than three hundred dollars to four thousand dollars. The average loan terms commonly range from 3 to 42 months with a weighted average maturity of approximately 16 months.

Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ending September 2016 and 2015, the weighted average annual interest rates charged was 29%. In 2016, the average loan portfolio for the Organization's consolidated MFIs was \$14,771, with the largest consolidated MFI loan portfolio being \$140,398.

Loans to MFI clients were concentrated in the following regions as of September 30, 2016 and 2015:

<u>Region of operations</u>	<u>2016</u>	<u>2015</u>
Africa	\$ 78,016	57,115
Latin America/Caribbean	112,763	103,146
Middle East/Eastern Europe	133,793	161,322
Asia/Pacific	<u>201,103</u>	<u>162,404</u>
Total	<u>\$ 525,675</u>	<u>483,987</u>

An aging analysis of microfinance loans receivable at September 30, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Current or less than 30 days past due	\$ 484,803	467,792
31–60 days past due	2,322	5,246
61–90 days past due	1,632	3,491
91 days or more past due	15,329	7,458
Restructured loans	<u>21,589</u>	<u>—</u>
	<u>\$ 525,675</u>	<u>483,987</u>

The Organization generally evaluates credit quality based on the aging of loans and considers loans over 91 days as impaired. Loans are evaluated collectively for impairment.

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Changes in the allowance for loan losses for the years ended September 30, 2016 and 2015 are as follows:

<u>Allowance for loan loss</u>	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 13,139	9,516
Loans written off	(10,209)	(7,324)
Provision for loan loss	38,262	13,398
Currency valuation change	(4,631)	(2,451)
End of year	<u>\$ 36,561</u>	<u>13,139</u>

In the years ending September 30, 2016 and 2015, funds recovered from loans written off totaled \$3,641 and \$3,899, respectively. These amounts are included within other revenue and gains on the accompanying consolidated statements of activities. As of September 30, 2016, based on historical loan performance and aging analysis, the risks related to losses on the loan portfolio are limited and are sufficiently covered by the allowance for loan losses.

In the year ended September 30, 2016, the terms to certain loans by VF Azercredit to MFI clients were modified and considered to be troubled debt restructuring (note 15).

(7) Land, Buildings and Equipment, Net

Land, buildings and equipment, net at September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 16,518	16,963
Buildings and improvements	47,725	47,746
Computers and software	67,288	62,729
Vehicles	9,940	9,397
Furniture and other equipment	10,213	9,348
Total land, buildings and equipment	151,684	146,183
Less accumulated depreciation	(63,937)	(51,809)
Total land, buildings and equipment, net	<u>\$ 87,747</u>	<u>94,374</u>

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 was \$13,721 and \$12,539, respectively.

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(8) Foreign Exchange Contracts

The Organization receives most of its funds from unconsolidated national support offices throughout the world (as discussed in note 12, Contributions and Gift-in-Kind revenues). Planned fundings are made annually by the Organization to ministry offices and MFIs in the local currency of the respective countries. In order to protect against adverse fluctuations in such currencies, the Organization may enter into foreign currency forward (FOREX) contracts, which provide for the future exchange of funds at agreed-upon rates. These agreements are recorded at fair value at September 30, 2016 and 2015. Any unrealized gains or losses as of September 30, 2016 and 2015 are recognized in the consolidated statements of activities. Any realized gains or losses as of September 30, 2016 and 2015 are recognized in contributions revenue in the consolidated statements of activities. It is the Organization's general policy and practice to hold such contracts until maturity.

For the years ended September 30, 2016 and 2015, the Organization recorded a change in cumulative unrealized losses of \$19,975 and \$241, respectively, on FOREX contracts held.

At September 30, 2016 and 2015, the Organization had in place foreign currency contracts for purchases of U.S. dollars with notional amounts totaling \$612,991 and \$583,950, respectively, and sales of U.S. dollars for foreign currencies with notional amounts totaling \$174,056 and \$311,626, respectively. At September 30, 2016 and 2015, the fair values of FOREX contracts held recognized in the consolidated statements of financial position are assets of \$17,033 and \$27,950 and liabilities of \$21,930 and \$12,872, respectively.

(9) Notes Payable

Notes payable represent amounts received from various foundations, individuals, unconsolidated national support offices, and banking organizations, which extended loans to the Organization to provide funding for its activities. At September 30, 2016 and 2015, a total of \$317,759 and \$300,518, respectively, in loans was outstanding. All of these loans were issued in relation to World Vision's microfinance activities. Interest rates generally range from 0% to 27%. These loans are scheduled for repayment as follows:

Fiscal year:		
2017	\$	157,941
2018		79,331
2019		49,024
2020		9,289
2021		13,697
2022 and thereafter		<u>8,477</u>
Total	\$	<u><u>317,759</u></u>

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Notes payable are unsecured with the exception of aggregate loans of \$24,702 and \$6,248 at September 30, 2016 and 2015, respectively, in loans that have been guaranteed by the assets of microfinance institutions. Each of these collateral agreements represents a first priority guarantee on the assets of a particular microfinance institution. Interest expense totaling \$30,715 and \$28,563 for the years ended September 30, 2016 and 2015, respectively, is recorded in the consolidated statements of activities as microenterprise development program services expense.

(10) Net Assets

Consolidated net assets at September 30, 2016 are restricted or designated for the following purposes:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions received designated for future program services	\$ 227,658	—	227,658
Contributions of gifts-in-kind restricted for international programs	—	100,972	100,972
Contributions received restricted for international relief and community development	—	184,199	184,199
Other designated amounts:			
Christian endowment	13,584	—	13,584
Unrealized loss on foreign exchange contracts	(4,897)	—	(4,897)
Undesignated deficit	(41,125)	—	(41,125)
Represented by noncontrolling financial interest in subsidiaries	(8,650)	—	(8,650)
Represented by fixed assets and investments:			
Land, buildings, and equipment, net	87,747	—	87,747
Investment in captive insurance company	690	—	690
	<u>\$ 275,007</u>	<u>285,171</u>	<u>560,178</u>

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Consolidated net assets at September 30, 2015 are restricted or designated for the following purposes:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions received designated for future program services	\$ 230,172	—	230,172
Contributions of gifts-in-kind restricted for international programs	—	109,043	109,043
Contributions received restricted for international relief and community development	—	231,834	231,834
Other designated amounts:			
Christian endowment	13,386	—	13,386
Unrealized gain on foreign exchange contracts	15,078	—	15,078
Undesignated deficit	(45,971)	—	(45,971)
Represented by noncontrolling financial interest in subsidiaries	6,236	—	6,236
Represented by fixed assets and investments:			
Land, buildings, and equipment, net	94,374	—	94,374
Investment in captive insurance company	690	—	690
	<u>\$ 313,965</u>	<u>340,877</u>	<u>654,842</u>

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(11) Endowments

Most states (including California) have adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA governs the appropriation of expenditures from donor-designated endowments, subject to the intent of the donor as expressed in the gift instrument. UPMIFA is not applicable to board-designated endowments. The Organization has one board-designated endowment and does not have any donor-restricted endowments. The Organization has a policy for the board-designated endowment allowing that, annually, the board may appropriate and expend all or part of the accumulated income. The following provides the endowment activity for 2015 and 2016:

Balance, September 30, 2014	\$	13,096
Net investment return		428
Appropriated expenditures		<u>(138)</u>
Balance, September 30, 2015		13,386
Net investment return		534
Appropriated expenditures		<u>(336)</u>
Balance, September 30, 2016	\$	<u><u>13,584</u></u>

(12) Contributions and Gift-in-Kind Revenue

Contributions and gift-in-kind revenues for the year ended September 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions:			
World Vision United States	\$ 55,826	368,694	424,520
World Vision Australia	21,602	144,136	165,738
World Vision Canada	23,055	138,288	161,343
World Vision Korea	9,988	104,521	114,509
World Vision Hong Kong	6,713	86,605	93,318
World Vision Germany	547	87,122	87,669
World Vision United Kingdom	7,232	72,191	79,423
World Vision Taiwan	4,819	50,288	55,107
World Vision Switzerland	3,345	26,841	30,186
World Vision Japan	3,001	26,897	29,898
World Vision New Zealand	2,887	25,841	28,728
World Vision Netherlands	295	14,329	14,624

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
World Vision Malaysia	\$ 408	9,581	9,989
World Vision Ireland	300	7,592	7,892
World Vision Finland	406	6,895	7,301
World Vision France	—	5,223	5,223
World Vision Austria	78	4,707	4,785
World Vision Italy	—	325	325
Contributions received from nonaffiliated sources through:			
World Vision Singapore	—	12,024	12,024
World Vision Spain	—	3,719	3,719
Other subsidiaries	10,174	82,056	92,230
Subtotal	<u>150,676</u>	<u>1,277,875</u>	<u>1,428,551</u>
Gift-in-kind:			
World Vision United States	—	248,835	248,835
World Vision Canada	—	96,979	96,979
World Vision Australia	—	50,407	50,407
World Vision Taiwan	—	8,688	8,688
World Vision Hong Kong	—	8,402	8,402
World Vision Switzerland	—	7,323	7,323
World Vision New Zealand	—	6,886	6,886
World Vision Germany	—	6,104	6,104
World Vision Korea	—	5,790	5,790
World Vision United Kingdom	—	5,240	5,240
World Vision Japan	—	1,765	1,765
World Vision Austria	—	1,035	1,035
Gift-in-kind received from nonaffiliated sources through:			
World Vision Singapore	—	10	10
Other subsidiaries	—	4,671	4,671
Subtotal	<u>—</u>	<u>452,135</u>	<u>452,135</u>
Total	<u>\$ 150,676</u>	<u>1,730,010</u>	<u>1,880,686</u>

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Contributions and gift-in-kind revenues for the year ended September 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Contributions:			
World Vision United States	\$ 57,401	399,077	456,478
World Vision Australia	21,956	194,298	216,254
World Vision Canada	23,354	162,426	185,780
World Vision Korea	7,411	117,493	124,904
World Vision Hong Kong	6,766	90,701	97,467
World Vision United Kingdom	6,787	81,146	87,933
World Vision Germany	948	80,083	81,031
World Vision Taiwan	4,092	52,455	56,547
World Vision Switzerland	3,209	30,437	33,646
World Vision Japan	3,146	29,988	33,134
World Vision New Zealand	2,893	27,226	30,119
World Vision Netherlands	470	12,640	13,110
World Vision Malaysia	274	10,734	11,008
World Vision Finland	443	10,526	10,969
World Vision Ireland	389	8,928	9,317
World Vision Austria	11	5,985	5,996
World Vision France	—	5,687	5,687
World Vision Italy	—	523	523
Contributions received from nonaffiliated sources through:			
World Vision Singapore	—	13,124	13,124
World Vision Spain	—	3,281	3,281
Other subsidiaries	13,764	118,177	131,941
Subtotal	<u>153,314</u>	<u>1,454,935</u>	<u>1,608,249</u>
Gift-in-kind:			
World Vision United States	—	227,337	227,337
World Vision Canada	—	89,889	89,889
World Vision Australia	—	48,352	48,352
World Vision Switzerland	—	8,197	8,197
World Vision Taiwan	—	6,075	6,075
World Vision Hong Kong	—	5,673	5,673
World Vision Germany	—	4,974	4,974
World Vision New Zealand	—	4,659	4,659
World Vision Korea	—	4,351	4,351
World Vision United Kingdom	—	4,207	4,207

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	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
World Vision Japan	\$ —	3,022	3,022
World Vision Austria	—	683	683
World Vision France	—	23	23
Gift-in-kind received from nonaffiliated sources through:			
Other subsidiaries	—	6,089	6,089
Subtotal	—	413,531	413,531
Total	\$ 153,314	1,868,466	2,021,780

(13) Retirement Plans

World Vision International has an international defined contribution plan covering substantially all non-U.S. non-U.K. citizens, on an International Assignment (outside their home country) who are not included in the noncontributory Cash Balance Retirement Plan referred to below. Total contributions to this plan for the years ended September 30, 2016 and 2015 were \$2,187 and \$2,593, respectively.

WVI participates jointly with World Vision, Inc. (also known as World Vision United States), an unconsolidated affiliate, in a noncontributory Cash Balance Retirement Plan (the Plan) for all WVI staff working in the U.S. The assets of the Plan are held in a trust and WVI and World Vision, Inc. Joint Retirement Investment Committee (Retirement Investment Committee) act as trustees of the Plan. Under the Plan, an annual pay credit and interest credit are added 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 Retirement Investment Committee. The amount of employer contributions is determined based on actuarial valuations and recommendations as to the amounts required to fund benefits under this Plan.

World Vision established a grandfathered minimum guaranteed benefit provision for participants covered under the prior plan at September 1, 1998. Upon withdrawing from the Plan, those participants will receive the greater of the minimum guaranteed benefit of the accrued benefit under the Cash Balance Plan. Participants that have terminated prior to January 1, 1999, are only covered by the grandfathered benefit and can only be paid out with a normal monthly pension.

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The following table sets forth the actuarial assumptions related to the Plan. Assumptions as of September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	2.85%	3.60%
Expected return on Plan assets	6.50	7.00
Rate of compensation increase	3.50	4.00

Each year, the discount rate is determined 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 Retirement Investment Committee assumes will be earned over the life of the pension assets. Management believes the assumed rate is appropriate based on historical returns.

The following tables provide a reconciliation of benefit obligations, Plan assets, and funded status of the Plan for the years ended September 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>WVI</u>	<u>Total plan</u>	<u>WVI</u>	<u>Total plan</u>
Change in benefit obligations:				
Projected benefit obligations				
at beginning of year	\$ 42,345	130,370	34,632	121,299
Service cost	2,473	7,456	2,510	7,487
Interest cost	1,494	4,386	1,397	4,091
Changes in assumptions	2,524	2,071	5,098	2,610
Actuarial loss (gain)	854	2,581	435	1,339
Benefits paid	(3,528)	(7,275)	(1,654)	(6,232)
Expenses paid	(80)	(242)	(73)	(224)
Projected benefit obligations				
at end of year	\$ <u>46,082</u>	<u>139,347</u>	<u>42,345</u>	<u>130,370</u>
Accumulated benefit obligations				
at end of year	\$ 41,630	125,883	38,241	117,736

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	2016		2015	
	WVI	Total plan	WVI	Total plan
Change in Plan assets:				
Plan assets at fair value at beginning of year	\$ 37,587	115,722	37,237	130,425
Actual return on Plan assets	5,079	15,362	(4,774)	(14,697)
Employer contributions	2,150	6,450	2,150	6,450
Benefits paid	(3,528)	(7,275)	(1,654)	(6,232)
Expenses paid	(80)	(242)	(73)	(224)
Changes in assumptions	1,788	—	4,701	—
Plan assets at fair value at end of year	\$ <u>42,996</u>	<u>130,017</u>	<u>37,587</u>	<u>115,722</u>
Funded status	\$ (3,086)	(9,330)	(4,758)	(14,648)

	2016	2015
Amounts recognized in the statements of financial position consist of:		
Funded status asset (liability)	\$ <u>(3,086)</u>	<u>(4,758)</u>
Total amount recognized	\$ <u>(3,086)</u>	<u>(4,758)</u>
Amounts recognized in unrestricted net assets consist of:		
Pension actuarial gain/(loss)	\$ 1,708	(8,613)

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

	2016	2015
Service cost	\$ 2,473	2,510
Interest cost	1,494	1,397
Expected return on plan assets	(2,629)	(3,007)
Amortization of net loss	848	—
Net periodic benefit cost	\$ <u>2,186</u>	<u>900</u>

**WORLD VISION INTERNATIONAL
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Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Amounts in thousands)

World Vision employs an asset allocation investment strategy designed to achieve a diversified portfolio mix that will maximize return while minimizing risk. The objective is to maintain 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 total plan assets that are measured at fair value on a recurring basis at September 30, 2016:

	September 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Cash equivalents	\$ 16,267	16,267	—
Mutual funds:			
Equities	74,802	74,802	—
Bond	22,345	22,345	—
Equity securities	8,878	8,878	—
Real estate investment trusts	1,842	1,842	—
Corporate bonds	—	—	—
Master limited partnerships	5,883	5,883	—
Other assets	—	—	—
Total plan assets	<u>\$ 130,017</u>	<u>130,017</u>	<u>—</u>

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(Amounts in thousands)

The following table presents assets that are measured at fair value on a recurring basis at September 30, 2015:

	September 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Cash equivalents	\$ 2,530	2,530	—
Mutual funds:			
Equities	70,990	70,990	—
Bond	17,952	17,952	—
Equity securities	14,509	14,509	—
Real estate investment trusts	2,215	2,215	—
Corporate bonds	935	—	935
Master limited partnerships	6,570	6,570	—
Other assets	21	21	—
Total plan assets	\$ <u>115,722</u>	<u>114,787</u>	<u>935</u>

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.

(b) Estimated Future Payments

The Plan contribution for the year ending September 30, 2017 is expected to be \$2,150 and \$6,450 for WVI and the total Plan, respectively. Assuming all participants commenced benefit payments at age 65 in the form of an immediate lump-sum payout, the following schedule estimates future benefit payments, including expected future service:

	WVI	Total plan
2016–17	\$ 5,769	17,305
2017–18	3,970	11,909
2018–19	3,867	11,601
2019–20	4,017	12,051
2020–21	3,217	9,650
Thereafter	12,597	37,791
	\$ <u>33,437</u>	<u>100,307</u>

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September 30, 2016 and 2015

(Amounts in thousands)

(14) Leases

The Organization has commitments related to operating leases for building facilities, equipment, and land at September 30, 2016 and 2015.

Future minimum lease payments for the Organization with remaining terms of one year or more at September 30, 2016 are as follows:

Fiscal year:			
2017	\$	12,546	
2018		5,715	
2019		2,734	
2020		2,294	
2021		1,469	
2022 and thereafter		1,173	
	\$	25,931	

Lease and rent expense for the years ended September 30, 2016 and 2015 was \$16,462 and \$18,320, respectively.

(15) VisionFund Azercredit

In October 2014, a number of local nongovernmental organizations (NGOs) in the country of Azerbaijan, including representatives and branches of international NGOs, became the subject of a criminal investigation by the government of Azerbaijan. As part of the investigation into World Vision Azerbaijan, VF Azercredit's main bank accounts were blocked for the period of investigation pursuant to court orders received in October, 2014. In October 2015, the restricted bank accounts of VF Azercredit were released in accordance with new court orders.

The economy of Azerbaijan has been significantly impacted by a series of currency devaluations in February 2015 and December 2015. In that period, the value of the currency fell from 0.78 manats per U.S. dollar to 1.55 manats per U.S. dollar. This devaluation, combined with general market and economic uncertainty in the country of Azerbaijan, has impacted the ability of VF Azercredit to collect loans issued to MFI clients.

VF Azercredit has sought to assist customers that are experiencing financial difficulty by renegotiating and restructuring client loans. The restructured portfolio may include modifications of interest rates, principal or accrued interest amounts, payment amounts, length of term, currency, or a combination thereof. During the year ended September 30, 2016, VF Azercredit modified 27,241 loans as troubled debt restructurings. As of September 30, 2016, the modified outstanding value of trouble debt restructurings was \$21,589. The Organization considers restructured loans to have an increased risk of loss compared to standard, unmodified loans. Restructured loans are monitored and evaluated separately in the determination of the allowance of loan losses.

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Due to the restrictions on the bank accounts, beginning in October 2014, VF Azercredit was not able to pay its debt obligations to foreign lenders according to the initial contractual terms. In the year-ended September 30, 2015, the lenders agreed not to take any enforcement action against VF Azercredit in relation to any facility agreement by signing a Standstill Agreement. During the year ended September 30, 2016, the Standstill Agreement was extended to a Final date of December 31, 2019, and amended to describe the terms of payments to lenders and agreed levels of debt forgiveness by lenders to ensure VF Azercredit's continued compliance with minimum solvency requirements in Azerbaijan.

As of September 30, 2016, the carrying value of liabilities held by VF Azercredit exceeded the reported carrying fair value of its assets, with a reported deficiency of \$18,021. This deficiency in net assets raises significant doubts about the ability of VF Azercredit to continue as a going concern. In the event of VF Azercredit's bankruptcy, the Organization would cease to control VF Azercredit and would not be liable to pay the outstanding debts of VF Azercredit. Accordingly, this would not impact the ability of the Organization as whole to continue as a going concern. As of September 30, 2016 and 2015, the Organization owned 52% of VF Azercredit.

(16) Commitments and Contingencies

The Organization is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organization's financial position.

Grant programs funded by various governments, multilateral entities, and other grantors are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes that it has adhered to the terms of its grants and that any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the Organization.

(17) Discontinued Operations

In October 2014, VFI sold its 100% ownership in MFO Credo and received cash proceeds of \$53,500. As a result of the sale, the Organization paid taxes and settlement costs totaling \$11,443. After deducting prepaid selling expenses of \$603, the Organization recognized a gain on the sale of MFO Credo totaling \$5,299. The decision to exit operations in Georgia was made as a part of Organization's broader strategy to focus on growth of operations in Africa and Asia.

(18) Subsequent Events

The Organization has evaluated subsequent events from September 30, 2016 through April 21, 2017, the date on which the consolidated financial statements were available for issuance. The Organization determined that no additional disclosures were required.