KPMG

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Directors
VisionFund International and Subsidiaries:

We have audited the accompanying consolidated financial statements of VisionFund International and its subsidiaries (a wholly controlled subsidiary of World Vision International), which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, 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 did not audit the financial statements of VisionFund Ecuador as of September 30, 2019 and 2018. These statements reflect total assets constituting 19% and 15% of consolidated total assets at September 30, 2019 and 2018, respectively, and total revenues constituting 12% and 7% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for VisionFund Ecuador is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of VisionFund International and its subsidiaries as of September 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

March 13, 2020

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position

September 30, 2019 and 2018

(In thousands)

Assets		**2019**	**2018**
Cash and cash equivalents	$	44,669	95,190
Investments (notes 3 and 4)		15,008	27,718
Interest receivable		8,057	7,235
Accounts receivable		6,827	6,028
Loans to affiliated microfinance institutions, net of allowance for loan losses of $486 and $6,617 as of September 30, 2019 and 2018, respectively (note 5)		16,629	20,806
Loans to microfinance institution clients, net of allowance for loan losses of $12,067 and $9,220 as of September 30, 2019 and 2018, respectively (note 5)		288,143	259,373
Restricted investments (notes 3, 4 and 13)		2,499	4,596
Property, plant, and equipment, net (note 6)		10,563	10,204
Other assets		12,143	12,407
Total assets	$	404,538	443,557
Liabilities			
Accounts payable and accrued expenses	$	6,872	8,605
Interest payable		2,000	2,505
Deposits from microfinance institution clients		28,020	21,717
Notes payable (note 7)		171,647	217,890
Other liabilities		7,107	5,619
Total liabilities		215,646	256,336
Net Assets			
Net assets without donor restrictions – controlling interest (note 8)		177,336	176,205
Net assets without donor restrictions – noncontrolling interest (note 8)		5,576	5,668
Total net assets without donor restrictions		182,912	181,873
Net assets with donor restrictions		5,980	5,348
Total net assets		188,892	187,221
Total liabilities and net assets	$	404,538	443,557

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended September 30, 2019 and 2018

(In thousands)

		2019	2018
Net assets without donor restrictions:			
Operating revenue:			
Interest, fees and commission revenue	$	116,891	111,518
Interest, fees and commission expense (note 9)		(21,008)	(22,950)
Net financial income		95,883	88,568
Provision for loan losses (notes 5 and 9)		(13,275)	(12,447)
Funds recovered from loans written off		2,069	2,136
Net financial income after provision for loan losses		84,677	78,257
Other operating income		1,946	1,936
Total revenue from operations		86,623	80,193
Operating expense (note 9):			
Salaries and benefits		55,062	52,567
Supplies, copying, and printing		1,889	2,026
Professional fees		4,610	4,419
Communication expense		2,298	2,286
Occupancy expense		5,962	5,731
Travel and transportation		7,012	6,982
Depreciation		3,392	3,361
Training and technical assistance		1,025	1,101
Other operating expenses		7,204	7,063
Total operating expenses		88,454	85,536
Gain on deconsolidation of subsidiary (note 14)		—	23,260
Operating (loss) gain before taxes and other nonoperating changes in net assets without donor restrictions		(1,831)	17,917
Tax expense (note 9)		2,400	1,734
Net operating (loss) income		(4,231)	16,183
Other nonoperating changes in net assets without donor restrictions:			
Contributions (note 11)		12,067	10,629
Amounts granted to affiliated microfinance institutions (note 9)		(1,747)	(2,097)
Foreign currency transaction losses		(4,402)	(5,090)
Foreign currency translation losses		(2,531)	(4,481)
Net assets released from restriction		2,620	—
Gain on sale of subsidiary (note 10)		—	38,696
Other nonoperating (loss) or income		(737)	876
Change in net assets from discontinued operations (note 10)		—	2,095
Net change in net assets without donor restrictions		1,039	56,811
Net assets with donor restrictions:			
Restricted contributions (note 11)		3,252	2,824
Net assets released from restriction		(2,620)	—
Net change in net assets with donor restrictions		632	2,824
Change in net assets		1,671	59,635
Net assets, beginning of year		187,221	127,586
Net assets, end of year	$	188,892	187,221

See accompanying notes to consolidated financial statements.

VISIONFUND INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 1,671	59,635
Net assets from discontinued operations	—	(2,095)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash changes in net assets from deconsolidation of subsidiary	—	(24,917)
Gain on sale of subsidiary	—	(38,696)
Depreciation expense	3,392	3,361
Provision for loan losses	13,275	12,447
Foreign currency revaluation	4,849	12,424
Gain on forward contracts	857	(2,850)
Loss on disposal of equipment	283	135
Change in assets and liabilities:		
Interest receivable	(822)	(1,403)
Accounts receivable	(799)	(1,481)
Other assets	264	(1,436)
Accounts payable and accrued expenses	(1,733)	1,587
Interest payable	(505)	(13)
Other liabilities	631	(3,809)
Net cash provided by operating activities – continuing operations	21,363	12,889
Net cash provided by operating activities – discontinued operations	—	4,843
Net cash provided by operating activities	21,363	17,732
Cash flows from investing activities:		
Purchase of equipment	(4,173)	(3,895)
Distribution of loans	(515,656)	(483,027)
Proceeds from loan portfolio repayment	474,424	424,810
Purchases of investments	(25,683)	(32,611)
Proceeds from sales of investments	37,553	31,187
Proceeds from sale of subsidiary, net of cash at subsidiary	—	53,804
Taxes and settlement costs from sale of subsidiary	—	(2,650)
Net cash used in investing activities – continuing operations	(33,535)	(12,382)
Net cash used in investing activities – discontinued operations	—	(12,400)
Net cash used in investing activities	(33,535)	(24,782)
Cash flows from financing activities:		
Proceeds from notes payable	50,018	94,309
Payments on notes payable	(94,670)	(67,129)
Deposits from microfinance institution clients	6,303	5,305
Net cash (used in) provided by financing activities – continuing operations	(38,349)	32,485
Net cash provided by financing activities – discontinued operations	—	8,518
Net cash (used in) provided by financing activities	(38,349)	41,003
Net (decrease) increase in cash and cash equivalents	(50,521)	33,953
Cash and cash equivalents, beginning of year	95,190	61,237
Cash and cash equivalents, end of year	$ 44,669	95,190
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 21,513	22,963
Cash paid during the year for taxes	2,327	1,754

See accompanying notes to consolidated financial statements.

(1) Organization and Principal Activities

VisionFund International (VFI) and its consolidated subsidiaries (collectively, the Organization) is a wholly controlled subsidiary of World Vision International (World Vision), a corporation that is organized exclusively for purposes that 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.

To deliver sustainable development, World Vision began the microenterprise development loan program through local microfinance institutions (MFIs). World Vision established VFI for the purpose of providing central governance, financial, and technical support for all affiliated MFIs. These MFIs serve micro-entrepreneurs, smallholder farmers, and small businesses in disadvantaged and typically rural markets through the provision of basic financial services, such as credit, savings, and insurance, predominantly to women.

The majority of World Vision's affiliated MFIs are directly owned and controlled by VFI. These consolidated financial statements include the following entities:

Name	Country
SEF International Universal Credit Organization LLC (SEF)	Armenia
VisionFund Azercredit LLC (VF Azercredit) (note 14)	Azerbaijan
VisionFund Cambodia Ltd. (VF Cambodia) (note 10)	Cambodia
VisionFund DRC S.A. (VF DRC)	Democratic Republic of the Congo
VisionFund Republica Dominicana SAS (VFRD)	Dominican Republic
Banco VisionFund Ecuador S.A. (VF Ecuador)	Ecuador
VisionFund Ghana Money Lending Ltd. (VF Ghana)	Ghana
VisionFund Guatemala, S.A. (VF Guatemala)	Guatemala
FUNED VisionFund OPDF (FUNED)	Honduras
VisionFund Kenya Ltd. (VF Kenya)	Kenya
VisionFund Ltd. (VF Malawi)	Malawi
Vision F Mexico, S.A. de C.V., SOFOM, E.N.R. (VF Mexico)	Mexico
VisionFund NBFI LLC (VF Mongolia)	Mongolia
VisionFund AgroInvest LLC (AI Holding)	Montenegro
MFI Monte Credit LLC (VF Montenegro)	Montenegro
VisionFund Myanmar Company Limited (VF Myanmar)	Myanmar
EDPYME CrediVision S.A. (CrediVision)	Peru
VisionFund Rwanda Ltd. (VF Rwanda)	Rwanda
VisionFund Sénégal Microfinance SA (VF Senegal)	Senegal
AgroInvest Fond LLC (VF Serbia)	Serbia
AgroInvest Foundation Serbia (NGO Serbia)	Serbia
VisionFund Holdings (Private) Ltd. (VFL Holding)	Sri Lanka
VisionFund Lanka Ltd. (VF Lanka)	Sri Lanka
VisionFund Tanzania Microfinance Bank Limited (VF Tanzania)	Tanzania
VisionFund Uganda Ltd. (VF Uganda)	Uganda
VisionFund Zambia Ltd. (VF Zambia)	Zambia

(Continued)

The primary activity of the subsidiaries is to provide commercially oriented microfinance services aiming to alleviate poverty and stimulate the creation of employment opportunities and economic growth for the poor and their surrounding communities, particularly in areas of World Vision ministry.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements of the Organization include the accounts of VFI and its subsidiaries, which are controlled and majority owned by VFI. All significant intercompany accounts and transactions have been eliminated.

(b) Basis of Presentation

The consolidated financial statements of the Organization are prepared on the accrual basis of accounting. Net assets of the Organization are reported within the following categories:

Net Assets without Donor Restrictions, Controlling Interest – Net assets without donor restrictions, controlling interest represent those resources of the Organization that are not subject to donor-imposed restrictions. The only limits on net assets without donor restrictions are broad limits that are consistent with the nature of the Organization and the purposes specified in its articles of incorporation or bylaws.

Net Assets without Donor Restrictions, Non-controlling Interest – Net assets without donor restrictions, noncontrolling interest represent the portion of the Organization’s resources attributable to noncontrolling shareholders of consolidated subsidiaries. The value of the noncontrolling interest is based on the ownership percentage of the noncontrolling shareholders in the respective subsidiaries.

Net Assets With Donor Restrictions – Net assets with donor restrictions represent contributions and other inflows of assets which are subject to donor-imposed restrictions that can be fulfilled by actions of the Organization or by the passage of time. As of September 30, 2019 and 2018, net assets with donor restrictions relate to project use restrictions on contributions received.

Expenses are reported as decreases in net assets without donor restrictions. Expiration of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the purpose for which the resource was restricted has been fulfilled, or both.

(c) Revenue Recognition and Net Asset Contributions

Revenue is recognized when it is realized or realizable, and earned. This concept is applied to the key revenue generating activities of the Organization as follows:

Interest, Fees, and Commissions – Interest from interest-bearing assets is recognized on the accrual basis over the life of the asset based on an effective-interest rate. Fees and commissions are recognized as income using the effective-interest method.

(Continued)

(In thousands)

Contributions – Contributions and unconditional promises to give are recognized as revenues in the period received. Conditional promises to give are recognized as contributions and receivables when the conditions are substantially met. Unrestricted contributions from affiliated support entities and nonaffiliated aid agencies are for the purpose of funding microfinance work in various affiliated MFIs, as well as increasing the pool of funds made available to the poor in the Organization’s area of operations.

Contributed Net Assets – Contributed net assets result from contributions or transfers of ownership of World Vision affiliated MFIs to the Organization. The net asset contribution is recorded at carrying value on the date of acquisition or transfer. The Organization reflects the net carrying value of these contributed MFIs as nonoperating increases to net assets in the accompanying consolidated statements of activities. There were no contributed net assets during the years ended September 30, 2019 and 2018.

(d) Amounts Granted to Affiliated MFIs

The Organization contributes funds to affiliated MFIs for the purpose of funding lending activities, operations, and acquisition of capital assets by the MFIs. These expenses are recognized when promised.

(e) Geographic Area of Operations

VFI’s mission of providing financial services to the poor involves the Organization operating in various foreign geographic regions. Included in the accompanying consolidated statements of financial position are the net assets of each entity, which are located in the following countries with the following net asset balances as of September 30, 2019 and 2018:

Country	2019	2018
United States	$ 86,982	91,066
Myanmar	18,417	10,562
Ecuador	16,782	15,544
Tanzania	11,167	11,106
Serbia & Montenegro	7,139	7,904
Honduras	6,156	4,554
Armenia	4,386	4,672
Democratic Republic of the Congo	4,308	4,620
Senegal	4,021	3,113
Mexico	3,804	3,419
Uganda	3,262	3,954
Mongolia	3,111	2,736
Dominican Republic	2,802	2,890
Guatemala	2,377	2,187
Kenya	2,340	2,255
Georgia	2,289	2,289

(Continued)

(In thousands)

Country		2019	2018
Malawi	$	2,158	1,877
Sri Lanka		2,120	5,116
Ghana		1,758	2,563
Peru		1,404	1,411
Zambia		1,346	2,553
Rwanda		763	830
	$	188,892	187,221

Legal, regulatory, tax, foreign currency or other limitations may exist in many of these countries. The ability to liquidate, realize or transfer net assets from one country to another or to the parent company is typically limited.

VFI employs staff in various international locations, including several staff based in a branch office located and registered in the United Kingdom.

(f) Tax Status

VFI is organized as a nonprofit organization 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 Section 23701d of the California Revenue and Taxation Code. However, VFI 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.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification (ASC) Subtopic 740-10, *Income Taxes – Overall*, and establishes for all entities, including pass-through entities, minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. No such uncertain tax positions exist for the Organization at September 30, 2019 and 2018.

The consolidated subsidiaries are subject to their respective local tax laws. Taxes recorded in the accompanying consolidated financial statements consist entirely of non-U.S. taxes related to the operations of the foreign subsidiaries.

(g) Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less at date of purchase to be cash and cash equivalents. This includes cash and cash equivalents which are subject to restrictions.

As of September 30, 2019 and 2018, there were no restricted cash and cash equivalents.

(h) Investments

Investments are recorded at fair value. Gains and losses on investments are recorded as increases or decreases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions.

(i) Loan Portfolio

The loan portfolio balances consist of loans made by the Organization to affiliated independent MFIs, as well as loans made by the Organization to the entrepreneurial poor through subsidiaries in their respective areas of operation.

For loans to affiliated MFIs, management evaluates the adequacy of the allowance for loan loss on a periodic basis and determines the amount, if any, of the provision for loan losses to be recorded. The evaluation of the adequacy of the allowance includes a review of the respective MFI’s delinquency rates, historic write-offs, liquidity, and financial and operational strength.

For loans to MFI clients, the management of the respective MFI determines the adequacy of the allowance for loan losses each month. The adequacy is determined by evaluating the aged outstanding balances of loans receivable and recording a provision for loan loss as necessary. The provisions are based on the MFI’s past experience and historical performance of the portfolio. Loans deemed uncollectible (write-offs) are removed from the outstanding loan portfolio and deducted from the allowance. The ultimate recovery of all loans is susceptible to future market factors often beyond the Organization’s control. These factors may result in losses or recoveries differing significantly from those provided in the accompanying consolidated financial statements.

The Organization evaluates the credit quality of its loan portfolio based on qualitative and environmental factors as well as on the aging of loans. Loans over 30 days past due are considered to be nonperforming. Loans aged over 91 days are considered to be impaired and are placed on nonaccrual status. Loans on nonaccrual status are not restored to accrual status unless they become current and full payment is expected. The Organization evaluates its loans receivable collectively for impairment.

(j) Property, Plant, and Equipment, Net

Property, plant, and equipment are recorded at historical cost less accumulated depreciation. Depreciation is provided on the straight-line basis over the estimated useful life of the assets. Equipment is depreciated over 3 to 10 years for motor vehicles, 3 to 5 years for computers and communications equipment, and 3 to 10 years for furniture and equipment. Repair and maintenance costs of property, plant, and equipment are capitalized if they result in substantial improvement in value or extend the useful life of the asset. Other repair and maintenance costs are charged as expenses as incurred.

(k) Foreign Currency Adjustments

(i) Foreign Currency Translations

The assets and liabilities of the subsidiaries are generally denominated in each country's local currency and translated into U.S. dollars at period-end exchange rates, where applicable. The accompanying consolidated statements of activities and cash flows are translated using average exchange rates during the respective periods. The resulting translation adjustments are recorded as nonoperating changes in unrestricted net assets in the accompanying consolidated statements of activities. As of September 30, 2019 and 2018, the net assets of subsidiaries denominated in local currency and subject to translation adjustments totaled $101,910 and $96,155, respectively. For the years ended September 30, 2019 and 2018, due to the general appreciation in the exchange rate of the U.S. dollar against the local currencies of the subsidiaries, foreign currency translation losses totaled $2,531 and $4,481, respectively.

(ii) Foreign Currency Transactions

Foreign currency transaction gains or losses result from transactions in foreign currencies. Fluctuations in the exchange rate between the foreign currency and the local currency result in foreign currency transaction gains or losses. For the years ended September 30, 2019 and 2018, foreign currency transaction losses totaled $4,402 and $5,090, respectively.

(l) Foreign Exchange Currency Contracts

The Organization has a number of loans denominated in foreign currency. In order to protect against fluctuations in such currencies, the Organization has entered into certain foreign currency forward contracts, which provide for the future exchange of funds at agreed-upon rates. Unrealized gains or losses on forward currency derivatives are recorded at fair value based on current market exchange rates for foreign currencies.

At September 30, 2019 and 2018, the Organization had in place foreign currency contracts with a notional value totaling $107,731 and $85,845, respectively. As of September 30, 2019 and 2018, the Organization recorded the fair value of assets of $1,282 and $2,139, respectively, as part of other assets. The resulting losses and gains are recorded as foreign currency transaction losses in the accompanying consolidated statements of activities as described in note 2(k)(ii).

(m) Deferred Income

Deferred income, included in other liabilities in the consolidated statements of financial position, represents loan origination and commission fees received in advance of amounts earned and recognized.

(n) Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles requires management 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.

(In thousands)

(o) Risks and Uncertainties Related to Investments

Investment securities are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the amounts reported.

(p) Recent Accounting Pronouncements

During the fiscal year, the Organization adopted the provisions of ASU 2016-14, *Not-for-Profit Entities* (Topic 958), Presentation of Financial Statements of Not-for-Profit-Entities. A summary of the changes by financial statement area are as follows:

(i) Consolidated Statement of Financial Position

The consolidated statement of financial position distinguishes between three new classes of net assets – those with donor-imposed restrictions (controlling and noncontrolling) and those without. This is a change from the previously required three classes of net assets – unrestricted net assets controlling interest, unrestricted net assets noncontrolling interest and temporarily restricted net assets.

(ii) Consolidated Statement of Activities

The standard requires the Organization to report expenses by both nature and function, either in the consolidated statement of activities, as a separate statement or within the notes. See note 9.

(iii) Notes to the Consolidated Financial Statements

The standard requires enhanced quantitative and qualitative disclosure to provide additional information useful in assessing liquidity and cash flows, including a description of the time horizon used to manage its liquidity and near-term availability and demands for cash as of the reporting date. See note 15.

(3) Investments

Investments consist primarily of time deposits held at foreign banks for short-term lending and funding needs. As of September 30, 2019 and 2018, the fair value of investments is as follows:

Foreign bank time deposits		2019	2018
Unrestricted	$	15,008	27,718
Restricted (note 13)		2,499	4,596
Total investments	$	17,507	32,314

(Continued)

(In thousands)

(4) Fair Value Measurements

ASC Topic 820, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety.

The following table presents the placement in the fair value hierarchy of assets that are measured at fair value on a recurring basis:

		2019	2018
Significant other observables inputs (Level 2):			
Assets:			
Foreign bank time deposits:			
Sri Lanka	$	7,698	18,597
Serbia		2,499	4,596
Kenya		1,761	1,886
Ecuador		1,348	1,068
Tanzania		875	1,523
Uganda		816	418
Ghana		744	1,486
Armenia		736	1,011
Honduras		503	1,000
Zambia		305	373
Rwanda		222	1
Dominican Republic		—	355
Total investments	$	17,507	32,314
Foreign exchange currency contracts	$	1,282	2,139

For the valuation of foreign currency time deposits and foreign bank time deposits, the Organization used significant other observable inputs, particularly pricing for similar investments with the same maturities (Level 2).

(In thousands)

The fair value of assets related to foreign exchange currency contracts is determined through the use of models or other valuation methodologies (including observation of prevailing market exchange rates for foreign currencies). Accordingly, these contracts are classified within Level 2 and presented within other assets on the consolidated statement of financial position.

(5) Loan Portfolio

(a) Loans to Affiliated Microfinance Institutions (MFIs)

Amounts in loans to affiliated MFIs represent funds lent by the Organization to affiliated, independent (unconsolidated) MFIs for further lending to micro-entrepreneurs. As of September 30, 2019 and 2018, these loans totaled $17,115 and $27,423, respectively. Interest rates for loans to MFIs by the Organization range from 0% to 14%, depending on the current interest rates in the U.S., the currency of the loan and any donor related commitments. As of September 30, 2019, these loans are scheduled for repayment as follows:

		Principal repayment schedule
Fiscal year:		
2020	$	13,400
2021		3,654
2022		61
		17,115
Less allowance for loan losses		(486)
Loans to affiliated MFIs, net	$	16,629

Changes in the allowance for loan losses for the years ended September 30, 2019 and 2018 are as follows:

Allowance for loan losses		2019	2018
Beginning of year	$	6,617	2,738
Loans written off		(7,479)	—
Provision for loan losses		1,348	3,879
End of year	$	486	6,617

(In thousands)

As of September 30, 2019, the Organization had write-offs totaling $7,479 related to a loan outstanding with Micro Credit Organization ‘EKI’ Sarajevo (Bosnia). Formal written notification was provided to EKI indicating default of their obligations under the loan agreement. EKI external auditors were also notified. WVI chose to deconsolidate EKI in FY2018 due to the inability to influence or control the mission and operations of the entity despite extensive effort and discussions to retain such powers. No payment has been received to date and the Organization continues to actively pursue collection of this loan in full through various legal and regulatory channels.

Loans to affiliated MFIs were concentrated in the following regions as of September 30, 2019 and 2018:

Region of operations		2019	2018
Africa	$	10,252	11,574
Middle East/Eastern Europe		3,023	11,149
Asia/Pacific		2,711	3,512
Latin America/Caribbean		1,129	1,188
	$	17,115	27,423

As of September 30, 2019 the loans to affiliated MFIs in the Middle East/Eastern Europe region of operations decreased by $8,126 primarily related to the loan write off to EKI, which was valued at $7,890 as of September 30, 2018.

The Organization evaluates its loans receivable using conforming or nonconforming as the primary credit quality indicator. Nonconforming refers to those loans that are internally classified by the Organization as substandard. These assets pose higher risk and elevated probability of default. Conforming refers to all loans not considered nonconforming. The Organization evaluates various criteria for determining whether a loan is conforming or nonconforming on an annual basis. The nonconforming loans outstanding at September 30, 2018 were written off as of September 30, 2019, and were fully related to Bosnia, which is part of the Middle East/Eastern Europe region of operations. The table below presents credit quality indicators related to the Organization’s loans to affiliated MFIs at September 30, 2019 and 2018:

		2019	2018
Risk ratings:			
Conforming	$	17,115	19,533
Nonconforming		—	7,890
Total	$	17,115	27,423

(In thousands)

(b) Loans to Microfinance Institution Clients

Amounts in loans to MFI clients represent funds lent to the entrepreneurial poor in the subsidiaries' respective areas of operation. For the years ended September 30, 2019 and 2018, the Organization's loans to MFI clients totaled $300,210 and $268,593, respectively. The allowance for loan loss as of September 30, 2019 and 2018 was $12,067 and $9,220, respectively. 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. The average loan amount varies by country from one hundred and seventy dollars to two thousand four hundred dollars. These loans have terms commonly ranging from one to sixty months, their weighted average maturities being approximately sixteen months. Interest rates on the outstanding loans vary by country due to varying inflation rates and operating environments. For the years ended September 30, 2019 and 2018, the weighted average annual interest rates charged were 32% for each year.

Loans to MFI clients were concentrated in the following regions as of September 30, 2019 and 2018:

Region of operations		2019	2018
Latin America/Caribbean	$	143,983	124,756
Asia/Pacific		66,493	59,696
Africa		54,150	52,638
Middle East/Eastern Europe		35,584	31,503
	$	300,210	268,593

The Organization has identified the Africa region as having an elevated repayment risk as compared to the other regions due to increased delinquency rates and external market risks.

An aging analysis of loans to MFI clients as of September 30, 2019 is as follows:

		Outstanding balance	Allowance for loan losses
Current or less than 30 days past due	$	289,301	4,681
31–60 days past due		1,617	439
61–90 days past due		1,142	349
91 days or more past due		8,150	6,598
	$	300,210	12,067

(In thousands)

An aging analysis of loans to MFI clients as of September 30, 2018 is as follows:

		Outstanding balance	Allowance for loan losses
Current or less than 30 days past due	$	257,456	2,164
31–60 days past due		2,049	509
61–90 days past due		1,517	491
91 days or more past due		7,571	6,056
	$	268,593	9,220

As of September 30, 2019 and 2018, loans 91 days or more past due totaling $8,150 and $7,571, respectively, were not accruing interest.

Loans are written off when they are deemed to be uncollectible. Generally, the Organization considers loans 180 days or more past due to be uncollectible. Operational collection efforts continue past the point of write-off. Any funds recovered from loans written off are recorded as revenue in the consolidated statements of activities. For the years ending September 30, 2019 and 2018, funds recovered from loans written off totaled $2,069 and $2,136, respectively.

Changes in the allowance for loan losses for the years ended September 30, 2019 and 2018 are as follows:

Allowance for loan losses		2019	2018
Beginning of year	$	9,220	7,697
Loans written off		(9,301)	(6,443)
Provision for loan losses		11,927	8,568
Currency revaluation		221	(602)
End of year	$	12,067	9,220

(In thousands)

(6) Property, Plant, and Equipment

Property, plant, and equipment are located primarily at the sites of operations of the subsidiaries and consist of the following at September 30, 2019 and 2018:

		2019	2018
Land and buildings	$	2,111	1,933
Equipment		5,907	5,378
Vehicles		4,703	4,678
Computers and software		12,546	10,646
		25,267	22,635
Less accumulated depreciation and amortization		(14,704)	(12,431)
Total	$	10,563	10,204

(7) Notes Payable

Notes payable represent funding from various foundations, individuals, affiliates, and banking organizations, which extended loans to the Organization to provide support for its activities. As of September 30, 2019 and 2018 notes payable were $171,647 and $217,890, respectively. Interest rates on notes payable vary by country and currency. The following are the interest rates on these loans as of September 30, 2019 and 2018:

September 30, 2019				September 30, 2018			
Number of loans		Total loan value	Interest rates	Number of loans		Total loan value	Interest rates
102	$	12,480	0% to 5%	82	$	18,512	0% to 5%
87		94,558	5.1% to 10%	110		136,410	5.1% to 10%
74		57,632	10.1% to 15%	63		45,922	10.1% to 15%
12		6,977	over 15%	25		17,046	over 15%
	$	171,647			$	217,890	

(In thousands)

The following loans outstanding as of September 30, 2019 are scheduled for repayment as follows:

	Principal payment schedule
Fiscal year:	
2020	$ 76,725
2021	44,714
2022	26,809
2023	21,099
2024	1,300
2025 and beyond	1,000
	$ 171,647

As of September 30, 2019, notes payable are unsecured with the exception of $25,433 in loans that have been collateralized by the assets of individual subsidiaries and VFI.

As of September 2019 and 2018, VFI also had two available unused lines of credit totaling $20,000 in both years. One $10,000 line of credit is available for use in on-lending funds to affiliated MFIs, with a quarterly drawdown limit of $5,000. Another $10,000 line of credit is limited for use in responding to specific climate events or natural disasters in certain countries where the Organization works.

(8) Net Assets without Donor Restrictions

Changes in net assets without donor restrictions for the year ended September 30, 2019 are as follows:

	Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2018	$ 181,873	176,205	5,668
Transfers to noncontrolling interest	—	(191)	191
Excess/(deficiency) of revenues over expenses	(1,581)	(1,298)	(283)
Net assets released from restriction	2,620	2,620	—
Movement in net assets	1,039	1,131	(92)
Balance, September 30, 2019	$ 182,912	177,336	5,576

(In thousands)

Changes in net assets without donor restrictions for the year ended September 30, 2018 are as follows:

		Total	Controlling interest	Noncontrolling interest
Balance, October 1, 2017	$	125,062	130,355	(5,293)
Transfers to noncontrolling interest		—	(77)	77
Excess of revenues over expenses		56,811	45,927	10,884
Movement in net assets		56,811	45,850	10,961
Balance, September 30, 2018	$	181,873	176,205	5,668

As of September 30, 2019 and 2018, noncontrolling interest was $5,576 and $5,668. Noncontrolling interest is primarily concentrated in VF Tanzania (66% ownership by the Organization) and VF DRC (80% ownership by the Organization).

(9) Program and Supporting Expenses

To help users assess the Organization’s service efforts, operating expenses are reported into functional categories of program services and supporting services. Program services are expenses incurred in the course of the Organization’s primary activities of coordinating and funding MFIs and providing commercially oriented microfinance services to alleviate poverty. Allocation of expenses to program services or supporting services are determined by how directly the expense supports the operations of subsidiaries who deliver the services. All other expenses are designated as supporting services.

For the year ended September 30, 2019, of the $126,884 in total expenses (excluding foreign currency adjustments), $114,696 was incurred in the course of program services and $12,188 was incurred in the course of supporting services by the Organization For the year ended September 30, 2018, of the

(In thousands)

$124,764 in total expenses (excluding foreign currency adjustments), $112,242 was incurred in the course of program services and $12,522 was incurred in the course of supporting services by the Organization.

	2019			2018		
	Program	Supporting	Total	Program	Supporting	Total
Interest, fees, and commission expense	$ 21,008	—	21,008	22,950	—	22,950
Provision for loan losses	13,275	—	13,275	12,447	—	12,447
Tax expense	2,400	—	2,400	1,734	—	1,734
Amounts granted to affiliated microfinance institutions	1,747	—	1,747	2,097	—	2,097
Salaries and benefits	46,431	8,631	55,062	44,157	8,410	52,567
Supplies, copying, and printing	1,804	85	1,889	1,920	106	2,026
Professional fees	3,608	1,002	4,610	3,351	1,068	4,419
Communication expense	2,235	63	2,298	2,205	81	2,286
Occupancy expense	5,641	321	5,962	5,418	313	5,731
Travel and transportation	5,063	1,949	7,012	5,095	1,887	6,982
Depreciation	3,392	—	3,392	3,361	—	3,361
Training and technical assistance	982	43	1,025	1,038	63	1,101
Other operating expenses	7,110	94	7,204	6,469	594	7,063
Total	$ 114,696	12,188	126,884	112,242	12,522	124,764

(10) Sale of Subsidiary

In June 2018, the Organization sold its 100% ownership in VF Cambodia for cash consideration and recognized a gain on sale of $38,696 after incurring taxes and selling costs totaling $4,435. The decision to exit operations was made with consideration of the advanced stage of the microfinance industry in Cambodia relative to other countries in the VFI network and World Vision partnership, and of the potential to support and grow other MFIs in the VFI network for greater social impact.

(In thousands)

The balances relating to VF Cambodia as of and for the years ended September 30, 2019 and 2018 were as follows:

	2019	2018
Results of discontinued operations:		
Revenue	$ —	25,538
Expenses	—	22,985
Change in net assets from discontinued operations, before tax	—	2,553
Tax expense	—	458
Change in net assets from discontinued operations	$ —	2,095

(11) Contributions

Contributions for the years ended September 30, 2019 and 2018 totaled $15,319 and $13,453, respectively.

Contributions, classified as nonoperating changes in net assets, were from the following:

	2019	2018
World Vision United States	$ 7,662	4,344
World Vision International	1,488	1,964
World Vision Australia	1,334	1,974
World Vision New Zealand	328	76
World Vision Hong Kong	244	126
World Vision Sri Lanka	70	140
World Vision United Kingdom	68	862
World Vision Germany	30	—
World Vision Zambia	17	—
World Vision Rwanda	13	—
World Vision Mongolia	—	24
Nonaffiliated Agencies	813	1,119
Total without donor restrictions	12,067	10,629

(In thousands)

		2019	2018
Restricted:			
World Vision Canada	$	333	413
Nonaffiliated aid agencies:			—
Department for International Development		88	167
Livelihoods and Food Security Trust Fund (LIFT)		2,831	2,244
Total with donor restrictions		3,252	2,824
Total contributions	$	15,319	13,453

(12) Related-Party Transactions

Many of the transactions of VFI are with related entities, as discussed elsewhere in these consolidated financial statements. Such transactions include contributions, loans with affiliates, investments in affiliates, loan guarantees, and pledges of investments. Certain items are further described below.

As of September 30, 2019 and 2018, the Organization had accounts payable to World Vision totaling $595 and $59 respectively. These amounts were for operating expenses paid by World Vision on behalf of the Organization.

As of September 30, 2018, the Organization has notes payable to World Vision Germany in the amounts of $2,321.

(13) Contingent Liabilities

The operations of VF Serbia include the servicing of loans to microfinance clients, which are issued by a third-party bank. While such loans were not originated by VF Serbia, these loans are guaranteed by VF Serbia and are secured by deposits held with the same bank. As of September 30, 2019, the value of the guaranteed loan portfolio totaled $8,518. These loans are not included on the consolidated statements of financial position. As of September 30, 2019 and 2018, the value of deposits held by VF Serbia as security for these loans totaled $2,499 and $4,596, respectively. These deposits are reported as restricted investments on the consolidated statements of financial position (note 3). Payment is required under the guarantee if a loan becomes over 210 days past due. As of September 30, 2019, 3.4% of the guaranteed loan portfolio was over 90 days past due. The average loan term of the guaranteed loans is 24 months.

Subsequent to September 30, 2019, and in response to a change in local banking legislation in early 2019, VF Serbia revised its servicing agreement with the third-party bank. Under the new agreement and for new loans, VF Serbia provides a security deposit with the bank for the full value of the loan portfolio originated by the bank. These loans will be included on the consolidated statements of financial position and not result in contingent liabilities.

(14) VisionFund Azercredit

Due to an adverse economic situation caused by the devaluation of the local currency in Azerbaijan in 2015-2016, loan collection difficulties arose for VF Azercredit, resulting in significant operating losses and the MFI's inability to pay its debt obligations to foreign lenders in accordance with their contractual terms. Beginning in 2015, VF Azercredit and the Organization worked with external lenders to extend and renegotiate the payment terms under a collective Standstill Agreement.

On December 11, 2017, the lenders to VF Azercredit terminated the Standstill Agreement, triggering VF Azercredit's insolvency. On February 8, 2018, VF Azercredit entered legal bankruptcy protection proceeding with the Administrative-Economic Court of Baku#1. On May 25, 2018, VF Azercredit was declared bankrupt and a court-appointed administrator was assigned to manage liquidation proceedings. As a result, the Organization forfeited control of VF Azercredit, and deconsolidated the MFI from its financial statements.

As of September 30, 2017, the carrying value of liabilities held by VF Azercredit exceeded the reported fair value of its assets, with a reported deficiency of $23,260. In the year ended September 30, 2018, the organization recognized a gain on deconsolidation of VF Azercredit equivalent to the September 30, 2017 net deficiency.

(15) Liquidity and Availability

The Organization manages liquidity to fund operations, assets and obligation as necessary in the most cost effective way without unduly jeopardizing income potential or risking loss, and to establish a minimum level of liquidity for emergency funding of MFIs and operational needs. As a consolidated organization, liquidity is dispersed across 22 separate countries, where funds are managed and held for local use. Generally, management distinguishes the Organization's liquidity and availability between VFI's central liquidity, and the subsidiary MFIs' local liquidity. During the years ended September 30, 2019 and 2018, the level of liquidity was managed within the Organization's policy requirements.

(a) VFI Liquidity and Availability

The principal use of funds for VFI are for net operating cash flows, loans to MFIs, investments in MFIs, payments on notes payable, and capital expenditures. Annually, each MFI submits business plans to plan for debt and equity needs, which is submitted to VFI and integrated with VFIs funding needs. VFI maintains liquidity sufficient to cover approved and expected MFI investment activity as well as all contractual payments of interest and principal on debt. For ongoing liquidity management, the maturity dates of loans receivable by VFI are generally managed to match or precede the maturity dates of VFIs notes payable to various lenders. The following shows the VFI liquidity as of September 30, 2019 and 2018.

(In thousands)

		2019	2018
Current financial assets at year end:			
Cash and cash equivalents	$	15,175	66,243
Total current financial assets available to meet cash needs for general expenditures within one year	$	15,175	66,243

(b) *MFI Liquidity and Availability*

The principal use of funds for MFIs are for net operating cash flows, loans to clients, debt repayments, repayments of demand deposits and capital expenditures. Each MFI adheres to the Organization's liquidity policy, however each MFI also must adhere to their respective in country regulatory environment, and operating model requirements which vary by context. Every month, each MFI prepares a rolling six-month cash flow forecast with disbursement plan by branch to calculate how much cash is needed on hand. The maturity dates of the MFI loans to clients are generally managed to match or precede the maturity dates of notes payable to various lenders. If an MFI needs additional liquidity, management and VFI will work together to find a suitable solution, which can include providing a loan or equity from VFI to the MFI or other strategic solutions. The following shows the MFI liquidity as of September 30, 2019 and 2018.

		2019	2018
Current financial assets at year end:			
Cash and cash equivalents	$	29,494	28,947
Investments		17,507	32,314
Total current financial assets at year end		47,001	61,261
Less restricted funds not available to be used within one year:			
Restricted cash		2,499	4,596
Total current financial assets available to meet cash needs for general expenditures within one year	$	44,502	56,665

(16) Subsequent Events

Subsequent events have been evaluated from September 30, 2019 through March 13, 2020.

VF Zambia was previously granted a waiver exempting it from regulatory caps of a maximum 25% ownership per shareholder, originally allowing VFI to own 99% of VF Zambia shares on the basis that share positions would eventually be diluted. As regulator, the Bank of Zambia granted VFI extensions until the end of 2019 to comply. Mandated caps were achieved by December 2019 through a combination of grants and share allocations from VFI to World Vision Zambia and the introduction of WVI and WV Real Properties (a subsidiary World Vision United States) as new shareholders to calibrate overall shareholder positions at 25% each. The Organization expects to continue to consolidate VF Zambia due to its control over the entity maintained via agreements with the other shareholders. As of September 30, 2019, the net assets of VF Zambia totaled $1,346.