

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business**

of

**World Vision
Federal Way, Washington**

SEPTEMBER 30, 2006

Order No. G08-46
World Vision
Exhibit A

SALUTATION

Seattle, Washington
April 24, 2008

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records pertaining to the charitable gift annuity (CGA) business of

World Vision

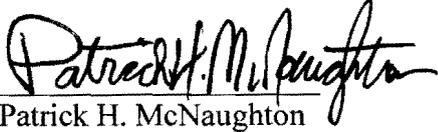
of

Federal Way, Washington

hereinafter referred to as "WV" at its office, 34834 Weyerhaeuser Way South, Federal Way, Washington 98063. This report of examination is respectfully submitted showing the condition of the CGA business of WV as of September 30, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity (CGA) business of World Vision of Federal Way, Washington. This report shows the financial condition of the CGA business and related corporate matters of World Vision as of September 30, 2006.



Patrick H. McNaughton
Chief Examiner

4-24-2008

Date

TABLE OF CONTENTS

SCOPE OF EXAMINATION 1

INSTRUCTIONS 1

COMMENTS AND RECOMMENDATIONS 2

ORGANIZATION PROFILE..... 2

AFFILIATED ORGANIZATIONS..... 3

MANAGEMENT AND CONTROL 3

 MANAGEMENT 3

 BOARD OF DIRECTORS 4

 OFFICERS..... 4

 TAX STATUS..... 4

 CONFLICT OF INTEREST 4

CORPORATE RECORDS 5

STATEMENT OF ACTUARIAL OPINION..... 5

ANNUITY ASSETS CUSTODIAL FUNCTION..... 5

SUBSEQUENT EVENTS..... 5

ACCOUNTING RECORDS AND PROCEDURES 5

FINANCIAL STATEMENTS..... 6

ACKNOWLEDGMENT 8

AFFIDAVIT 9

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006. The 2006 Annual Report reflected the balance sheet and statement of revenue and expenses of WV as of September 30, 2006. The OIC granted permission to WV to present its Annual Report as of its fiscal year ended September 30, 2006. The examination of the 2006 Annual Report, therefore, covers the period ending September 30, 2006 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2006 for the general interrogatories, charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The Annual Report financial statements were presented on a consolidated basis for WV and its affiliates. The scope of our examination focused only on the transactions and operations of the CGA business. WV's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate the CGA reporting. The results of the examination are commented upon in the various sections of this report.

The examination was conducted in accordance with the statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Federal Way office of WV by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed WV's CGA Annual Reports as part of the statutory examination. This review was performed to determine if WV completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Statutory Reserves

RCW 48.38.020 requires an organization to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The amount of the separate reserve fund shall include a surplus of ten percent (10%). WV maintained a separate fund, but it did not include the surplus of 10% to the actuary's calculated reserve amount as required by RCW 48.38.020(3)(c). As a result, the reported annuity liabilities for Washington State contracts were understated by 10% as of September 30, 2006. However, there was no examination adjustment made due to immateriality.

WV is instructed to increase by an additional 10% the actuarial reserve calculated

for the separate reserve fund in compliance with RCW 48.38.020(3)(c).

2. Annual Report - Consolidated

The filing of the Annual Report by WV did not conform to Chapter 48.38 RCW and the OIC Annual Report Instructions during the five year examination period ended September 30, 2006. Balances reported in the Annual Reports included the accounts of WV and its affiliates, World Vision Foundation (Foundation), World Vision Properties LLC, and Tower Business Park LLC (TBP). The OIC Annual Report Instructions specifically require that the Annual Report must be submitted only for the organization holding the certificate of exemption to issue annuities. (See Note No. 2)

WV is instructed to comply with reporting requirements in accordance with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions which requires an Annual Report for WV on a non-consolidated basis.

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History: WV was founded in 1950. Its stated mission is to help children, families, and their communities worldwide. WV provides emergency and hunger relief, long-term community development programs, agricultural development assistance, and leadership training.

Territory and Plan of Operation: On September 3, 1999, the OIC granted WV a Certificate of Exemption to conduct a CGA business in the state of Washington. There were 285 in-force annuity contracts as of December 31, 2006.

Total Net Assets: WV's total adjusted net assets as of September 30, 2006 were \$158.5 million. This amount included an unrestricted net asset of \$110.3 million. The minimum unrestricted net assets requirement was satisfied and is in compliance with RCW 48.38.010(6).

Growth: The growth of WV for the past five years is reflected in the following schedules. All information was compiled from WV's audited financial statements and Internal Revenue Service (IRS) Form 990 as of fiscal years ending September 30.

Schedule 1 – Statement of Financial Position

(In thousands) Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2006	\$327,027	\$168,560	\$158,467	\$110,320	\$44,484	\$3,663
2005	301,861	132,495	169,366	103,526	65,180	660
2004	257,779	123,671	134,108	108,085	25,388	635
2003	202,571	61,689	140,882	106,150	34,097	635
2002	155,183	51,048	104,135	68,592	34,908	635

Schedule 2 – Statement of Activities and Changes in Net Assets

(In thousands)	2006	2005	2004	2003	2002
Total revenue, operating and nonoperating	\$943,966	\$905,130	\$806,843	\$685,770	\$553,011
Total expenses, operating and nonoperating	946,145	869,872	813,617	649,023	541,805
Increase (decrease) in net assets	(\$2,179)	\$35,258	(\$6,774)	\$36,747	\$11,206
Net assets at beginning of year *	160,646	134,108	140,882	104,135	92,929
Net assets at end of year	\$158,467	\$169,366	\$134,108	\$140,882	\$104,135
Number of gift annuity contracts at end of year	285	297	321	324	415

* Net assets at beginning of year 2006 were adjusted to exclude the results of WV's affiliates.

AFFILIATED ORGANIZATIONS

World Vision Foundation is a trust established by WV in 2002 under the laws of the state of California, as a supporting organization. The foundation is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and corresponding California provisions.

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

Tower Business Park LLC is a single-purpose entity, created under the laws of the state of Oregon, for the purpose of property development. On December 1, 2003, one hundred percent of the membership interest of TBP was contributed to WV.

MANAGEMENT AND CONTROL

Management: The management of the affairs of WV is vested in a Board of Directors (BOD) made up of not less than twelve or more than twenty persons elected by members.

A majority of the authorized number of directors constitute a quorum. The BOD elects officers to manage the daily operations of WV.

Board of Directors: The BOD as of fiscal years 2006-2007:

James F. Beré, Jr., Chairman
Ambassador J. Brady Anderson
Rudy Carrasco
Rev. John Crosby
Gary Duim
Dr. Leighton Ford
Joyce Godwin
Rev. David Gibbons
Deborah Harris
William E. Haslam
Dr. Stephen Hayner
Dean Hirsch
Rev. Dr. John Huffman, Jr.
Dr. Daniel A. Hussar
Cheryl Martin
Joanna S. Mockler
Joan Singleton
Dr. Horace Smith
Richard E. Stearns
Rev. Dr. Dolphus Weary

Officers: The officers as of September 30, 2006:

Richard Stearns, President
Michael Veitenhans, Sr. Vice President, Corporate Development, GIK and US Programs
Joan Mussa, Sr. Vice President, Advocacy and Communication
Larry Probus, Sr. Vice President and Chief Financial Officer
Julie Regnier, Sr. Vice President, Human Resources
Atul Tandon, Sr. Vice President, Donor Engagement
Ambassador George Ward, Jr. Sr. Vice President, International Program

Tax Status: WV is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: WV has a conflict of interest policy which requires all BOD members and all WV employees to sign Conflict of Interest Disclosure Forms annually. All disclosures that apply to staff are handled by the vice president of finance, and all disclosures that apply to members of the BOD are referred to the secretary of the BOD. The policy requires the BOD and staff to affirm that such person: (a) has received a copy of the conflict of interest policy statement, (b) has read and understood the policy, and (c) has agreed to comply with the policy. No exceptions were noted.

CORPORATE RECORDS

The BOD meets five times a year to discuss any business which is pertinent to WV. Minutes of the meetings of the BOD documented the approval of WV's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary from Milliman, Inc. reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion (SAO) which stated that he is a member of the American Academy of Actuaries and meets the qualification standards. The SAO indicated that WV's annuity contract reserves were computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code. However, the reserves amount did not include the 10% surplus required by RCW 48.38.020(3)(c) for Washington State annuity contracts. (See Instruction No. 1)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of WV as required by RCW 48.38.020(2). The annuity investments consisted of cash and equity funds and were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted WV's CGA operations between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of WV as of September 30, 2006:

Statement of Financial Position

	(in thousands)			
	Balance per		Examination	Balance per
	Annual Report	Adj.	Adjustments	Examination
<u>Assets</u>				
Cash and cash equivalents	\$3,132	1	(\$533)	\$2,599
Marketable securities	9,697	1	(3,751)	5,946
Investment in pooled funds	153,678			153,678
CGA investments	0	1	4,327	4,327
Real estate held as investment	549			549
Fixed assets, net	48,037	2	(7,735)	40,302
Charitable trusts receivable	7,121			7,121
Assets held in trust	16,495			16,495
Other assets	96,793	1, 2	(783)	96,010
Total Assets	<u>\$335,502</u>		<u>(\$8,475)</u>	<u>\$327,027</u>
<u>Liabilities</u>				
Accounts payable and accrued expenses	\$26,230			\$26,230
Due to World Vision International	97,557			97,557
Obligations under capital annuities	148			148
Charitable gift annuities	3,705			3,705
Other liabilities	40,920			40,920
Total Liabilities	<u>168,560</u>		<u>0</u>	<u>168,560</u>
<u>Net Assets</u>				
Unrestricted	118,795	2	(8,475)	110,320
Temporarily restricted	44,484			44,484
Permanently restricted	3,663			3,663
Total Net Assets	<u>166,942</u>		<u>(8,475)</u>	<u>158,467</u>
Total Liabilities and Net Assets	<u>\$335,502</u>		<u>(\$8,475)</u>	<u>\$327,027</u>

Statement of Activities and Changes in Net Assets

	(in thousands)			
	Balance per		Examination	Balance per
	Annual Report		Adjustments	Examination
Total revenues	\$943,946	2	\$20	\$943,966
Total expenses	946,370	2	(225)	946,145
Increase (decrease) in net assets	(2,424)		245	(2,179)
Net assets at beginning of year	169,366	2	(8,720)	160,646
Net assets at end of year	<u>\$166,942</u>		<u>(\$8,475)</u>	<u>\$158,467</u>

Examination Adjustments:

1. To reclassify the CGA portion of cash, marketable securities, and other assets to identify the assets separately in the report.
2. To remove the assets, liabilities and net assets of the affiliated entities, World Vision Foundation, World Vision Properties LLC, and Tower Business Park LLC, in order to present WV's financial statements in accordance with the OIC Annual Report Instructions. (See Instruction No. 2)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of WV during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, and Susan Campbell, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Subbagh', written over a horizontal line.

Tarik Subbagh, CPA, CFE
Examiner-in-Charge
State of Washington.

AFFIDAVIT

STATE OF WASHINGTON }
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 } **ss**
COUNTY OF KING }

Tarik Subbagh, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of WV's CGA operations was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Tarik Subbagh, CPA, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 24th day of April, 2008.



Notary Public in and for the
State of Washington,
Residing at Seattle.

