



World Pediatric Project

Financial Statements

June 30, 2022 and 2021



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WORLD PEDIATRIC PROJECT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
World Pediatric Project
Richmond, Virginia

Opinion

We have audited the accompanying financial statements of World Pediatric Project (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



November 22, 2022
Glen Allen, Virginia

WORLD PEDIATRIC PROJECT

Statements of Financial Position
June 30, 2022 and 2021

| <u>Assets</u> | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,948,234 | \$ 3,244,055 |
| Pledges receivable, current | 258,377 | 458,000 |
| Prepaid expenses | 44,940 | 30,480 |
| Total current assets | <u>3,251,551</u> | <u>3,732,535</u> |
| Property and equipment: | | |
| Furniture, equipment and website | 1,611,048 | 1,580,805 |
| Less: accumulated depreciation and amortization | <u>(1,450,645)</u> | <u>(1,192,668)</u> |
| Net property and equipment | <u>160,403</u> | <u>388,137</u> |
| Other assets: | | |
| Pledges receivable - net, long-term | 109,834 | 159,430 |
| Investments | 463,519 | 483,485 |
| Total other assets | <u>573,353</u> | <u>642,915</u> |
| | <u>\$ 3,985,307</u> | <u>\$ 4,763,587</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 168,327 | \$ 137,373 |
| Accrued rent | 6,875 | 9,069 |
| Funds held for others | 3,464 | 6,000 |
| Total current liabilities | <u>178,666</u> | <u>152,442</u> |
| Net assets: | | |
| Without donor restrictions: | | |
| Undesignated | 2,488,269 | 2,872,409 |
| Board-designated endowment | 131,253 | 163,450 |
| Total without donor restrictions | <u>2,619,522</u> | <u>3,035,859</u> |
| With donor restrictions | <u>1,187,119</u> | <u>1,575,286</u> |
| Total net assets | <u>3,806,641</u> | <u>4,611,145</u> |
| | <u>\$ 3,985,307</u> | <u>\$ 4,763,587</u> |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Activities Year Ended June 30, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|--------------|
| Revenues and gains: | | | |
| Auction and special events | \$ 1,966,211 | \$ - | \$ 1,966,211 |
| Contributions | 1,465,337 | 313,754 | 1,779,091 |
| In-kind contributions | 11,387,966 | - | 11,387,966 |
| Interest and dividend income | 3,696 | 4,796 | 8,492 |
| Unrealized investment losses, net | (52,547) | (59,994) | (112,541) |
| Realized investment (losses) gains | (564) | 7,940 | 7,376 |
| Total revenues and gains | 14,770,099 | 266,496 | 15,036,595 |
| Net assets released from restrictions | 654,663 | (654,663) | - |
| Total revenues, gains, and other support | 15,424,762 | (388,167) | 15,036,595 |
| Expenses: | | | |
| Program services | 13,427,693 | - | 13,427,693 |
| Management and general | 706,228 | - | 706,228 |
| Fundraising | 1,707,178 | - | 1,707,178 |
| Total expenses | 15,841,099 | - | 15,841,099 |
| Change in net assets | (416,337) | (388,167) | (804,504) |
| Net assets, beginning of year | 3,035,859 | 1,575,286 | 4,611,145 |
| Net assets, end of year | \$ 2,619,522 | \$ 1,187,119 | \$ 3,806,641 |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Activities, Continued Year Ended June 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|--------------|
| Revenues and gains (losses): | | | |
| Auction and special events | \$ 1,958,043 | \$ - | \$ 1,958,043 |
| Contributions | 1,336,048 | 700,785 | 2,036,833 |
| In-kind contributions | 9,176,959 | - | 9,176,959 |
| Interest and dividend income | 7,524 | 2,863 | 10,387 |
| Unrealized investment gains, net | 6,777 | 51,074 | 57,851 |
| Realized investment gains | 14,523 | 14,945 | 29,468 |
| Paycheck Protection Program loan forgiveness (see Note 7) | 390,597 | - | 390,597 |
| Other revenue | 80,844 | - | 80,844 |
| Total revenues and gains | 12,971,315 | 769,667 | 13,740,982 |
| Net assets released from restrictions | 696,916 | (696,916) | - |
| Total revenues, gains, and other support | 13,668,231 | 72,751 | 13,740,982 |
| Expenses: | | | |
| Program services | 10,508,474 | - | 10,508,474 |
| Management and general | 650,838 | - | 650,838 |
| Fundraising | 1,492,824 | - | 1,492,824 |
| Total expenses | 12,652,136 | - | 12,652,136 |
| Change in net assets | 1,016,095 | 72,751 | 1,088,846 |
| Net assets, beginning of year | 2,019,764 | 1,502,535 | 3,522,299 |
| Net assets, end of year | \$ 3,035,859 | \$ 1,575,286 | \$ 4,611,145 |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Functional Expenses Year Ended June 30, 2022

| | Program Services | Management and General | Fundraising | Total |
|---|----------------------|---------------------------|---------------------|----------------------|
| Salaries and related expenses | \$ 786,640 | \$ 477,228 | \$ 721,043 | \$ 1,984,911 |
| Nonemployee compensation | - | 255 | - | 255 |
| Payroll processing | 2,602 | 867 | 2,024 | 5,493 |
| Recruitment expenses | 105 | 42,444 | 335 | 42,884 |
| Staff development | 272 | 105 | 2,146 | 2,523 |
| In-country personnel | 417,331 | - | - | 417,331 |
| Patient expenses | 131,515 | 417 | 131 | 132,063 |
| International sponsorships | 93,343 | - | - | 93,343 |
| Volunteer program | 115 | - | - | 115 |
| Capacity building programs | 15,387 | - | - | 15,387 |
| Medical missions | 364,477 | - | - | 364,477 |
| Special events expense | - | - | 462,147 | 462,147 |
| Professional fees | 89,587 | 29,862 | 69,679 | 189,129 |
| Advertising | 243,350 | 7,249 | 164,231 | 414,830 |
| Communications expense | 8,143 | 2,728 | 5,332 | 16,203 |
| Facility and equipment | 87,688 | 36,834 | 67,163 | 191,685 |
| Office expenses | 3,481 | 1,995 | 27,688 | 33,164 |
| Travel and related expenses | 16,572 | 27,805 | 12,106 | 56,482 |
| Other business expense | 52,018 | 35,573 | 74,723 | 162,313 |
| Depreciation and amortization | 124,474 | 41,491 | 96,813 | 262,778 |
| Loss on disposal of property and equipment | 489 | 167 | 385 | 1,041 |
| Medical fees - in-kind | 10,990,086 | - | - | 10,990,086 |
| Miscellaneous | 18 | 1,207 | 1,233 | 2,458 |
| | <u>\$ 13,427,693</u> | <u>\$ 706,228</u> | <u>\$ 1,707,178</u> | <u>\$ 15,841,099</u> |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Functional Expenses, Continued Year Ended June 30, 2021

| | Program Services | Management and General | Fundraising | Total |
|-------------------------------|----------------------|---------------------------|---------------------|----------------------|
| Salaries and related expenses | \$ 645,008 | \$ 404,812 | \$ 522,427 | \$ 1,572,247 |
| Nonemployee compensation | 2,315 | 3,123 | 1,238 | 6,676 |
| Payroll processing | 2,444 | 944 | 2,277 | 5,665 |
| Recruitment expenses | - | 74,250 | 953 | 75,203 |
| Staff development | - | 50 | 1,295 | 1,345 |
| In-country personnel | 336,748 | - | - | 336,748 |
| Patient expenses | 169,802 | - | - | 169,802 |
| International sponsorships | 128,218 | - | - | 128,218 |
| Volunteer program | 41 | - | - | 41 |
| Capacity building programs | 22,833 | - | - | 22,833 |
| Medical missions | 106,889 | - | - | 106,889 |
| Special events expense | - | - | 221,731 | 221,731 |
| Professional fees | 32,667 | 12,621 | 30,440 | 75,728 |
| Advertising | 143,879 | 21,683 | 389,019 | 554,581 |
| Communications expense | 9,117 | 2,883 | 6,665 | 18,665 |
| Facility and equipment | 75,875 | 34,332 | 70,216 | 180,423 |
| Office expenses | 2,384 | 2,142 | 34,947 | 39,473 |
| Travel and related expenses | 1,806 | 338 | 5,749 | 7,893 |
| Other business expense | 49,328 | 41,124 | 79,231 | 169,683 |
| Depreciation and amortization | 130,168 | 50,293 | 121,294 | 301,755 |
| Medical fees - in-kind | 8,648,952 | - | - | 8,648,952 |
| Miscellaneous | - | 2,243 | 5,342 | 7,585 |
| | <u>\$ 10,508,474</u> | <u>\$ 650,838</u> | <u>\$ 1,492,824</u> | <u>\$ 12,652,136</u> |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Cash Flows Years Ended June 30, 2022 and 2021

| | 2022 | 2021 |
|--|--------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (804,504) | \$ 1,088,846 |
| Adjustments to reconcile the change in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 262,778 | 301,755 |
| Paycheck Protection Loan forgiveness | - | (390,597) |
| Loss on disposal of property and equipment | 1,041 | 5,032 |
| Reinvested interest and dividends | (7,860) | (3,605) |
| Realized gain on investments | (7,376) | (29,468) |
| Unrealized loss (gain) on investments | 112,541 | (57,851) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable - net | 249,219 | 123,640 |
| Other receivables | - | 2,613 |
| Prepaid expenses | (14,460) | 6,274 |
| Accounts payable and accrued expenses | 30,954 | 62,269 |
| Accrued rent | (2,194) | 347 |
| Funds held for others | (2,536) | - |
| | (182,397) | 1,109,255 |
| Net cash (used in) provided by operating activities | | |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (36,085) | (145,370) |
| Purchase of investments | (77,339) | (5,000) |
| | (113,424) | (150,370) |
| Net cash used in investing activities | | |
| Cash flows from financing activities: | | |
| Proceeds from Paycheck Protection Program loans | - | 400,000 |
| Payments on Paycheck Protection Program loans | - | (32,048) |
| | - | 367,952 |
| Net cash provided by financing activities | | |
| Net change in cash and cash equivalents | (295,821) | 1,326,837 |
| Cash and cash equivalents, beginning of year | 3,244,055 | 1,917,218 |
| Cash and cash equivalents, end of year | \$ 2,948,234 | \$ 3,244,055 |

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization: World Pediatric Project (the “Organization”) is a nonprofit humanitarian organization linking worldwide pediatric surgical, diagnostic and preventative resources to heal critically ill children in developing countries. World Pediatric Project also helps build indigenous health care capacity – saving lives now while transforming pediatric health outcomes for years to come.

Basis of Accounting: The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”), which require reporting information regarding its financial position and activities according to these two classes of net assets:

Net assets without donor restrictions are net assets that are not subject to donor-imposed stipulations. If the Board of Directors specifies a purpose where none has been stated by the original donor, such assets are classified as Board-designated within net assets without donor restrictions.

Net assets with donors restrictions are net assets which are stipulated by donors for specific purposes, use restrictions, or are restricted in perpetuity. For net assets restricted for specific actions or the passage of time, once a restriction expires, the net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. For net assets restricted in perpetuity, the original fair value of the gift will be maintained permanently by the Organization and use of all or part of the income earned on any related investments is for general or specific purposes.

Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The Organization considers as cash equivalents all short term, highly liquid investments with maturities of three months or less at date of acquisition.

Pledges Receivable: Unconditional promises to give, which include pledges and grants receivable at their net present value in the year promised, are recognized as contributions with or without donor restrictions as appropriate. Conditional promises are recorded when donor stipulations are substantially met.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Property and Equipment: Property and equipment and website development costs are recorded at cost for purchased assets and at fair value for donated items. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related assets, which range from three to seven years. Upon retirement or sale of an asset, the cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Investments: The Organization's investments are reported at readily determinable fair value in the statements of financial position. The fair value of marketable equity and debt securities is determined using quoted market prices. Unrealized gains and losses are included in the statements of activities.

Credit Risk: The Organization maintains its cash and cash equivalent balances in multiple financial institutions. The balances in the financial institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000. Funds held by brokerage houses are insured by the Securities Investors Protection Corporation up to a ceiling of \$500,000, including cash claims of up to \$250,000. The Organization periodically has balances in excess of insured limits.

Income Taxes: The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Income Tax Uncertainties: Management has evaluated the effects of accounting guidance related to uncertain income tax positions and concluded that the Organization had no significant financial statement exposure to uncertain income tax positions at June 30, 2022 and 2021. The Organization is not currently under audit by any tax jurisdiction.

Contributed Materials, Hospital Charges and Services: In September 2020, the FASB issued Accounting Standards Update ("ASU") 2020-07: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which aims to increase transparency of contributed nonfinancial assets, commonly known as gifts in kind, through enhancements to presentation and disclosures. With the new ASU, organizations receiving contributions of nonfinancial assets are now required to present such contributions as a separate line item on the statement of activities. Previously these were allowed to be included in the contributions line item. This ASU also adds additional disclosure requirements for these contributions. The previous disclosure requirements were less detailed and primarily related only to contributed services. The new, more detailed requirements are for contributions of all nonfinancial assets, including both goods and services. These requirements include a disaggregation of the total amount of contributed nonfinancial assets recognized within the statement of activities by category and, for each category, information regarding the valuation methodology and whether the contributed nonfinancial assets were either monetized or used during the reporting period. The Foundation has adopted this ASU using the retrospective approach as of July 1, 2020. In-kind contributions are separately stated on the statements of activities for the years ended June 30, 2022 and 2021.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Contributed Materials, Hospital Charges and Services, Continued: The value of contributed materials, the value of contributed services and hospital charges, and the value of marketing services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and are of the type that would have been purchased if not contributed, amounted to \$11,387,966 for 2022 and \$9,176,959 for 2021 and have been recognized at their fair value as determined either by the donor or estimated by management in the financial statements (see Note 13). In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations and various committee assignments. The value of these services could not be estimated and is not recognized in the financial statements.

Advertising: The Organization expenses advertising costs as they are incurred. Advertising expense amounted to \$414,830 for 2022 and \$554,581 for 2021. The 2022 and 2021 expense includes \$391,180 and \$521,907 of costs provided for by in-kind contributions, respectively.

Functional Allocation of Expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on recording organizational expenses in departmental categories that align with these functions. Program services expenses represents the various costs associated with providing medical services including salaries, patient expenses, medical missions, rent and other program related expenses. Fundraising expenses include the work of the Development team. Management and General expenses reflect a variety of business functions including human resources, professional services, rent, travel, and other business related expenses.

Subsequent Events: Management has evaluated subsequent events through November 22, 2022, the date the financial statements were available to be issued, and has determined that there are no additional subsequent events to be reported in the accompanying financial statements.

2. Net Assets with Donor Restrictions:

In 2022 and 2021, the Organization received donor-imposed restricted contributions for direct costs of program services for children needing critical care and time-restricted contributions. Accordingly, the Organization recorded restricted gifts of \$313,754 during 2022 and \$700,785 during 2021. The amounts released from restrictions and expended for children needing critical care were \$384,663 during 2022 and \$430,216 during 2021. The amounts released from time restrictions due to collecting of pledges receivable were \$270,000 during 2022 and \$266,700 during 2021.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

3. Pledges Receivable:

The present value of estimated future cash flows of pledges receivable, discounted at the risk-free rate of 3.22% at June 30, 2022 and 0.46% at June 30, 2021, are expected to be received as follows at June 30:

| | 2022 | 2021 |
|--------------------------------|------------|------------|
| Amounts due in: | | |
| Less than one year | \$ 258,377 | \$ 458,000 |
| One to five years | 115,833 | 160,833 |
| | 374,210 | 618,833 |
| Less: | | |
| Discount on pledges receivable | 5,999 | 1,403 |
| | \$ 368,211 | \$ 617,430 |

Four donors accounted for 74% of net pledges receivable at June 30, 2022 and four donors accounted for 88% of net pledges receivable at June 30, 2021.

4. Investments:

The costs of investments and their related carrying values (market) by major investment type were as follows at June 30:

| | 2022 | | 2021 | |
|---|------------|------------|------------|------------|
| | Cost | Market | Cost | Market |
| Equities & Options | \$ 18,506 | \$ 23,876 | \$ 18,506 | \$ 32,930 |
| ETPs, Mutual, Closed-End, & Interval Funds | 505,503 | 436,762 | 323,118 | 375,257 |
| Cash & Cash Equivalents | 2,881 | 2,881 | 75,298 | 75,298 |
| | \$ 526,890 | \$ 463,519 | \$ 416,922 | \$ 483,485 |

5. Endowment Funds:

The Organization's endowment consists of two endowed named funds established to support the cause of the Organization. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In accordance with UPMIFA, the Organization considers the factors on the following page in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Directors.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

5. Endowment Funds, Continued:

Interpretation of Relevant Law: The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts given to the permanent endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment fund designated by the Board:

- The duration and preservation of the fund
- The purposes of the Organization and a donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Funds with Deficits: From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in net assets with donor restrictions and net assets without donor restrictions as of June 30, 2022 were \$10,188 and \$32,937, respectively. There were no deficiencies of this nature reported in net assets with donor restrictions and net assets without donor restrictions as of June 30, 2021.

Return Objectives and Risk Parameters: The Organization has adopted investment and spending policies for endowment funds that attempt to provide a predictable stream of funding to the Organization’s programs supported by endowments. In addition to providing a predictable stream of funding, the adopted investment and spending policies also seek to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds over time to provide an average rate of return of more than five percent annually. Actual returns in any given year may vary from this amount.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

5. Endowment Funds, Continued:

Strategies Employed for Achieving Objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy: The Organization has a policy of limiting spending to generally five percent of the value of endowment funds. In establishing this policy, the Organization considered the long-term expected return on endowments. Accordingly, over the long term, the Organization expects the current spending policy to allow the endowment fund to grow consistent with the objective of maintaining the purchasing power of the endowment assets.

Endowment net asset composition by type of fund was as follows as of June 30, 2022 and 2021:

| | 2022 | | |
|----------------------------------|-------------------------------|----------------------------|------------|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment fund: | | | |
| Original donor-restricted gift | \$ - | \$ 196,499 | \$ 196,499 |
| Accumulated investment gains | - | 91,278 | 91,278 |
| Board-designated fund | 131,253 | - | 131,253 |
| Total funds | \$ 131,253 | \$ 287,777 | \$ 419,030 |
| | | | |
| | 2021 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Donor-restricted endowment fund: | | | |
| Original donor-restricted gift | \$ - | \$ 196,499 | \$ 196,499 |
| Accumulated investment gains | - | 138,536 | 138,536 |
| Board-designated fund | 163,450 | - | 163,450 |
| Total funds | \$ 163,450 | \$ 335,035 | \$ 498,485 |

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

5. Endowment Funds, Continued:

Changes in endowment funds were as follows for the years ended June 30, 2022 and 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|------------------------------|-------------------------------|----------------------------|-------------------|
| Net assets, July 1, 2020 | \$ 141,408 | \$ 266,153 | \$ 407,561 |
| Investment income | 742 | 2,863 | 3,605 |
| Realized investment gains | 14,523 | 14,945 | 29,468 |
| Unrealized investment gains | <u>6,777</u> | <u>51,074</u> | <u>57,851</u> |
| Net assets, June 30, 2021 | 163,450 | 335,035 | 498,485 |
| Investment income | 2,320 | 4,796 | 7,116 |
| Realized investment gains | - | 7,940 | 7,940 |
| Unrealized investment losses | <u>(34,517)</u> | <u>(59,994)</u> | <u>(94,511)</u> |
| Net assets, June 30, 2022 | <u>\$ 131,253</u> | <u>\$ 287,777</u> | <u>\$ 419,030</u> |

The 2022 and 2021 balance of endowment funds with donor restrictions shown above includes \$10,000 of pledges receivable to be collected between 2023 and 2024 and \$5,000 of cash.

6. Fair Value Measurements:

The Organization follows FASB guidance, which provides a framework for measuring fair value under GAAP, for all financial assets and liabilities measured at fair value on a recurring basis.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels.

These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as certain U.S. Treasury securities that are traded by dealers or brokers in active markets.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is determined using model-based techniques that use significant assumptions not observable in the market and significant to the fair value measurement.

The fair value of the Organization's investments in securities of \$463,519 at June 30, 2022 and \$483,485 at June 30, 2021 was determined based upon Level 1 valuation criteria.

7. Paycheck Protection Program Loan:

In response to the economic instability caused by COVID-19, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was passed by Congress and signed into law by the President on March 27, 2020. The Paycheck Protection Program was a component of the CARES Act and provided for a loan ("PPP Loan") to provide a direct incentive for employers to keep their employees on the payroll. A PPP Loan is eligible for full or partial forgiveness if the funds are used for qualifying costs including payroll, rent, mortgage interest, or utilities, as further defined in the CARES Act.

The Organization applied for and was approved for a PPP Loan in the amount of \$400,000, which was funded on February 8, 2021. The loan accrued interest at 1.0%, but payments were not required to begin for ten months after funding. The Organization was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan was uncollateralized and was fully guaranteed by the Federal government.

As of June 30, 2021, the Organization had used all of the loan proceeds for qualifying costs and as a result, management believed the second PPP loan would be fully forgiven. Based on its facts and circumstances, the Organization elected to recognize the loan forgiveness as of June 30, 2021, shown as Paycheck Protection Program loan forgiveness in the accompanying 2021 statement of activities. The Organization received full forgiveness of the second PPP Loan on August 12, 2021.

8. Leases:

The Organization leases office space and equipment under operating lease agreements. Rental expense was \$201,313 for 2022 and \$178,531 for 2021. Rental expense is included in the accompanying statements of functional expenses within in-country personnel and facility and equipment.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

8. Leases, Continued:

As of June 30, 2022, the Organization leases office space in Richmond through December 31, 2023 and in St. Louis through June 30, 2023. These leases provide for certain rent holidays and annual rent escalations. The Organization recognizes rent expense on a straight-line basis over the life of the leases. This policy resulted in the recognition of accrued rent of \$6,875 at June 30, 2022 and \$9,069 at June 30, 2021.

Future minimum payments under operating lease obligations consist of the following at June 30, 2022:

| Year Ending June 30, | Amount |
|-------------------------|-------------------|
| 2023 | \$ 179,293 |
| 2024 | 60,918 |
| Total | <u>\$ 240,211</u> |

9. Allocation of Joint Costs:

The Organization provided to the public online information materials that included fundraising appeals. The cost of conducting this activity included total joint costs of \$391,180 in 2022 and \$287,757 in 2021, which are not specifically attributable to particular components of the activities. These joint costs are included in the accompanying Statements of Functional Expenses. Costs allocated to program were \$243,311 in 2022 and \$143,879 in 2021. Costs allocated to fundraising were \$147,869 in 2022 and \$143,878 in 2021.

10. Risks and Uncertainties:

From time to time, the Organization may be involved in 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, results of operations, or cash flows.

Pursuant to its Articles of Incorporation, the Organization has certain obligations to indemnify its officers and directors for certain events or occurrences while serving at the Organization's request in such capacities. The maximum liability under these obligations is limited by the Code of Virginia. The Organization's insurance policies serve to further limit its exposure. The Organization believes that the estimated fair value of these indemnification obligations is minimal.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

11. Liquidity and Availability of Financial Assets:

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 2,948,234 | \$ 3,244,055 |
| Pledges receivable, current | 258,377 | 458,000 |
| Investments | <u>463,519</u> | <u>483,485</u> |
| Total financial assets available within one year | 3,670,130 | 4,185,540 |
| Less: | | |
| Donor-imposed restrictions | (732,708) | (963,204) |
| Board-designated endowment | <u>(131,253)</u> | <u>(163,450)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 2,806,169</u> | <u>\$ 3,058,886</u> |

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures become due. In addition, the Organization has board-designated net assets without donor restrictions that, while not intended to spend for purposes other than those identified, could be made available for current operations, if necessary.

12. Defined Contribution Retirement Plan:

The Organization sponsors a defined contribution retirement plan which covers all employees who meet eligibility requirements. The plan enables participants to make contributions, and the Organization may elect to match the employee's contribution. The Organization made matching contributions of \$2,750 in 2022 and \$0 in 2021.

13. Donated Services and Materials:

The Organization receives significant in-kind contributions of time and pro bono services from members of the community and volunteers related to program operations and fund-raising campaigns. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization recognizes in-kind contribution revenue and a corresponding expense in an amount approximating the estimated fair value at the time of the donation.

During fiscal year 2022, the Organization received donated goods and services for contributed materials, medical services and hospital charges, marketing services, and audit services.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

13. Donated Services and Materials, Continued:

The Organization received the following in-kind contributions for the years ended June 30:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------|----------------------|---------------------|
| Medical services and materials | \$ 10,990,086 | \$ 8,648,952 |
| Marketing services | 391,180 | 521,907 |
| Audit services | <u>6,700</u> | <u>6,100</u> |
| | <u>\$ 11,387,966</u> | <u>\$ 9,176,959</u> |

All donated services and materials were utilized by the Organization's programs and supporting services. There were no donor-imposed restrictions associated with the donated services and materials.

Donated services and materials are valued at the standard market rates charged for those services or assets to cash-paying customers.

14. New Accounting Guidance:

Leases: In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance, or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of operations. On the statement of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of operations. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2021, and will require entities to use a modified retrospective approach to the earliest period presented. The Organization is currently evaluating the reporting and economic implications of the new standard.