



World Pediatric Project

Financial Statements

June 30, 2017 and 2016



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WORLD PEDIATRIC PROJECT

Table of Contents

	<u>Page</u>
Report of Independent Accountants	1
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	9

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
World Pediatric Project
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of World Pediatric Project (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Pediatric Project as of June 30, 2017 and 2016, 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.

A handwritten signature in black ink, appearing to read "Keita", with a stylized, flowing script.

October 25, 2017
Glen Allen, Virginia

WORLD PEDIATRIC PROJECT

Statements of Financial Position June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 1,361,206	\$ 1,325,559
Pledges receivable, current	223,000	144,480
Prepaid expenses	<u>46,556</u>	<u>111,162</u>
Total current assets	<u>1,630,762</u>	<u>1,581,201</u>
Property and equipment:		
Furniture, equipment and website	1,585,994	301,777
Less: accumulated depreciation and amortization	<u>(324,173)</u>	<u>(247,934)</u>
Net property and equipment	<u>1,261,821</u>	<u>53,843</u>
Other assets:		
Pledges receivable - net, long-term	603,540	17,762
Investments	<u>323,313</u>	<u>285,956</u>
Total other assets	<u>926,853</u>	<u>303,718</u>
	<u>\$ 3,819,436</u>	<u>\$ 1,938,762</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 60,653	\$ 102,427
Accrued rent	29,837	32,989
Funds held for others	<u>4,690</u>	<u>4,690</u>
Total current liabilities	<u>95,180</u>	<u>140,106</u>
Net assets:		
Unrestricted:		
Undesignated	2,083,365	858,541
Board-designated endowment	125,532	113,802
Temporarily restricted	1,353,860	669,814
Permanently restricted	<u>161,499</u>	<u>156,499</u>
Total net assets	<u>3,724,256</u>	<u>1,798,656</u>
	<u>\$ 3,819,436</u>	<u>\$ 1,938,762</u>

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statement of Activities Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and gains:				
Auction and special events	\$ 2,282,023	\$ -	\$ -	\$ 2,282,023
Contributions	1,356,901	1,977,997	5,000	3,339,898
In-kind contributions	16,804,997	-	-	16,804,997
Interest and dividend income	8,069	2,558	-	10,627
Unrealized investment gains	14,139	25,276	-	39,415
Recovery of donated equipment	995,097	-	-	995,097
	<u>21,461,226</u>	<u>2,005,831</u>	<u>5,000</u>	<u>23,472,057</u>
Amounts released from restrictions				
	<u>1,321,785</u>	<u>(1,321,785)</u>	<u>-</u>	<u>-</u>
	<u>22,783,011</u>	<u>684,046</u>	<u>5,000</u>	<u>23,472,057</u>
Expenses:				
Program services	19,204,298	-	-	19,204,298
Management and general	538,870	-	-	538,870
Fundraising	1,803,289	-	-	1,803,289
	<u>21,546,457</u>	<u>-</u>	<u>-</u>	<u>21,546,457</u>
Change in net assets	1,236,554	684,046	5,000	1,925,600
Net assets, beginning of year	<u>972,343</u>	<u>669,814</u>	<u>156,499</u>	<u>1,798,656</u>
Net assets, end of year	<u>\$ 2,208,897</u>	<u>\$ 1,353,860</u>	<u>\$ 161,499</u>	<u>\$ 3,724,256</u>

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statement of Activities Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains:				
Auction and special events	\$ 2,011,848	\$ -	\$ -	\$ 2,011,848
Contributions	1,759,837	990,666	32,000	2,782,503
In-kind contributions	14,379,661	-	-	14,379,661
Interest and dividend income	9,469	3,892	-	13,361
Total revenues and gains	18,160,815	994,558	32,000	19,187,373
Amounts released from restrictions				
	761,131	(761,131)	-	-
Total revenues, gains, and other support	18,921,946	233,427	32,000	19,187,373
Expenses:				
Program services	17,247,725	-	-	17,247,725
Management and general	326,830	-	-	326,830
Fundraising	1,590,841	-	-	1,590,841
Total expenses	19,165,396	-	-	19,165,396
Unrealized investment losses	1,710	3,453	-	5,163
Change in net assets	(245,160)	229,974	32,000	16,814
Net assets, beginning of year	1,383,657	439,840	124,499	1,947,996
De-combining of David Ortiz Children's Fund (see Note 1)				
	(166,154)	-	-	(166,154)
Net assets, end of year	\$ 972,343	\$ 669,814	\$ 156,499	\$ 1,798,656

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statement of Functional Expenses Year Ended June 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 869,775	\$ 230,817	\$ 855,435	\$ 1,956,027
Nonemployee compensation	1,692	-	4,755	6,447
Payroll processing	1,748	336	1,277	3,361
Recruitment expenses	290	3,700	28,324	32,314
Staff development	508	-	887	1,395
In-country personnel	193,828	-	115,196	309,024
Patient expenses	463,759	-	-	463,759
International sponsorships	60,858	-	-	60,858
Volunteer program	2,373	7	250	2,630
Missouri Kids	14,000	-	-	14,000
Capacity building programs	623,073	-	-	623,073
Medical missions	315,017	-	-	315,017
Program development	2,567	-	-	2,567
Special events expense	623	623	431,462	432,708
Professional fees	20,057	18,070	14,657	52,784
Marketing	46	250	117,482	117,778
Communications expense	6,570	13,967	2,676	23,213
Facility and equipment	4,241	186,585	6,544	197,370
Office expenses	6,794	12,535	65,124	84,453
Travel and related expenses	15,387	34,503	22,252	72,142
Other business expense	43,873	21,294	106,876	172,043
Depreciation and amortization	39,644	7,624	28,971	76,239
Medical fees - in-kind	16,517,436	-	-	16,517,436
Miscellaneous	139	8,559	1,121	9,819
	<u>\$ 19,204,298</u>	<u>\$ 538,870</u>	<u>\$ 1,803,289</u>	<u>\$ 21,546,457</u>

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statement of Functional Expenses Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and related expenses	\$ 827,398	\$ 223,754	\$ 626,605	\$ 1,677,757
Nonemployee compensation	-	-	113,980	113,980
Payroll processing	-	3,216	-	3,216
Recruitment expenses	605	40	31,560	32,205
Staff development	531	1,307	735	2,573
In-country personnel	186,379	-	-	186,379
Patient expenses	598,578	-	-	598,578
Volunteer program	2,088	26	54	2,168
Ortiz Children's Fund expenses	-	26	-	26
Grants	110,028	-	-	110,028
Missouri Kids	20,900	-	-	20,900
Capacity building programs	1,235,827	-	-	1,235,827
Evaluation programs	1,382	-	-	1,382
Medical missions	289,597	-	-	289,597
Program development	13,620	10,064	26,868	50,552
Special events expense	-	713	445,408	446,121
Professional fees	23,576	13,600	40,059	77,235
Marketing	853	24	50,969	51,846
Communications expense	6,926	13,464	2,677	23,067
Facility and equipment	82,192	19,419	64,181	165,792
Office expenses	7,761	13,550	56,912	78,223
Travel and related expenses	31,494	3,422	23,433	58,349
Other business expense	44,843	17,021	95,743	157,607
Depreciation and amortization	20,730	6,784	10,177	37,691
Medical fees - in-kind	13,740,298	-	-	13,740,298
Miscellaneous	2,119	400	1,480	3,999
	<u>\$ 17,247,725</u>	<u>\$ 326,830</u>	<u>\$ 1,590,841</u>	<u>\$ 19,165,396</u>

See accompanying notes to financial statements.

WORLD PEDIATRIC PROJECT

Statements of Cash Flows Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 1,925,600	\$ 16,814
Adjustments to reconcile the change in net assets to net cash from operations:		
Depreciation and amortization	76,239	37,691
Contributions restricted for endowment	(5,000)	(32,000)
Contributed property and equipment	(154,626)	-
Recovery of in-kind contributions	(995,097)	-
Reinvested interest and dividends	(4,942)	(6,516)
Unrealized (gain) loss on investments	(39,415)	5,163
Changes in operating assets and liabilities:		
Pledges receivable - net	(664,298)	26,825
Prepaid expenses	64,606	(76,042)
Accounts payable and accrued expenses	(41,774)	38,979
Accrued rent	(3,152)	(8,898)
	158,141	2,016
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(134,494)	(5,667)
Proceeds from sales of investments	12,000	-
Purchase of investments	(5,000)	(32,000)
	(127,494)	(37,667)
Net cash used in investing activities		
Cash flows provided by financing activities:		
Contributions restricted for endowment	5,000	32,000
	35,647	(3,651)
Net change in cash and cash equivalents		
Cash and cash equivalents, beginning of year	1,325,559	1,495,364
De-combining of David Ortiz Children's Fund Children's Fund	-	(166,154)
	\$ 1,361,206	\$ 1,325,559
Cash and cash equivalents, end of year		

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.

In April 2010, David Ortiz Children’s Fund (the “Corporation”), a Virginia nonstock corporation, was organized under Section 501(c)(3) of the Internal Revenue Code. The Corporation was classified as a supporting organization for federal tax purposes and would carry out certain activities in furtherance of the World Pediatric Project’s exempt purposes. The Corporation became independent effective January 1, 2016. The effects of this deconsolidation are included in the accompanying 2016 financial statements.

The accompanying financial statements include the resources and the financial activities of World Pediatric Project and the financial activities from July 1, 2015 to December 31, 2015 of its affiliate, David Ortiz Children’s Fund. All significant intercompany transactions and accounts are eliminated.

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 three classes of net assets:

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. 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 unrestricted net assets.

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed stipulations that the original fair value of the gift 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.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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 unrestricted, temporarily restricted, or permanently restricted support as appropriate. Conditional promises are recorded when donor stipulations are substantially met.

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.

During 2016, the Organization donated equipment with a cost of \$995,097 to a service partner in a developing country to be used in an operating room designated primarily for use by the Organization's medical teams. This equipment was included in program service expense within capacity building programs expense in the accompanying 2016 statement of functional expenses. During 2017, the Organization determined it was in the best interest of its current and future programs to retain ownership of the equipment and to maintain the responsibility for maintenance on the equipment. As a result, the Organization executed a charitable donation agreement with the service partner to define, among other things, that ownership of the equipment would remain with the Organization. The 2017 statement of activities includes \$995,097 of recovery for the previously donated equipment.

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.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

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, 2017 and 2016. The Organization is not currently under audit by any tax jurisdiction.

Contributed Materials, Hospital Charges and Services: The value of contributed materials and the value of contributed services and hospital charges 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 \$16,804,997 for 2017 and \$14,379,661 for 2016 and have been recognized at their fair value as determined by the donor in the financial statements. 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.

Subsequent Events: Management has evaluated subsequent events through October 25, 2017, the date the financial statements were available to be issued, and has determined that there are no subsequent events to be reported in the accompanying financial statements.

2. Temporarily Restricted Net Assets:

In 2017 and 2016, 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 temporarily restricted gifts of \$1,977,997 during 2017 and \$990,666 during 2016. The amounts released from restrictions and expended for children needing critical care were \$1,056,348 during 2017 and \$756,131 during 2016.

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 2.14% at June 30, 2017 and .71% at June 30, 2016, are expected to be received as follows at June 30:

	2017	2016
Amounts due in:		
Less than one year	\$ 223,000	\$ 144,480
One to five years	629,965	17,923
	852,965	162,403
Less:		
Discount on pledges receivable	26,425	161
	\$ 826,540	\$ 162,242

One donor accounted for 95% of net pledges receivable at June 30, 2017 and three donors accounted for 75% of net pledges receivable at June 30, 2016.

4. Investments:

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

	2017		2016	
	Cost	Market	Cost	Market
Cash equivalents	\$ -	\$ -	\$ 2,300	\$ 2,300
Equity securities	208,404	282,244	208,194	241,550
Fixed income	39,980	41,069	39,945	42,106
	\$ 248,384	\$ 323,313	\$ 250,439	\$ 285,956

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.

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 Foundation classifies as permanently restricted net assets (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.

The remaining portion of the donor-restricted endowment funds not classified as permanently restricted net assets would be classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

- 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

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, 2017 and 2016:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 36,282	\$ 161,499	\$ 197,781
Board-designated fund	<u>125,532</u>	<u>-</u>	<u>-</u>	<u>125,532</u>
Total funds	<u>\$ 125,532</u>	<u>\$ 36,282</u>	<u>\$ 161,499</u>	<u>\$ 323,313</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 22,350	\$ 156,499	\$ 178,849
Board-designated fund	<u>106,896</u>	<u>-</u>	<u>-</u>	<u>106,896</u>
Total funds	<u>\$ 106,896</u>	<u>\$ 22,350</u>	<u>\$ 156,499</u>	<u>\$ 285,745</u>

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, 2017 and 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, July 1, 2015	\$ 112,888	\$ 15,005	\$ 124,499	\$ 252,392
Investment income	2,624	3,892	-	6,516
Unrealized investment losses	(8,616)	3,453	-	(5,163)
New contributions	<u>-</u>	<u>-</u>	<u>32,000</u>	<u>32,000</u>
Net assets, June 30, 2016	106,896	22,350	156,499	285,745
Investment income	2,595	2,558	-	5,153
Unrealized investment gains	20,841	18,574	-	39,415
New contributions	-	-	5,000	5,000
Appropriations for expenditure	<u>(4,800)</u>	<u>(7,200)</u>	<u>-</u>	<u>(12,000)</u>
Net assets, June 30, 2017	<u>\$ 125,532</u>	<u>\$ 36,282</u>	<u>\$ 161,499</u>	<u>\$ 323,313</u>

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.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

6. Fair Value Measurements, Continued:

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.

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 \$323,313 at June 30, 2017 and \$285,956 at June 30, 2016 was determined based upon Level 1 valuation criteria.

7. Leases:

The Organization leases office space and equipment under operating lease agreements. Rental expense was \$191,089 for 2017 and \$159,781 for 2016.

The Organization leases office space in Richmond through December 31, 2021 and in St. Louis through June 30, 2020. 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 \$29,837 at June 30, 2017 and \$32,989 at June 30, 2016.

WORLD PEDIATRIC PROJECT

Notes to Financial Statements, Continued

7. Leases, Continued:

Future minimum payments under operating lease obligations consisted of the following at June 30, 2017:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 188,107
2019	196,161
2020	200,529
2021	145,497
2022	<u>73,647</u>
Total	<u>\$ 803,941</u>

8. Contingencies:

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 or results of operations.

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.

9. Functional Allocation of Expenses:

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

10. 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 did not make any matching contributions to the plan during 2017 or 2016.