

National Children's Oral Health Foundation

Financial Report

June 30, 2009

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
National Children's Oral Health Foundation
Charlotte, North Carolina

We have audited the accompanying statements of financial position of the National Children's Oral Health Foundation (the "Foundation") as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Children's Oral Health Foundation as of June 30, 2009 and 2008, and the changes in its net assets, functional expenses, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Charlotte, North Carolina
October 19, 2009

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National Children's Oral Health Foundation

Statements of Financial Position June 30, 2009 and 2008

	2009	2008
Assets:		
Cash	\$ 485,831	\$ 231,192
Contributions receivable, net (Note 2)	780,845	1,752,935
Other receivables, net of allowance of 2009 \$-0- and 2008 \$25,000	264	-
Prepaid expenses	4,109	-
Deposit and other assets	1,643	18,324
Total assets	\$ 1,272,692	\$ 2,002,451
Liabilities:		
Accounts payable	\$ -	\$ 13,987
Deferred rent	3,146	-
Total liabilities	3,146	13,987
Commitments (Note 5)		
Net Assets:		
Unrestricted net assets	294,847	235,529
Temporarily restricted net assets (Note 3)	974,699	1,752,935
Total net assets	1,269,546	1,988,464
Total liabilities and net assets	\$ 1,272,692	\$ 2,002,451

See Notes to Financial Statements.

National Children's Oral Health Foundation

Statements of Activities

Years Ended June 30, 2009 and 2008

	2009		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions - cash	\$ 513,898	\$ 729,976	\$ 1,243,874
Contributions - noncash	1,475,806	-	1,475,806
Other income	46,844	-	46,844
Net assets released from restrictions (Note 3)	1,508,212	(1,508,212)	-
Total support and revenue	3,544,760	(778,236)	2,766,524
Expenses:			
Program expenses	2,372,559	-	2,372,559
Management and general expenses	448,342	-	448,342
Fundraising expenses:			
Purchased	137,100	-	137,100
Donated	527,441	-	527,441
Total expenses	3,485,442	-	3,485,442
Change in net assets	59,318	(778,236)	(718,918)
Net assets, beginning	235,529	1,752,935	1,988,464
Net assets, ending	<u>\$ 294,847</u>	<u>\$ 974,699</u>	<u>\$ 1,269,546</u>

See Notes to Financial Statements.

2008		
Unrestricted	Temporarily Restricted	Total
\$ 444,491	\$ 594,336	\$ 1,038,827
733,872	1,039,000	1,772,872
53,651	-	53,651
1,025,215	(1,025,215)	-
2,257,229	608,121	2,865,350
1,163,096	-	1,163,096
231,700	-	231,700
113,368	-	113,368
429,697	-	429,697
1,937,861	-	1,937,861
319,368	608,121	927,489
(83,839)	1,144,814	1,060,975
\$ 235,529	\$ 1,752,935	\$ 1,988,464

National Children's Oral Health Foundation

Statements of Functional Expenses
Years Ended June 30, 2009 and 2008

Description	2009			
	Program	Management and General	Fundraising	Total
Affiliate grants	\$ 551,311	\$ -	\$ -	\$ 551,311
Donated product to affiliates	1,315,529	-	-	1,315,529
Educational materials	62,387	-	-	62,387
Meetings and events	11,166	4,341	3,534	19,041
Salary expense	301,605	117,266	95,456	514,327
Professional services	17,978	25,170	8,219	51,367
Donated services	-	54,099	-	54,099
Personnel development	44	17	14	75
Rent	10,890	4,234	3,447	18,571
Insurance	18,507	7,196	5,857	31,560
Travel	16,824	6,541	5,325	28,690
Public relations	41,007	-	7,236	48,243
Office expense	268	104	85	457
Computer	5,438	2,114	1,722	9,274
Supplies, printing and postage	10,427	4,054	3,300	17,781
Communication	9,178	3,569	2,905	15,652
Miscellaneous	-	1,062	-	1,062
Bad debt expense	-	215,522	-	215,522
Fees	-	3,053	-	3,053
	<u>2,372,559</u>	<u>448,342</u>	<u>137,100</u>	<u>2,958,001</u>
Donated marketing	-	-	527,441	527,441
Total expenses	\$ 2,372,559	\$ 448,342	\$ 664,541	\$ 3,485,442

See Notes to Financial Statements.

2008

Program	Management and General	Fundraising	Total
\$ 20,000	\$ -	\$ -	\$ 20,000
597,150	-	-	597,150
117,443	-	-	117,443
19,083	8,853	4,248	32,184
296,970	137,766	66,122	500,858
34,441	21,239	1,722	57,402
-	5,405	-	5,405
5,560	2,580	1,238	9,378
11,473	5,322	2,555	19,350
18,394	8,533	4,096	31,023
20,752	9,627	4,620	34,999
-	-	23,906	23,906
-	-	-	-
5,055	2,345	1,126	8,526
11,757	5,454	2,618	19,829
5,018	2,328	1,117	8,463
-	22	-	22
-	21,000	-	21,000
-	1,226	-	1,226
1,163,096	231,700	113,368	1,508,164
-	-	429,697	429,697
\$ 1,163,096	\$ 231,700	\$ 543,065	\$ 1,937,861

National Children's Oral Health Foundation

Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	\$ (718,918)	\$ 927,489
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	215,522	21,000
Contributions - noncash	(1,475,806)	(1,772,872)
Donated expenses	1,897,069	1,032,252
(Increase) decrease in:		
Contributions receivable	335,305	132,499
Other receivables	(264)	(10,000)
Prepaid expenses	(4,109)	-
Deposit and other assets	16,681	(16,835)
Increase (decrease) in:		
Accounts payable	(13,987)	11,061
Deferred rent	3,146	-
Affiliate grant obligations	-	(219,614)
Net cash provided by operating activities	254,639	104,980
Net increase in cash	254,639	104,980
Cash:		
Beginning	231,192	126,212
Ending	\$ 485,831	\$ 231,192

See Notes to Financial Statements.

National Children's Oral Health Foundation

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

The National Children's Oral Health Foundation (the "Foundation"), formed on December 2, 2005, is located in Charlotte, North Carolina. The Foundation is a not-for-profit corporation whose mission is to eliminate dental disease, and to promote overall health and well-being for the growing numbers of dentally underserved children by assuring access to the best comprehensive preventive, educational and treatment services. The Foundation is a comprehensive resource provider for non-profit pediatric oral health programs for underserved children.

Within the next ten years, the Foundation seeks to establish a network of affiliate programs that will:

- Treat children most in need through more than 500 centers throughout the United States and begin providing support globally.
- Educate and support the delivery of preventive community-based services and programs to underserved children.

A summary of the Foundation's significant accounting policies follows:

Accrual basis: The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Income taxes: The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Basis of presentation: Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. The board may designate unrestricted net assets for working capital at its discretion.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or by the passage of time.

Permanently restricted net assets: Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. The Foundation currently has no permanently restricted net assets.

Gifts of cash and other assets are recognized as restricted support if they are pledged or received with donor stipulations that limit the use of the donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as temporarily restricted contributions when received and reported as net assets released from restriction when the restriction expires.

National Children's Oral Health Foundation

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Use of estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions receivable: Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated cash flows. The discounts on contributions receivable made before June 30, 2008 are computed using a risk-free interest rate applicable to the year in which the promise is received. The discounts on contributions receivable made after July 1, 2008 are computed using a rate commensurate with the risk on the contributions receivable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Functional allocation of expenses: The Foundation allocates certain of its expenses to program and supporting services based on management's estimates of the percentage of time personnel spend on programs, fundraising and management and general.

Contributions of services and in-kind contributions: Contributions of services are recognized at their estimated fair value when they are received if the services (a) create or enhance non-financial assets or (b) require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Contributed services consisted of pro-bono legal and web site development services. The estimated fair value of these contributed services was \$54,099 and \$5,405 for 2009 and 2008, respectively, and is recognized in the statement of activities as noncash contribution revenues and donated expenses.

In-kind contributions consist of dental products and magazine advertisements and are recognized at their estimated fair value in the statement of activities as noncash contribution revenues and donated expenses. The estimated fair value of these contributions was \$1,421,707 and \$1,767,467 for 2009 and 2008, respectively. Of these contributed amounts, approximately \$157,000 and \$784,000 were included in contributions receivable on the statements of financial position as of June 30, 2009 and 2008, respectively.

National Children's Oral Health Foundation

Notes to Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Concentration of credit risk: Cash is held at one financial institution as of June 30, 2009 and 2008, which at times may exceed federally insured limits. The Foundation has not experienced any losses and does not believe it is exposed to any significant credit risk on cash.

Reclassifications: Certain expenses on the statement of functional expenses for the year ended June 30, 2008, have been reclassified, with no effect on change in net assets, to be consistent with the classifications adopted for the year ended June 30, 2009.

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after June 30, 2009) through October 19, 2009, which represents the date the financial statements were issued.

Recent accounting pronouncements: In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting and financial statement reporting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken in a tax return. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. In December 2008, the FASB issued a FASB Staff Position ("FSP") to defer the effective date of FIN 48 for certain nonpublic entities to annual periods beginning after December 15, 2008. Management has elected to defer the application of FIN 48 in accordance with this FSP and will be required to adopt FIN 48 in its fiscal 2010 financial statements. The Foundation will continue to follow SFAS No. 5, *Accounting for Contingencies*, until it adopts FIN 48.

In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity specific measurement, and sets out a fair value hierarchy with the highest priority being quoted market prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FSP No. 157-2, *Effective Date of FASB Statement No. 157*, which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Foundation adopted SFAS No. 157 for the fiscal year beginning July 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until the fiscal year beginning July 1, 2009. The adoption of SFAS No. 157 relating to financial assets and financial liabilities did not significantly affect the Foundation's financial statements. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Foundation's financial position, results of operations or cash flows.

National Children's Oral Health Foundation

Notes to Financial Statements

Note 2. Contributions Receivable

As of June 30, 2009 and 2008, unconditional promises to give are expected to be realized in the following periods:

	2009	2008
In one year or less	\$ 575,000	\$ 1,134,785
Between one and five years	207,000	634,000
	<u>782,000</u>	<u>1,768,785</u>
Less unamortized discount	1,155	15,850
	<u>\$ 780,845</u>	<u>\$ 1,752,935</u>

Note 3. Temporarily Restricted Net Assets

At June 30, 2009 and 2008, restricted net assets are comprised of time restrictions relating to contributions receivable and purpose restrictions relating to Tomorrow's Smiles and the Oral Health Zones.

Temporarily restricted net assets as of June 30, 2009 and 2008, are available for the following purposes or periods:

	2009	2008
Purpose Restrictions:		
Tomorrow's Smiles	\$ 156,781	\$ -
Oral Health Zones	37,073	-
Time Restricted	<u>780,845</u>	<u>1,752,935</u>
	<u>\$ 974,699</u>	<u>\$ 1,752,935</u>

Net assets were released from donor restrictions during the years ended June 30, 2009 and 2008 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2009	2008
Temporarily restricted net assets:		
Oral Health Zones	\$ 250,427	\$ -
Receptions	15,000	45,000
Time restrictions	<u>1,242,785</u>	<u>980,215</u>
	<u>\$ 1,508,212</u>	<u>\$ 1,025,215</u>

National Children's Oral Health Foundation

Notes to Financial Statements

Note 4. Related Party Transactions

The Children's Dental Center (the "Center") is an organization that provides disadvantaged children a dental home and was founded by the former chairperson of the Foundation's Board of Directors. In July 2006, the Foundation entered into an agreement to share an employee with the Center of which 25% of his working hours during the course of any month will be devoted to the Foundation. In consideration of the services to be performed by the employee, the Foundation reimbursed 25% of the employee's salary to the Center including the employer portion of payroll taxes and workers' compensation costs. The Foundation paid the Center approximately \$33,000 annually for these services during the year ending June 30, 2008. This agreement was terminated in June 2008; therefore, no payments were made during the year ending June 30, 2009.

Toothfairy Island is an organization that creates educational materials to enhance pediatric wellness programs. The former chairperson of the Foundation's Board of Directors also acts as the Vice President of Toothfairy Island. During the years ending June 30, 2009 and 2008, the Foundation purchased educational materials from Toothfairy Island of \$62,387 and \$117,443, respectively.

Note 5. Operating Leases

During May 2007, the Foundation entered into a non-cancelable operating lease for office space with an unrelated party. The lease was scheduled to expire May 30, 2009; however, the landlord terminated the lease in December 2008. During December 2008, the Foundation entered into a new non-cancelable operating lease with another unrelated party which is scheduled to expire in January 2012. During the years ending June 30, 2009 and 2008, rent expense under these leases was \$18,571 and \$19,350, respectively. In addition to the office space, the Foundation leases office equipment under a non-cancelable agreement accounted for as an operating lease.

Future minimum rental payments under non-cancelable operating leases were as follows as of June 30, 2009:

Fiscal year ending June 30

2010	\$	21,702
2011		22,506
2012		14,033
2013		931
	\$	<u>59,172</u>