

National Children's Oral Health Foundation

Financial Report

June 30, 2010

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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, 2010 and 2009, 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, 2010 and 2009, and the changes in its net assets, functional expenses, and 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
September 13, 2010

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National Children's Oral Health Foundation

Statements of Financial Position
June 30, 2010 and 2009

	2010	2009
Assets:		
Cash	\$ 480,683	\$ 485,831
Contributions receivable, net (Note 2)	1,358,238	780,845
Other receivables	-	264
Prepaid expenses	-	4,109
Deposit and other assets	1,643	1,643
	<hr/>	<hr/>
Total assets	\$ 1,840,564	\$ 1,272,692
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Liabilities:		
Accrued payroll	\$ 8,824	\$ -
Deferred rent	2,514	3,146
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Total liabilities	11,338	3,146
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Commitments (Note 5)		
Net Assets:		
Unrestricted net assets	292,923	294,847
Temporarily restricted net assets (Note 3)	1,536,303	974,699
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Total net assets	1,829,226	1,269,546
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Total liabilities and net assets	\$ 1,840,564	\$ 1,272,692
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See Notes to Financial Statements.

National Children's Oral Health Foundation

Statements of Activities

Years Ended June 30, 2010 and 2009

	2010		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 280,066	\$ 1,253,961	\$ 1,534,027
In-kind contributions	2,431,626	197,393	2,629,019
Contributed services	164,986	-	164,986
Other income	10,500	-	10,500
Net assets released from restrictions (Note 3)	889,750	(889,750)	-
Total support and revenue	3,776,928	561,604	4,338,532
Expenses:			
Program expenses	2,921,188	-	2,921,188
Management and general expenses	246,334	-	246,334
Fundraising expenses:			
Purchased	142,551	-	142,551
Donated	468,779	-	468,779
Total expenses	3,778,852	-	3,778,852
Change in net assets	(1,924)	561,604	559,680
Net assets, beginning	294,847	974,699	1,269,546
Net assets, ending	<u>\$ 292,923</u>	<u>\$ 1,536,303</u>	<u>\$ 1,829,226</u>

See Notes to Financial Statements.

2009		
Unrestricted	Temporarily Restricted	Total
\$ 513,898	\$ 729,976	\$ 1,243,874
1,421,707	-	1,421,707
54,099	-	54,099
46,844	-	46,844
1,508,212	(1,508,212)	-
3,544,760	(778,236)	2,766,524
2,372,559	-	2,372,559
448,342	-	448,342
137,100	-	137,100
527,441	-	527,441
3,485,442	-	3,485,442
59,318	(778,236)	(718,918)
235,529	1,752,935	1,988,464
\$ 294,847	\$ 974,699	\$ 1,269,546

National Children's Oral Health Foundation

Statements of Functional Expenses
Years Ended June 30, 2010 and 2009

Description	2010			
	Program	Management and General	Fundraising	Total
Affiliate grants	\$ 335,070	\$ -	\$ -	\$ 335,070
Donated product to affiliates	1,987,847	-	-	1,987,847
Educational materials (Note 4)	43,156	-	-	43,156
Meetings and events	9,116	4,070	3,093	16,279
Salary expense	292,150	130,424	99,122	521,696
Professional services	903	13,839	15,343	30,085
Donated services	159,633	5,353	-	164,986
Personnel development	2,031	907	689	3,627
Rent (Note 5)	10,905	4,869	3,700	19,474
Insurance	3,019	1,348	1,024	5,391
Travel	14,128	6,307	4,794	25,229
Public relations	40,956	-	7,228	48,184
Office expense	-	-	-	-
Computer	5,200	2,322	1,765	9,287
Supplies, printing and postage	9,666	4,315	3,279	17,260
Communication	7,408	3,307	2,514	13,229
Miscellaneous	-	-	-	-
Bad debt expense	-	62,262	-	62,262
Fees	-	7,011	-	7,011
	2,921,188	246,334	142,551	3,310,073
Donated marketing	-	-	468,779	468,779
Total expenses	\$ 2,921,188	\$ 246,334	\$ 611,330	\$ 3,778,852

See Notes to Financial Statements.

2009

Program	Management and General	Fundraising	Total
\$ 551,311	\$ -	\$ -	\$ 551,311
1,315,529	-	-	1,315,529
62,387	-	-	62,387
11,166	4,341	3,534	19,041
301,605	117,266	95,456	514,327
17,978	25,170	8,219	51,367
-	54,099	-	54,099
44	17	14	75
10,890	4,234	3,447	18,571
18,507	7,196	5,857	31,560
16,824	6,541	5,325	28,690
41,007	-	7,236	48,243
268	104	85	457
5,438	2,114	1,722	9,274
10,427	4,054	3,300	17,781
9,178	3,569	2,905	15,652
-	1,062	-	1,062
-	215,522	-	215,522
-	3,053	-	3,053
2,372,559	448,342	137,100	2,958,001
-	-	527,441	527,441
\$ 2,372,559	\$ 448,342	\$ 664,541	\$ 3,485,442

National Children's Oral Health Foundation

Statements of Cash Flows Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	\$ 559,680	\$ (718,918)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Bad debt expense	62,262	215,522
In-kind contributions	(2,629,019)	(1,421,707)
Contributed services	(164,986)	(54,099)
Donated expenses	2,621,612	1,897,069
(Increase) decrease in:		
Contributions receivable	(467,262)	335,305
Other receivables	264	(264)
Prepaid expenses	4,109	(4,109)
Deposit and other assets	-	16,681
Increase (decrease) in:		
Accounts payable	-	(13,987)
Accrued payroll	8,824	-
Deferred rent	(632)	3,146
Net cash provided by (used in) operating activities	(5,148)	254,639
Net increase (decrease) in cash	(5,148)	254,639
Cash:		
Beginning	485,831	231,192
Ending	<u>\$ 480,683</u>	<u>\$ 485,831</u>

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. In June 2006, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 740-10 (formerly Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). ASC 740-10 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*. ASC 740-10 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. The Foundation has adopted ASC 740-10 in the 2010 annual financial statements. The adoption of ASC 740-10 did not have a material impact on the financial statements.

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.

National Children's Oral Health Foundation

Notes to Financial Statements

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

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.

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 and grants receivable: Unconditional promises to give that are expected to be collected in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are recorded at the present value of estimated future cash flows. The discounts on contributions 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 of the contributions receivable in accordance with fair value accounting standards. 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 program, management and general, and fundraising activities.

In-kind contributions and contributed services: In-kind contributions consist of dental products and magazine advertisements and are recognized at their estimated fair value in the statement of activities as in-kind contribution revenues and donated expenses. The estimated fair value of these contributions was \$2,629,019 and \$1,421,707 for 2010 and 2009, respectively. Of these contributed amounts, approximately \$272,000 and \$157,000 were included in contributions receivable on the statements of financial position as of June 30, 2010 and 2009, respectively.

Contributed 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 dental, legal and web site development services. The estimated fair value of these contributed services was \$164,986 and \$54,099 for 2010 and 2009, respectively, and is recognized in the statements of activities as contributed services revenues and donated services expenses.

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, 2010 and 2009, 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 items on the statement of activities for the year ending June 30, 2009 were reclassified to conform with the current year presentation.

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after June 30, 2010) through September 13, 2010, which represents the date the financial statements were available to be issued.

Note 2. Contributions Receivable

As of June 30, 2010 and 2009, unconditional promises to give are expected to be realized in the following periods:

	2010	2009
In one year or less	\$ 908,393	\$ 575,000
Between one and five years	475,000	207,000
	1,383,393	782,000
Less unamortized discount	25,155	1,155
	<u>\$ 1,358,238</u>	<u>\$ 780,845</u>

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2010 and 2009, are available for the following purposes or periods:

	2010	2009
Purpose Restrictions:		
Tomorrow's Smiles	\$ 178,065	\$ 156,781
Oral Health Zones	-	37,073
Time Restricted	1,358,238	780,845
	<u>\$ 1,536,303</u>	<u>\$ 974,699</u>

Net assets were released from donor restrictions during the years ended June 30, 2010 and 2009 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2010	2009
Temporarily restricted net assets:		
Tomorrow's Smiles	\$ 5,677	\$ -
Oral Health Zones	62,073	250,427
Receptions	15,000	15,000
Video	10,000	-
Time restrictions	797,000	1,242,785
	<u>\$ 889,750</u>	<u>\$ 1,508,212</u>

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National Children's Oral Health Foundation

Notes to Financial Statements

Note 4. Related Party Transactions

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, 2010 and 2009, the Foundation purchased educational materials from Toothfairy Island of \$43,156 and \$62,387, respectively.

Note 5. Operating Leases

During December 2008, the Foundation entered into a non-cancelable operating lease with an unrelated party which is scheduled to expire in January 2012. During the years ending June 30, 2010 and 2009, rent expense under this lease was \$19,474 and \$18,571, 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, 2010:

<u>Fiscal year ending June 30</u>	
2011	\$ 22,506
2012	14,033
2013	931
	<u>\$ 37,470</u>