

National Children's Oral Health Foundation and Affiliate

Financial Report

June 30, 2012



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Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of the National Children's Oral Health Foundation and Affiliate (the "Foundation") as of June 30, 2012 and 2011, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the National Children's Oral Health Foundation and Affiliate as of June 30, 2012 and 2011, 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 LLP

Charlotte, North Carolina
September 20, 2012

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National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Financial Position
June 30, 2012 and 2011**

	2012	2011
Assets:		
Cash	\$ 654,047	\$ 719,545
Contributions receivable, net (Note 2)	1,418,050	923,178
Deposit and other assets	1,643	7,623
	<hr/>	<hr/>
Total assets	\$ 2,073,740	\$ 1,650,346
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Liabilities:		
Accounts payable	\$ 5,652	\$ -
Accrued payroll	11,380	7,091
	<hr/>	<hr/>
Total liabilities	17,032	7,091
	<hr/>	<hr/>
Commitments (Note 5)		
Net Assets:		
Unrestricted net assets	305,999	305,995
Temporarily restricted net assets (Note 3)	1,750,709	1,337,260
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Total net assets	2,056,708	1,643,255
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Total liabilities and net assets	\$ 2,073,740	\$ 1,650,346
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See Notes to Consolidated Financial Statements.

National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Activities
Years Ended June 30, 2012 and 2011**

	2012		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 194,946	\$ 1,671,775	\$ 1,866,721
In-kind contributions	1,476,680	-	1,476,680
Contributed services	183,071	-	183,071
Other income	12,000	-	12,000
Net assets released from restrictions (Note 3)	1,258,326	(1,258,326)	-
Total support and revenue	3,125,023	413,449	3,538,472
Expenses:			
Program expenses	2,150,280	-	2,150,280
Management and general expenses	231,693	-	231,693
Fundraising expenses:			
Purchased	251,904	-	251,904
Donated	491,142	-	491,142
Total expenses	3,125,019	-	3,125,019
Change in net assets	4	413,449	413,453
Net assets, beginning	305,995	1,337,260	1,643,255
Net assets, ending	\$ 305,999	\$ 1,750,709	\$ 2,056,708

See Notes to Consolidated Financial Statements.

2011		
Unrestricted	Temporarily Restricted	Total
\$ 114,832	\$ 991,644	\$ 1,106,476
2,330,808	-	2,330,808
88,068	-	88,068
7,487	-	7,487
1,190,687	(1,190,687)	-
3,731,882	(199,043)	3,532,839
2,651,476	-	2,651,476
309,579	-	309,579
2,961,055	-	2,961,055
196,766	-	196,766
560,989	-	560,989
757,755	-	757,755
3,718,810	-	3,718,810
13,072	(199,043)	(185,971)
292,923	1,536,303	1,829,226
\$ 305,995	\$ 1,337,260	\$ 1,643,255

National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Functional Expenses
Years Ended June 30, 2012 and 2011**

Description	2012			Total
	Program	Management and General	Fundraising	
Affiliate grants	\$ 332,996	\$ -	\$ -	\$ 332,996
Donated product to affiliates	696,812	-	-	696,812
Educational materials (Note 4)	28,937	-	-	28,937
Meetings and events	36,056	13,822	10,216	60,094
Salary expense	379,944	145,645	107,651	633,240
Professional services	17,200	29,072	96,495	142,767
Donated services	180,264	2,807	-	183,071
Personnel development	1,668	639	473	2,780
Rent (Note 5)	14,220	5,451	4,029	23,700
Insurance	3,309	1,269	938	5,516
Travel	22,106	8,475	6,263	36,844
Public relations	69,901	-	12,336	82,237
Office equipment and furnishings	-	-	-	-
Computer	8,372	3,210	2,373	13,955
Supplies, printing and postage	27,904	10,696	7,906	46,506
Communication	11,379	4,362	3,224	18,965
Miscellaneous expense	-	-	-	-
Bad debt expense	-	-	-	-
Fees	-	6,245	-	6,245
	1,831,068	231,693	251,904	2,314,665
Donated marketing	-	-	491,142	491,142
Donated public service announcements	319,212	-	-	319,212
Total expenses	\$ 2,150,280	\$ 231,693	\$ 743,046	\$ 3,125,019

See Notes to Consolidated Financial Statements.

2011

Program	Management and General	Fundraising	Total
\$ 298,809	\$ -	\$ -	\$ 298,809
1,813,760	-	-	1,813,760
47,140	-	-	47,140
13,326	6,821	6,086	26,233
303,834	155,506	138,759	598,099
1,124	17,234	19,108	37,466
74,965	13,103	-	88,068
1,477	756	674	2,907
9,597	4,911	4,382	18,890
2,255	1,154	1,030	4,439
15,721	8,046	7,179	30,946
43,461	-	7,670	51,131
63	32	29	124
5,229	2,676	2,389	10,294
14,167	7,251	6,470	27,888
6,548	3,351	2,990	12,889
-	387	-	387
-	80,000	-	80,000
-	8,351	-	8,351
2,651,476	309,579	196,766	3,157,821
-	-	560,989	560,989
-	-	-	-
<u>\$ 2,651,476</u>	<u>\$ 309,579</u>	<u>\$ 757,755</u>	<u>\$ 3,718,810</u>

National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities		
Change in net assets	\$ 413,453	\$ (185,971)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debt expense	-	80,000
In-kind contributions	(1,476,680)	(2,330,808)
Contributed services	(183,071)	(88,068)
Donated expenses	1,690,237	2,462,817
(Increase) decrease in:		
Contributions receivable	(525,358)	311,119
Deposit and other assets	5,980	(5,980)
Increase (decrease) in:		
Accounts payable	5,652	-
Accrued payroll	4,289	(1,733)
Deferred rent	-	(2,514)
Net cash (used in) provided by operating activities	(65,498)	238,862
Net (decrease) increase in cash	(65,498)	238,862
Cash:		
Beginning	719,545	480,683
Ending	\$ 654,047	\$ 719,545

See Notes to Consolidated Financial Statements.

National Children's Oral Health Foundation and Affiliate

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

The National Children's Oral Health Foundation and Affiliate (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.

National Children's Oral Health Foundation of Canada ("NCOHF Canada") was incorporated in Canada on February 14, 2012 and became a registered Canadian charity as of April 17, 2012. NCOHF Canada was formed to carry out the Foundation's mission in Canada. The Consolidations Topic of the FASB Codification requires that NCOHF Canada be consolidated with the Foundation due to the fact that the Foundation has both control and an economic interest in NCOHF Canada. For the year ended June 30, 2012, the only transactions of NCOHF Canada were approximately \$10,100 of expenses related to the formation of this entity which are included within the Foundation's statement of activities for the year ended June 30, 2012.

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

Principles of consolidation: The consolidated financial statements include the accounts of National Children's Oral Health Foundation and its consolidated affiliate NCOHF Canada. All significant intercompany accounts and transactions have been eliminated in consolidation.

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. Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements. With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

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.

National Children's Oral Health Foundation and Affiliate

Notes to Consolidated Financial Statements

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

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.

Use of estimates: The preparation of the consolidated 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 receivable 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, magazine advertisements and air time on television and the radio, 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 \$1,476,680 and \$2,330,808 for 2012 and 2011, respectively. Of these contributed amounts, approximately \$198,000 and \$222,000 were included in contributions receivable on the consolidated statements of financial position as of June 30, 2012 and 2011, 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 \$183,071 and \$88,068 for 2012 and 2011, respectively, and is recognized in the consolidated statements of activities and functional expenses as contributed services revenues and donated services expenses.

Concentration of credit risk: Cash is held at one financial institution as of June 30, 2012 and 2011, 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.

National Children's Oral Health Foundation and Affiliate

Notes to Consolidated Financial Statements

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

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after June 30, 2012) through September 20, 2012, which represents the date the financial statements were available to be issued.

Note 2. Contributions Receivable

As of June 30, 2012 and 2011, unconditional promises to give are expected to be realized in the following periods:

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 855,190	\$ 947,563
Between one and five years	600,000	-
	<u>1,455,190</u>	<u>947,563</u>
Less unamortized discount	37,140	24,385
	<u>\$ 1,418,050</u>	<u>\$ 923,178</u>

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2012 and 2011 are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Purpose Restrictions:		
Tomorrow's Smiles	\$ 108,308	\$ 173,080
Oral Health Zones	137,813	158,867
Esther Wilkins Fund	84,983	82,135
Program & Event Sponsorship	1,555	-
Time Restricted	<u>1,418,050</u>	<u>923,178</u>
	<u>\$ 1,750,709</u>	<u>\$ 1,337,260</u>

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	<u>2012</u>	<u>2011</u>
Temporarily restricted net assets:		
Tomorrow's Smiles	\$ 69,787	\$ 9,524
Oral Health Zones	121,054	1,133
Receptions	-	20,000
Esther Wilkins Fund	-	25,000
Program & Event Sponsorship	58,445	-
Time restrictions	<u>1,009,040</u>	<u>1,135,030</u>
	<u>\$ 1,258,326</u>	<u>\$ 1,190,687</u>

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National Children's Oral Health Foundation and Affiliate

Notes to Consolidated 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, 2012 and 2011, the Foundation purchased educational materials from Toothfairy Island of \$28,937 and \$47,140, respectively.

Note 5. Operating Leases

During December 2008, the Foundation entered into a non-cancelable operating lease with an unrelated party which was scheduled to expire in January 2012. In February 2011, the lease agreement was amended to allow the Foundation to relocate to a larger space within the same building. The amended lease agreement is scheduled to expire in December 2014. During the years ending June 30, 2012 and 2011, rent expense for office space under these lease agreements was \$23,700 and \$18,890, 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, 2012:

<u>Fiscal year ending June 30</u>	
2013	\$ 27,504
2014	15,204
2015	2,304
2016	1,536
	<u>\$ 46,548</u>