

National Children's Oral Health Foundation and Affiliate

Financial Report

June 30, 2013



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Children's Oral Health Foundation and Affiliate (the Foundation) which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Children's Oral Health Foundation and Affiliate as of June 30, 2013 and 2012, and the changes in their net assets, functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Charlotte, North Carolina
October 16, 2013

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National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Financial Position
June 30, 2013 and 2012**

	2013	2012
Assets:		
Cash	\$ 753,468	\$ 654,047
Contributions receivable, net (Note 2)	1,081,358	1,418,050
Deposit and other assets	1,643	1,643
	<hr/>	<hr/>
Total assets	\$ 1,836,469	\$ 2,073,740
	<hr/> <hr/>	<hr/> <hr/>
Liabilities:		
Accounts payable	\$ -	\$ 5,652
Accrued expenses	41,096	11,380
	<hr/>	<hr/>
Total liabilities	41,096	17,032
	<hr/>	<hr/>
Commitments (Note 5)		
Net Assets:		
Unrestricted net assets	399,259	305,999
Temporarily restricted net assets (Note 3)	1,396,114	1,750,709
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Total net assets	1,795,373	2,056,708
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Total liabilities and net assets	\$ 1,836,469	\$ 2,073,740
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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, 2013 and 2012**

	2013		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 573,786	\$ 676,658	\$ 1,250,444
In-kind contributions	2,343,702	-	2,343,702
Contributed services	227,400	-	227,400
Other income	3,560	-	3,560
Net assets released from restrictions (Note 3)	1,031,253	(1,031,253)	-
Total support and revenue	4,179,701	(354,595)	3,825,106
Expenses:			
Program expenses	3,110,910	-	3,110,910
Management and general expenses	254,462	-	254,462
Fundraising expenses:			
Purchased	202,802	-	202,802
Donated	518,267	-	518,267
Total expenses	4,086,441	-	4,086,441
Change in net assets	93,260	(354,595)	(261,335)
Net assets, beginning	305,999	1,750,709	2,056,708
Net assets, ending	\$ 399,259	\$ 1,396,114	\$ 1,795,373

See Notes to Consolidated Financial Statements.

2012		
Unrestricted	Temporarily Restricted	Total
\$ 194,946	\$ 1,671,775	\$ 1,866,721
1,476,680	-	1,476,680
183,071	-	183,071
12,000	-	12,000
1,258,326	(1,258,326)	-
<u>3,125,023</u>	<u>413,449</u>	<u>3,538,472</u>
2,150,280	-	2,150,280
231,693	-	231,693
251,904	-	251,904
491,142	-	491,142
<u>3,125,019</u>	<u>-</u>	<u>3,125,019</u>
4	413,449	413,453
<u>305,995</u>	<u>1,337,260</u>	<u>1,643,255</u>
<u>\$ 305,999</u>	<u>\$ 1,750,709</u>	<u>\$ 2,056,708</u>

National Children's Oral Health Foundation and Affiliate

**Consolidated Statements of Functional Expenses
Years Ended June 30, 2013 and 2012**

Description	2013			Total
	Program	Management and General	Fundraising	
Affiliate grants	\$ 376,077	\$ -	\$ -	\$ 376,077
Donated product to affiliates	1,739,480	-	-	1,739,480
Educational materials (Note 4)	38,840	-	-	38,840
Meetings and events	38,282	12,495	10,474	61,251
Salary expense	524,885	167,181	142,155	834,221
Professional services	-	28,636	25,991	54,627
Donated services	213,212	14,188	-	227,400
Personnel development	945	308	258	1,511
Rent (Note 5)	17,783	5,805	4,866	28,454
Insurance	5,276	1,722	1,444	8,442
Travel	28,390	9,267	7,768	45,425
Public relations	14,940	-	2,636	17,576
Computer	2,640	862	723	4,225
Supplies, printing and postage	14,086	4,598	3,854	22,538
Communication	9,625	3,141	2,633	15,399
Fees	-	6,259	-	6,259
	3,024,461	254,462	202,802	3,481,725
Donated marketing	-	-	518,267	518,267
Donated public service announcements	86,449	-	-	86,449
Total expenses	\$ 3,110,910	\$ 254,462	\$ 721,069	\$ 4,086,441

See Notes to Consolidated Financial Statements.

2012

Program	Management and General	Fundraising	Total
\$ 332,996	\$ -	\$ -	\$ 332,996
696,812	-	-	696,812
28,937	-	-	28,937
36,056	13,822	10,216	60,094
379,944	145,645	107,651	633,240
17,200	29,072	96,495	142,767
180,264	2,807	-	183,071
1,668	639	473	2,780
14,220	5,451	4,029	23,700
3,309	1,269	938	5,516
22,106	8,475	6,263	36,844
69,901	-	12,336	82,237
8,372	3,210	2,373	13,955
27,904	10,696	7,906	46,506
11,379	4,362	3,224	18,965
-	6,245	-	6,245
1,831,068	231,693	251,904	2,314,665
-	-	491,142	491,142
319,212	-	-	319,212
<u>\$ 2,150,280</u>	<u>\$ 231,693</u>	<u>\$ 743,046</u>	<u>\$ 3,125,019</u>

National Children’s Oral Health Foundation and Affiliate

**Consolidated Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ (261,335)	\$ 413,453
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
In-kind contributions	(2,343,702)	(1,476,680)
Contributed services	(227,400)	(183,071)
Donated expenses	2,571,596	1,690,237
(Increase) decrease in:		
Contributions receivable	336,198	(525,358)
Deposit and other assets	-	5,980
Increase (decrease) in:		
Accounts payable	(5,652)	5,652
Accrued expenses	29,716	4,289
Net cash provided by (used in) operating activities	99,421	(65,498)
Net increase (decrease) in cash	99,421	(65,498)
Cash:		
Beginning	654,047	719,545
Ending	<u>\$ 753,468</u>	<u>\$ 654,047</u>

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 years ended June 30, 2013 and 2012, the only transactions of NCOHF Canada were approximately \$9,800 and \$10,100, respectively, of expenses related to the formation of this entity which are included within the Foundation's statement of activities for the years then ended.

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 2009.

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 \$2,343,702 and \$1,476,680 for 2013 and 2012, respectively. Of these contributed amounts, approximately \$197,000 and \$198,000 were included in contributions receivable on the consolidated statements of financial position as of June 30, 2013 and 2012, 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 \$227,400 and \$183,071 for 2013 and 2012, 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, 2013 and 2012, 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, 2013) through October 16, 2013, which represents the date the financial statements were available to be issued.

Note 2. Contributions Receivable

As of June 30, 2013 and 2012, unconditional promises to give are expected to be realized in the following periods:

	2013	2012
In one year or less	\$ 865,993	\$ 855,190
Between one and five years	225,000	600,000
	1,090,993	1,455,190
Less unamortized discount	9,635	37,140
	<u>\$ 1,081,358</u>	<u>\$ 1,418,050</u>

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 are available for the following purposes or periods:

	2013	2012
Purpose Restrictions:		
Tomorrow's Smiles	\$ 60,660	\$ 108,308
Oral Health Zones	195,415	137,813
Esther Wilkins Fund	53,626	84,983
Program and event sponsorship	5,055	1,555
Time Restricted	1,081,358	1,418,050
	<u>\$ 1,396,114</u>	<u>\$ 1,750,709</u>

Net assets were released from donor restrictions during the years ended June 30, 2013 and 2012 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors:

	2013	2012
Temporarily restricted net assets:		
Tomorrow's Smiles	\$ 56,070	\$ 69,787
Oral Health Zones	168,198	121,054
Esther Wilkins Fund	35,111	-
Program and event sponsorship	7,677	58,445
Time restrictions	764,197	1,009,040
	<u>\$ 1,031,253</u>	<u>\$ 1,258,326</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, 2013 and 2012, the Foundation purchased educational materials from Toothfairy Island of \$32,192 and \$28,937, respectively.

Note 5. Operating Leases

During December 2008, the Foundation entered into a non-cancelable operating lease with an unrelated party. In December 2012, the lease agreement was amended to expand the size of the leased facility and to extend the lease through December 2017. Monthly payments under the operating lease vary from \$2,050 to \$2,904. In addition to the office space, the Foundation leases office equipment under a non-cancelable agreement accounted for as an operating lease. During the years ending June 30, 2013 and 2012, rent expense for office space and equipment under these lease agreements was \$28,454 and \$23,700, respectively.

Future minimum rental payments under non-cancelable operating leases were as follows as of June 30, 2013:

Fiscal year ending June 30

2014	\$	34,500
2015		35,151
2016		35,176
2017		34,509
2018		17,425
	\$	<u>156,761</u>