

FUTURE SMILES
(A NONPROFIT CORPORATION)
FINANCIAL STATEMENTS
Year Ended June 30, 2014

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Schutte & Hilgendorf PLLC - CPA'S

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Future Smiles

We have audited the accompanying financial statements of Future Smiles (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets-cash basis as of June 30, 2014, and the related statements of support, revenue and expenses-cash basis for the year 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 the modified cash basis of accounting as described in Notes 2 and 3; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 audit. We conducted our audit 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 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 assets, liabilities, and net assets of Future Smiles as of June 30, 2014, and its support,


revenue, and expenses for the year then ended in accordance with the modified cash basis of accounting as described in Notes 2 and 3.

Basis of Accounting

We draw attention to Note 3 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The statement of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


Prescott, Arizona
November 6, 2014

**FUTURE SMILES
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS-CASH BASIS
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	\$ 561,987
Property, plant and equipment, net	<u>94,870</u>
TOTAL ASSETS	<u><u>\$ 656,857</u></u>

NET ASSETS

Unrestricted	\$ 427,080
Temporarily restricted	<u>229,777</u>
	<u>656,857</u>
TOTAL NET ASSETS	<u><u>\$ 656,857</u></u>

See accompanying notes and independent auditors' report

**FUTURE SMILES
STATEMENT OF SUPPORT, REVENUE AND EXPENSES-CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Direct public support	\$ 21,194	\$ -	\$ 21,194
Direct public grants	287,674	522,968	810,642
Government grants	15,000	-	15,000
Medicaid Payments	28,537	-	28,537
In-Kind contributions	89,679	-	89,679
Interest income	334	-	334
Other revenue	864	-	864
TOTAL SUPPORT AND REVENUE	<u>443,282</u>	<u>522,968</u>	<u>966,250</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of donor restrictions	<u>293,191</u>	<u>(293,191)</u>	<u>-</u>
TOTAL SUPPORT, REVENUE, AND NET ASSETS RELEASED FROM RESTRICTIONS	736,473	229,777	966,250
EXPENSES			
Program Services	333,743	-	333,743
Management and General	103,857	-	103,857
Fundraising	3,374	-	3,374
TOTAL EXPENSES	<u>440,974</u>	<u>-</u>	<u>440,974</u>
INCREASE IN NET ASSETS	295,499	229,777	525,276
NET ASSETS - BEGINNING OF YEAR			
Prior period adjustment	<u>107,960</u>	<u>-</u>	<u>107,960</u>
	23,621	-	23,621
NET ASSETS - END OF YEAR	<u>\$ 427,080</u>	<u>\$ 229,777</u>	<u>\$ 656,857</u>

See accompanying notes and independent auditors' report

NOTES TO FINANCIAL STATEMENTS
FUTURE SMILES
JUNE 30, 2014

NOTE 1 – ORGANIZATION AND PURPOSE

Future Smiles (a nonprofit corporation) (the “Organization”), is located in Las Vegas, Nevada, and was incorporated in the state of Nevada on June 11, 2010. The mission of the Organization is to pursue an increase to access in oral healthcare for underserved, at-risk populations through community and school-based dental hygiene programs and education. The Organization receives most of its support through public donations, grants and Medicaid reimbursements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on a modified cash basis of accounting and reflect only assets and liabilities arising from cash transactions except for capitalizing and depreciating property and equipment as explained below. The significant accounting policies followed are described below.

Cash and Cash Equivalents

The Organization considers short term, highly liquid investments which are readily convertible to cash within ninety (90) days of purchase to be cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. When restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported as “Net Assets Released from Restrictions”.

Contributed Services and Facilities

The Organization records various types of in-kind contributions including professional services, facilities, and materials. Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or property and equipment.

Additionally, the Organization receives unskilled, contributed time, typically from high school students, which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time estimated at \$794 is not reflected in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS
FUTURE SMILES
JUNE 30, 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Organization receives free use of school facilities throughout the Clark County School District in Las Vegas, Nevada. The estimated rent per square foot is \$1 and is used consistently for all school sites to record in-kind income and rent expense.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense for the year-ended June 30, 2014 and 2013 was \$704.

Property and Equipment

The Organization's policy is to capitalize property and equipment at costs in excess of \$1,000. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Repair and maintenance costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

The value of the use of the facilities granted by the Clark County School District is estimated at an average of one dollar (\$1) per square foot for each facility and represents a fair approximation of market value. See NOTE 8.

Income Taxes

The Organization is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi). The Organization is subject to IRS or State of Arizona examination for income tax returns for fiscal years 2010 through 2013.

**NOTES TO FINANCIAL STATEMENTS
FUTURE SMILES
JUNE 30, 2014**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

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

NOTE 3 – MODIFIED CASH BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting, certain revenues and support are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Consequently, the Organization has not recognized accounts received from Medicaid and from grantors or accounts payable to vendors and their related effects on earnings in the accompanying financial statements.

NOTE 4 – CASH AND CASH EQUIVALENTS

The Organization maintains cash balances at one financial institution. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. As of June 30, 2014, the uninsured balance is \$311,988. The Organization believes it is not exposed to any significant credit risk on its cash balances.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2014 consisted of the following:

		<u>Useful Life</u>
Dental equipment	\$115,269	5-10 years
Office equipment	<u>7,914</u>	3-5 years
	123,183	
Less accumulated depreciation	<u>(28,313)</u>	
	<u>\$ 94,870</u>	

Depreciation expense for the year ended June 30, 2014 was \$11,466.

**NOTES TO FINANCIAL STATEMENTS
FUTURE SMILES
JUNE 30, 2014**

NOTE 6 – IN-KIND CONTRIBUTIONS

The Organization received contributions of services, goods, and facilities for the year ended June 30, 2014 as follows:

Facilities	\$46,600
Dental supplies	11,338
Dental hygienists	21,002
Other skilled labor	8,014
Alarm system	595
Labor – installation	<u>2,130</u>
	<u>\$89,679</u>

NOTE 7 – VENDOR CONCENTRATIONS

For the year ended June 30, 2014, the Organization purchased dental supplies and equipment from one vendor totaling \$57,638. There is little risk of loss based on the fact that there are other vendors that can provide these supplies, should the current vendor not be available.

The Organization is economically dependent on future contributions and grants in order to continue service at current levels.

NOTE 8 – FREE USE OF FACILITIES

The Organization has been granted the use of space in buildings owned by the Clark County School District to run its programs. The value of these in-kind rents has been recorded at the estimated fair value of \$1 per square foot as both a contribution and expense. Rent expense for the use of these buildings is \$46,600 for the year ended June 30, 2014. The Memorandum of Understanding between the school district and Future Smiles is dated June 2011 and is effective through June 2015. A separate Memorandum was executed specifically for the use of the Clark County High School modular building for the period beginning June 8, 2011 through June 8, 2016, with an option to renew up to two times for five years each.

**NOTE 9 – PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING
ESTIMATE**

A correction to prior period financial statements has been made to capitalize donated dental equipment valued at \$30,888 that was previously expensed. The cumulative effect of the correction on beginning net assets, after depreciation, is \$23,621. Net book value of fixed assets in the prior year increased \$23,621 and dental supplies expense decreased \$23,621.

NOTES TO FINANCIAL STATEMENTS
FUTURE SMILES
JUNE 30, 2014

NOTE 9 – PRIOR PERIOD ADJUSTMENT AND CHANGE IN ACCOUNTING ESTIMATE (continued)

The Organization elected to change the useful lives of dental equipment to 10 years from 5 years. This change was made prospectively as of July 1, 2013 for all new and existing equipment and will have the effect of reducing the depreciation expense in the current year and future remaining years.

NOTE 10 – RESTRICTIONS ON NET ASSETS

Restrictions on temporarily restricted net assets June 30, 2014 relate to contributions designated for specific purposes.

Temporarily restricted net assets are available for the following purpose:

	<u>2014</u>
DentaQuest project-pilot program	\$201,937
Expansion	18,134
Arizona projects	<u>9,706</u>
Total	<u>\$229,777</u>

NOTE 11 – RELATED PARTIES

The Organization received a significant contribution from a private foundation whose personal representative is the spouse of the Executive Director. For the year ending June 30, 2014, the Foundation contributed \$100,000 for unrestricted use and \$10,000 for Arizona projects. One of the Organization's board members is also an employee, providing dental hygiene services to children. Compensation is based on similar rates for other dental hygienists. The Organization does have a conflict of interest policy in place and the Board member/employee is recused from voting on compensation matters.

NOTE 12 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 6, 2014, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**FUTURE SMILES
STATEMENT OF FUNCTIONAL EXPENSES-CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Salaries and wages	\$ 173,889	\$ 68,940	\$ 2,453	\$ 245,282
Payroll taxes	20,207	7,969	285	28,461
Payroll processing fees	-	1,557	-	1,557
Payroll and related	<u>194,096</u>	<u>78,466</u>	<u>2,738</u>	<u>275,300</u>
Bank fees	-	12	-	12
Depreciation	10,426	936	104	11,466
Dues and subscriptions	250	27	-	277
Insurance	4,700	1,764	19	6,483
Licenses and fees	-	460	-	460
Marketing	3,528	-	-	3,528
Non-profit contributions	225	-	-	225
Office expenses	2,685	11,659	-	14,344
Postage and delivery	323	32	4	359
Printing and copying	3,176	318	35	3,529
Professional fees	-	5,915	-	5,915
Program expenses	33,470	-	-	33,470
Rent/utilities	41,940	4,194	466	46,600
Repairs and maintenance	379	-	-	379
Security	737	74	8	819
Travel and meetings	8,792	-	-	8,792
Volunteer Benefits	<u>29,016</u>	<u>-</u>	<u>-</u>	<u>29,016</u>
TOTAL EXPENSES	<u><u>\$ 333,743</u></u>	<u><u>\$ 103,857</u></u>	<u><u>\$ 3,374</u></u>	<u><u>\$ 440,974</u></u>

See independent auditors' report