



FINANCIAL STATEMENTS

**YEARS ENDED JUNE 30, 2016 AND 2015
WITH INDEPENDENT AUDITORS' REPORT**

**HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
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JUNE 30, 2016 AND 2015**

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Healthy Smiles for Kids of Orange County
Santa Ana, California

Report on the Financial Statements

We have audited the accompanying financial statements of Healthy Smiles for Kids of Orange County (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, cash flows, and functional expenses for the years 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 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 financial position of Healthy Smiles for Kids of Orange County as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

White Nelson Dick Evans LLP

Irvine, California
September 14, 2016

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 1,033,120	\$ 847,382
Investments in certificates of deposit	251,038	-
Clinic service fees receivable, net of allowance of \$4,556 and \$28,336, respectively	82,482	238,111
Contracts receivable	251,669	361,433
Grants receivable	456,076	303,942
Retention receivable	218,900	210,344
Inventory	150,680	118,372
Prepaid expenses and other current assets	34,296	38,130
Total Current Assets	2,478,261	2,117,714
Property and Equipment, Net	512,321	582,335
Other Assets:		
Deposits	15,340	14,871
Total Assets	\$ 3,005,922	\$ 2,714,920

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 153,700	\$ 179,128
Accrued liabilities	259,713	224,627
Total Current Liabilities	413,413	403,755
Net Assets:		
Unrestricted	2,389,592	2,294,498
Temporarily restricted	202,917	16,667
Total Net Assets	2,592,509	2,311,165
Total Liabilities and Net Assets	\$ 3,005,922	\$ 2,714,920

The accompanying notes are an integral part of these financial statements

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Unrestricted Net Assets:		
Support and Revenues:		
Contracts	\$ 1,056,931	\$ 829,164
Grants and awards	2,663,533	2,768,452
In-kind contributions	103,550	108,923
Contributions and donations	26,989	36,224
Clinic service fees	1,045,362	908,231
Special events, net	52,407	79,622
Other income	357	784
	4,949,129	4,731,400
Net Assets Released from Restrictions	161,255	74,647
Total Unrestricted Support and Revenues	5,110,384	4,806,047
Functional Expenses:		
Program services	3,946,267	3,524,472
Management and general	734,611	812,304
Fund-raising	334,407	363,577
	5,015,285	4,700,353
Total Expenses	5,015,285	4,700,353
Increase in Unrestricted Net Assets	95,099	105,694
Temporarily Restricted Support:		
Grants and awards	347,500	16,667
Net assets released from restrictions	(161,255)	(74,647)
Increase (Decrease) in Temporarily Restricted Net Assets	186,245	(57,980)
Increase in Total Net Assets	281,344	47,714
Total Net Assets at Beginning of Year	2,311,165	2,263,451
Total Net Assets at End of Year	\$ 2,592,509	\$ 2,311,165

The accompanying notes are an integral part of these financial statements

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 281,344	\$ 47,714
Noncash Items Included in Change in Net Assets:		
Depreciation	112,318	99,372
Allowance for doubtful accounts	(23,780)	3,999
Loss on disposal of property and equipment	-	3,604
Donated equipment	-	(30,750)
Changes in:		
Clinic service fees receivable	179,409	(94,193)
Contracts receivable	109,764	(132,643)
Grants receivable	(152,134)	171,822
Retention receivable	(8,556)	(2,253)
Inventory	(32,308)	-
Prepaid expenses and other current assets	3,834	(35,230)
Deposits	(469)	429
Accounts payable	(25,428)	(67,184)
Accrued liabilities	35,086	86,038
Net Cash Provided by Operating Activities	479,080	50,725
Cash Flows from Investing Activities:		
Purchase of investments in certificates of deposit	(251,038)	-
Purchase of property and equipment	(42,304)	(85,714)
Net Cash Used in Investing Activities	(293,342)	(85,714)
Net Increase (Decrease) in Cash and Cash Equivalents	185,738	(34,989)
Cash and Cash Equivalents at Beginning of Year	847,382	882,371
Cash and Cash Equivalents at End of Year	\$ 1,033,120	\$ 847,382
Supplemental Disclosure:		
Interest paid	\$ 125	\$ 120

The accompanying notes are an integral part of these financial statements

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services	Support Services		Total
		Management and General	Fund-raising	
Advertising and promotion	\$ 12	\$ 39	\$ 60,209	\$ 60,260
Bad debts	38,639	-	-	38,639
Bank charges	100	6,291	222	6,613
Conferences and travel	80	896	1,292	2,268
Consultants - clinicians	816,318	-	-	816,318
Consultants - nonclinicians	152,123	44,755	61,645	258,523
Dental supplies and clinic expenses - other	306,417	-	-	306,417
Depreciation	106,028	5,307	982	112,317
Dues and subscriptions	2,030	4,414	882	7,326
Employee benefits and payroll processing fees	375,221	74,394	26,828	476,443
Employee recruitment	10,842	5,663	-	16,505
Fund development expenses	-	-	1,240	1,240
Insurance	26,858	9,374	317	36,549
Legal	8,008	8,413	-	16,421
Licenses, permits, and fees	7,736	10,253	-	17,989
Meals and entertainment	1,249	7,484	884	9,617
Miscellaneous	719	1,430	306	2,455
Office supplies	34,835	12,674	3,349	50,858
Postage	1,650	1,193	1,617	4,460
Printing	11,957	1,511	5,144	18,612
Rent and utilities	118,479	16,405	7,277	142,161
Repairs and maintenance	3,789	727	-	4,516
Salaries and wages	1,870,793	494,433	151,185	2,516,411
Telephone	34,377	21,973	8,259	64,609
Training and education	1,798	312	151	2,261
Travel and mileage	16,209	6,670	2,618	25,497
Total Expenses by Function	\$ 3,946,267	\$ 734,611	\$ 334,407	\$ 5,015,285
Percentage of Total Expenses	78.7%	14.6%	6.7%	100.0%

The accompanying notes are an integral part of these financial statements

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program Services	Support Services		Total
		Management and General	Fund-raising	
Advertising and promotion	\$ 250	\$ 978	\$ 125,638	\$ 126,866
Bad debts	3,999	-	-	3,999
Bank charges	203	5,178	547	5,928
Conferences and travel	85	1,298	1,241	2,624
Consultants - clinicians	982,092	-	-	982,092
Consultants - nonclinicians	75,988	89,989	26,587	192,564
Dental supplies and clinic expenses - other	260,329	-	-	260,329
Depreciation	96,778	2,594	-	99,372
Dues and subscriptions	5,972	1,401	475	7,848
Employee benefits and payroll processing fees	326,780	86,663	26,676	440,119
Employee recruitment	4,852	787	25	5,664
Insurance	21,128	5,031	249	26,408
In-kind goods expense (reimbursement)	50,061	-	5,990	56,051
Legal	618	3,334	-	3,952
Licenses, permits, and fees	4,936	10,990	5	15,931
Loss on disposal of property and equipment	-	3,604	-	3,604
Meals and entertainment	1,829	5,884	1,657	9,370
Miscellaneous	-	320	-	320
Moving expenses	2,248	3,504	2,249	8,001
Office supplies	22,702	8,944	2,412	34,058
Postage	3,588	1,062	742	5,392
Printing	9,191	1,117	1,510	11,818
Rent and utilities	81,088	29,997	5,949	117,034
Repairs and maintenance	1,357	509	-	1,866
Salaries and wages	1,531,782	519,833	155,416	2,207,031
Telephone	23,358	20,788	2,084	46,230
Training and education	164	623	546	1,333
Travel and mileage	13,094	7,876	3,579	24,549
Total Expenses by Function	\$ 3,524,472	\$ 812,304	\$ 363,577	\$ 4,700,353
Percentage of Total Expenses	75.0%	17.3%	7.7%	100.0%

The accompanying notes are an integral part of these financial statements

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Healthy Smiles for Kids of Orange County (the “Organization”) was founded in the state of California on January 25, 2003, as a public benefit corporation and received nonprofit status on June 25, 2003. It operates as a 501(c)(3) tax-exempt not-for-profit corporation. The Organization’s mission is to improve the oral health of children in Orange County through collaborative programs directed at prevention, outreach and education, access to treatment, and advocacy. The Organization operates dental clinics in Garden Grove and Orange, as well as two mobile dental clinics (Smile Mobile), which provide services at community locations within Orange County. In July 2007, the Organization expanded its school-based education, screening, and prevention services through the acquisition of the operations of Seals on Wheels. Since 2007, the Organization has collaborated with the University of Southern California School of Dentistry and Children’s Hospital of Orange County for the training of pediatric dental residents.

Basis of Presentation

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

In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, “*Presentation of Financial Statements*”, the Organization’s resources are classified for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. Accordingly, the net assets of the Organization are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and revenue generated from providing services and interest on investments.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted. As of June 30, 2016 and 2015, temporary restricted net assets of \$202,917 and \$16,667, respectively, are available to support sedation care services, teledentistry, fund development, and purchases of supplies.
- *Permanently restricted net assets* - Net assets that are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization has no permanently restricted net assets as of June 30, 2016 and 2015.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include petty cash funds, bank checking accounts used for operating purposes, site deposits, and investments with maturities of three months or less from the original purchase dates.

Investments in Certificates of Deposit

For purposes of the statements of financial position and cash flows, investments in certificates of deposit include certificates of deposit with original maturities of three months or more.

Clinic Service Fees, Contracts, and Grants Receivables

The Organization's clinic service fees and grants receivables are primarily insurance reimbursements and fees from state agencies. Contracts receivable are from revenues earned for services provided to other dental clinics. Allowance for doubtful accounts is determined on the basis of loss experience, economic conditions in the industry, and financial stability of the customers.

Inventory

Inventory mainly consists of dental crowns purchased or donated by several dental supply wholesalers, with a fair value of \$150,680 and \$118,372 at June 30, 2016 and 2015, respectively. Inventory is recorded at fair market value at the date of donation, which has been determined to be the net realizable value expected to be received if the Organization was to sell the inventory. The Organization uses the specific identification method for tracking inventory. At June 30, 2016 and 2015, no allowance or obsolescence has been established by management, as management believes that all inventories will be usable.

Contributions

Contributions of donated noncash assets (equipment and inventory) are recorded at fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, and recorded at fair value in the period received. For the years ended June 30, 2016 and 2015, the Organization received donated supplies of \$3,495 and \$58,839, respectively, professional services valued at \$38,040 and \$15,680, respectively, and equipment valued at \$0 and \$30,750, respectively, which are recorded as in-kind contributions.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

A substantial number of volunteers have donated significant amounts of time in the operation of the Organization's various programs. For the years ended June 30, 2016 and 2015, donated services contributed by volunteers totaled 2,308 and 136 hours, respectively. The total value of these services was \$62,015 and \$3,654 at June 30, 2016 and 2015, respectively, and are included in in-kind contributions in the accompanying statements of activities.

Property and Equipment

Property and equipment are stated at cost if purchased or at estimated fair value if donated. Equipment and leasehold improvements purchased with a cost greater than \$500 and useful life longer than one year are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 10 years for vehicles and equipment and from 5 to 20 years for leasehold improvements.

Long-Lived Assets and Asset Impairment

The Organization accounts for long-lived assets in accordance with the FASB ASC 360-10, "*Property, Plant, and Equipment*". FASB ASC 360-10 requires impairment losses to be recognized for long-lived assets used in operations when indicators of impairment are present and the undiscounted future cash flows are not sufficient to recover the assets' carrying amount. For the years ended June 30, 2016 and 2015, there was no impairment of the value of such assets.

Support and Revenue

The Organization relies on grants from public and private foundations, clinic service fees from patients, contributions from individuals, corporations, government programs, and other miscellaneous organizations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and supporting services (management and general) have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services by a method that best measures the relative degree of benefit. Program services are direct costs, and supporting services are indirect costs.

Advertising and Marketing Costs

Advertising and marketing costs are charged to operations when incurred. For the years ended June 30, 2016 and 2015, advertising and marketing costs totaled \$60,260 and \$126,866, respectively, and are allocated accordingly on the statements of activities and statements of functional expenses.

Use of Estimates

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and gains, and expenses and losses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Income Taxes

The Organization is recognized as tax-exempt under Section 501(c)(3) of the Internal Revenue Code and the corresponding state code as a charitable organization whereby only unrelated business income is subject to income tax. The Organization had no unrelated business income during the years ended June 30, 2016 and 2015. Accordingly, there is no provision for income taxes in the accompanying financial statements.

The Organization accounts for the provisions of FASB ASC 740-10-25, "*Income Taxes*", and under these provisions, an organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions and accordingly, it has not recognized any liability for unrecognized tax benefits or any related interest or penalties as of June 30, 2016 and 2015. The Organization's 2013-2015 tax years are open to review for federal tax purposes and 2012-2015 tax years are open to review for state income tax purposes.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies (Continued)

New Pronouncements

In July 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-11, “*Inventory (Topic 330)*”, which requires inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted prospectively as of the beginning of an interim or annual reporting period. The Organization is currently evaluating the impact of the provisions of ASU 2015-11 on the presentation of its financial statements.

In February 2016, the FASB issued ASU 2016-02, “*Leases (Topic 842)*”. ASU 2016-02 requires lessees to recognize lease assets and liabilities for those leases classified as operating leases under previous standards. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of asset not to recognize lease assets and lease liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, and early application is permitted. The Organization is currently evaluating the impact of the provisions of ASU 2016-02 on the presentation of its financial statements.

On August 18, 2016, the FASB issued ASU 2016-14, “*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*”, which finalizes proposed ASU 2015-230 and simplifies and improves the manner in which a not-for-profit entity classifies its net assets, as well as the information that it presents in financial statements and notes concerning liquidity, financial performance, and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted prospectively as of the beginning of an interim or annual reporting period. The Organization is currently evaluating the impact of the provisions of ASU 2016-14, on the presentation of its financial statements.

Note 2: Concentrations, Risks, and Uncertainties

The Organization maintains cash and cash equivalent balances at several major U.S. banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization’s cash balances at these institutions in excess of federally insured limits at June 30, 2016 and 2015 totaled approximately \$504,000 and \$365,000, respectively.

During the year ended June 30, 2016, the Organization received substantial revenues and support from two sources. Total revenues and support received from these sources aggregated approximately \$2,843,000. As of June 30, 2016, amounts due from these sources included in contracts, grants, and retention receivables was approximately \$852,000.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 2: Concentrations, Risks, and Uncertainties (Continued)

During the year ended June 30, 2015, the Organization obtained a substantial portion of its revenues and support from a single source. Revenues and support received from this source aggregated approximately \$2,105,000. As of June 30, 2015, amounts due from this source included in grants and retention receivables was approximately \$514,000.

Note 3: Grants and Retention Receivables

Grants receivable are unrestricted and consist of amounts due from the Children and Families Commission of Orange County, which totaled \$456,076 and \$303,942 at June 30, 2016 and 2015, respectively. Management expects all grants to be collected within the following year, and accordingly, there is no allowance for uncollectible grants receivable at June 30, 2016 and 2015.

Retention receivables consist of amounts withheld by the Children and Families Commission of Orange County, which totaled \$218,900 and \$210,344 at June 30, 2016 and 2015, respectively. Amounts are withheld pending timely and successful completion of final fiscal audits. Management believes all retentions will be collected.

Note 4: Property and Equipment

At June 30, 2016 and 2015, property and equipment consist of the following:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 576,975	\$ 564,205
Computer equipment	201,959	194,776
Vehicle	26,072	26,072
Leasehold improvements	173,529	171,499
Mobile dental clinic	581,758	577,096
Construction in progress	<u>13,967</u>	<u>-</u>
Total property and equipment, at cost	1,574,260	1,533,648
Less: Accumulated depreciation	<u>(1,061,939)</u>	<u>(951,313)</u>
Property and Equipment, at Net Book Value	<u>\$ 512,321</u>	<u>\$ 582,335</u>

Depreciation expense for the years ended June 30, 2016 and 2015, was \$112,318 and \$99,372, respectively.

During the year ended June 30, 2016, the Organization reinstated fully depreciated equipment that had been previously written off. The cost of the equipment totaled \$428,803. The equipment has been fully depreciated and had a zero net book value. The reinstatement of these assets have been made retroactively to the 2015 financial statements.

**HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

Note 5: Accrued Liabilities

Accrued liabilities at June 30, 2016 and 2015, consist of the following:

	2016	2015
Accrued salaries and wages	\$ 134,472	\$ 128,632
Accrued vacation	75,952	73,097
Other accrued liabilities	49,289	22,898
Total Accrued Liabilities	\$ 259,713	\$ 224,627

Note 6: Line of Credit

The Organization has available a line of credit with a bank that provides for borrowings up to \$30,000, bearing interest at the rate of 11.75 percent. The line of credit is available until the cancellation by the bank or the Organization. At June 30, 2016 and 2015, there was no balance outstanding.

Note 7: Commitments and Contingencies

Operating Leases

The Organization is obligated under the terms of operating leases for the rental of certain facilities and various office equipment through July 2020. Total rental payments for the fiscal years ended June 30, 2016 and 2015, were \$142,161 and \$117,034, respectively, and are included in the statements of functional expenses. Future minimum rental payments are approximately as follows for years ending June 30:

2017	\$ 151,000
2018	74,000
2019	66,000
2020	50,000
	\$ 341,000

The Organization leases office space for its Garden Grove clinic. Rent payments are determined on an annual basis and are calculated using a percentage of the landlord's estimated operating expenses for the next year. The lease expires in August 2019, and the rent obligations for the years 2018 and 2019 are unknown. Therefore, only the annual rent due for fiscal year 2016-2017 is included in the future minimum rent payments above.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 7: Commitments and Contingencies (Continued)

Grant Contingencies

The Organization's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits, cannot be reasonably estimated, and accordingly, the Organization has no provisions for the possible disallowance of program costs on its financial statements.

Service Agreement

Effective January 1, 2003, the Organization entered into an agreement with ADP TotalSource, Inc., a Professional Employer Organization ("PEO"), in which TotalSource, Inc. provides the Organization with PEO services as defined in the agreement. Under the agreement, TotalSource, Inc. became a co-employer of all "Worksite Employees" as defined. The agreement is cancelable within 30 days of notice.

Litigation

The Organization experiences routine litigation in the normal course of its business. Management does not believe that any pending or threatened litigation will have a material adverse effect on its financial statements.

Note 8: Pension Plan

The Organization has established a 401(k) plan. All employees who attain 21 years of age and have completed 30 days of service are eligible to participate in the plan. The employee contribution is discretionary up to the maximum amount allowable by the Internal Revenue Code. Assets of the plan are not reflected in the accompanying financial statements. The Organization may also make discretionary matching contributions to those participating in the plan. The Organization did not make any matching contributions during the years ended June 30, 2016 and 2015.

Note 9: Related Party Transactions

During the years ended June 30, 2016 and 2015, the Organization paid two and five, respectively, of its board members for consulting services totaling approximately \$138,000 and \$120,000, respectively. At June 30, 2016, there were no amounts due to these related parties. At June 30, 2015, amounts due to the related party totaled approximately \$2,300.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 9: Related Party Transactions (Continued)

During the years ended June 30, 2016 and 2015, the Organization paid approximately \$37,000 and \$104,000, respectively, for information technology services to a company that is owned by a board member. At June 30, 2016 and 2015, amounts due to the related party totaled approximately \$2,300 and \$65,000, respectively.

Note 10: Special Events

The Organization holds several events for fund-raising purposes. Revenue from these events for the years ended June 30, 2016 and 2015, totaled \$124,048 and \$112,391, respectively. Expenses from these events for the years ended June 30, 2016 and 2015, totaled \$71,641 and \$32,769, respectively. The net revenue of \$52,407 and \$79,622 at June 30, 2016 and 2015, respectively, is included in special events in the accompanying statements of activities.

Note 11: Subsequent Events

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of September 14, 2016, which is the date the financial statements were available to be issued.