



FINANCIAL STATEMENTS

**YEARS ENDED JUNE 30, 2017 AND 2016
WITH INDEPENDENT AUDITORS' REPORT**

**HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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

October 6, 2017

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 821,978	\$ 744,774
Restricted cash	410,708	288,346
Investments in certificates of deposit	101,356	251,038
Clinic service fees receivable, net of allowance of \$4,556 and \$28,336, respectively	96,213	82,482
Contracts receivable	221,482	251,669
Grants receivable	317,286	456,076
Retention receivable	244,498	218,900
Inventory	162,809	150,680
Prepaid expenses and other current assets	197,835	34,296
Total Current Assets	2,574,165	2,478,261
Property and Equipment, Net	806,274	512,321
Other Assets:		
Deposits	17,975	15,340
Total Assets	\$ 3,398,414	\$ 3,005,922

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 248,339	\$ 153,700
Accrued liabilities	314,805	259,713
Total Current Liabilities	563,144	413,413
Net Assets:		
Unrestricted	2,459,904	2,389,592
Temporarily restricted	375,366	202,917
Total Net Assets	2,835,270	2,592,509
Total Liabilities and Net Assets	\$ 3,398,414	\$ 3,005,922

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, 2017 AND 2016

Unrestricted Net Assets:	2017	2016
Support and Revenues:		
Contracts	\$ 1,522,686	\$ 1,056,931
Grants and awards	2,817,935	2,663,533
In-kind contributions	130,564	103,550
Contributions and donations	46,255	26,989
Clinic service fees	1,319,428	1,045,362
Teledentistry	35,132	-
Special events, net	75,885	52,407
Other income	555	357
	5,948,440	4,949,129
 Total Support and Revenues	 5,948,440	 4,949,129
 Net Assets Released from Restrictions	 251,550	 161,255
 Total Unrestricted Support and Revenues	 6,199,990	 5,110,384
 Functional Expenses:		
Program services	4,925,781	3,946,267
Management and general	756,054	734,611
Fund-raising	447,844	334,407
	6,129,679	5,015,285
 Total Functional Expenses	 6,129,679	 5,015,285
 Increase in Unrestricted Net Assets	 70,311	 95,099
 Temporarily Restricted Support:		
Grants and awards	424,000	347,500
Net assets released from restrictions	(251,550)	(161,255)
	172,450	186,245
 Increase in Temporarily Restricted Support	 172,450	 186,245
 Increase in Total Net Assets	 242,761	 281,344
 Total Net Assets at Beginning of Year	 2,592,509	 2,311,165
 Total Net Assets at End of Year	 \$ 2,835,270	 \$ 2,592,509

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 242,761	\$ 281,344
Noncash Items Included in Increase in Net Assets:		
Depreciation	140,206	112,318
Allowance for doubtful accounts	(1,916)	(23,780)
Loss on disposal of property and equipment	2,270	-
Changes in:		
Clinic service fees receivable	(11,815)	179,409
Contracts receivable	30,187	109,764
Grants receivable	138,790	(152,134)
Retention receivable	(25,598)	(8,556)
Inventory	(12,129)	(32,308)
Prepaid expenses and other current assets	(163,539)	3,834
Deposits	(2,635)	(469)
Accounts payable	94,639	(25,428)
Accrued liabilities	<u>55,092</u>	<u>35,086</u>
Net Cash and Cash Equivalents Provided by Operating Activities	486,313	479,080
Cash Flows from Investing Activities:		
Purchase of investments in certificates of deposit	-	(251,038)
Proceeds from redemption of certificates of deposit	149,682	-
Purchase of property and equipment	(436,559)	(42,304)
Proceeds from sale of property and equipment	<u>130</u>	<u>-</u>
Net Cash and Cash Equivalents Used in Investing Activities	<u>(286,747)</u>	<u>(293,342)</u>
Net Increase in Cash and Cash Equivalents	199,566	185,738
Cash and Cash Equivalents at Beginning of Year	<u>1,033,120</u>	<u>847,382</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,232,686</u></u>	<u><u>\$ 1,033,120</u></u>
Supplemental Disclosure:		
Interest paid	<u><u>\$ -</u></u>	<u><u>\$ 125</u></u>

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, 2017

	Program Services	Support Services		Total
		Management and General	Fund-raising	
Expenses by Function:				
Advertising and marketing	\$ 345	\$ -	\$ 131,965	\$ 132,310
Bad debts	39,225	-	-	39,225
Bank charges	18	6,312	121	6,451
Conferences and travel	1,320	2,264	421	4,005
Consultants - clinicians	959,034	-	-	959,034
Consultants - nonclinicians	131,756	34,043	50,329	216,128
Dental supplies and clinic expenses- other	440,905	28	50	440,983
Depreciation	130,354	5,716	4,137	140,207
Dues and subscriptions	8,597	-	359	8,956
Employee benefits and payroll processing fees	542,171	103,674	37,093	682,938
Employee recruitment	13,148	1,046	1,255	15,449
Fund development expenses	-	-	320	320
Insurance	21,886	10,787	1,679	34,352
Legal	7,746	13,755	-	21,501
Licenses, permits, and fees	22,511	3,458	295	26,264
Meals and entertainment	4,374	11,715	1,244	17,333
Miscellaneous	2,416	3,301	204	5,921
Office supplies	45,837	12,836	3,205	61,878
Postage	1,277	1,655	590	3,522
Printing	1,616	420	7,123	9,159
Rent and utilities	146,171	8,123	7,989	162,283
Repairs and maintenance	5,912	1,236	61	7,209
Salaries and wages	2,342,036	521,957	193,989	3,057,982
Telephone	37,140	6,286	2,535	45,961
Training and education	3,755	1,101	615	5,471
Travel and mileage	16,231	6,341	2,265	24,837
Total Expenses by Function	<u>\$ 4,925,781</u>	<u>\$ 756,054</u>	<u>\$ 447,844</u>	<u>\$ 6,129,679</u>
Percentage of Total Expenses	<u>80.4%</u>	<u>12.3%</u>	<u>7.3%</u>	<u>100.0%</u>

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	
Expenses by Function:				
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	<u>\$ 3,946,267</u>	<u>\$ 734,611</u>	<u>\$ 334,407</u>	<u>\$ 5,015,285</u>
Percentage of Total Expenses	<u>78.7%</u>	<u>14.6%</u>	<u>6.7%</u>	<u>100.0%</u>

The accompanying notes are an integral part of these financial statements.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 the 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, 2017 and 2016, temporary restricted net assets of \$375,366 and \$202,917, 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, 2017 and 2016.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

Restricted Cash

Restricted cash represents funds held with donor-imposed restrictions.

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 \$162,809 and \$150,680 at June 30, 2017 and 2016, 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 were to sell the inventory. The Organization uses the specific identification method for tracking inventory. At June 30, 2017 and 2016, 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, 2017 and 2016, the Organization received donated supplies of \$1,031 and \$3,495, respectively, and professional services valued at \$40,041 and \$38,040, respectively, which are recorded as in-kind contributions.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016, donated services contributed by volunteers totaled 3,442 and 2,308 hours, respectively. The total value of these services was \$89,492 and \$62,015 at June 30, 2017 and 2016, respectively, and is 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 a 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, 2017 and 2016, 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, contracts with other clinics to provide dental services, and 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, 2017 AND 2016

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, 2017 and 2016, advertising and marketing costs totaled \$132,310 and \$60,260, respectively, and are allocated accordingly in 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, 2017 and 2016. 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, 2017 and 2016. The Organization's 2014-2016 tax years are open to review for federal tax purposes and 2013-2016 tax years are open to review for state income tax purposes.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 price 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 up to \$250,000. The Organization’s cash balances at these institutions in excess of federally insured limits at June 30, 2017 and 2016, totaled approximately \$409,000 and \$504,000, respectively.

During the years ended June 30, 2017 and 2016, the Organization received substantial revenues and support from two sources. Total revenues and support received from these sources aggregated approximately \$3,636,000 and \$2,843,000 respectively. As of June 30, 2017 and 2016, amounts due from these sources included in contracts, grants, and retention receivables were approximately \$696,000 and \$852,000 respectively.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

During the year ended June 30, 2017, the Organization purchased approximately 11 percent of its supplies from one vendor. At June 30, 2017, amounts due to the vendor included in accounts payable were approximately \$44,000. The Organization did not have any purchase concentration for the year ended June 30, 2016.

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 \$317,286 and \$456,076 at June 30, 2017 and 2016, 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, 2017 and 2016.

Retention receivable consists of amounts withheld by the Children and Families Commission of Orange County, which totaled \$244,498 and \$218,900 at June 30, 2017 and 2016, 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, 2017 and 2016, property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 780,886	\$ 576,975
Computer equipment	220,073	201,959
Vehicle	29,967	26,072
Leasehold improvements	360,461	173,529
Mobile dental clinic	589,185	581,758
Construction in progress	<u>27,458</u>	<u>13,967</u>
Total property and equipment, at cost	2,008,030	1,574,260
Less: Accumulated depreciation	<u>(1,201,756)</u>	<u>(1,061,939)</u>
Property and Equipment, at Net Book Value	<u>\$ 806,274</u>	<u>\$ 512,321</u>

Depreciation expense for the years ended June 30, 2017 and 2016, was \$140,206 and \$112,318, respectively.

**HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

Note 5: Accrued Liabilities

Accrued liabilities at June 30, 2017 and 2016, consist of the following:

	2017	2016
Accrued salaries and wages	\$ 195,587	\$ 134,472
Accrued vacation	100,804	75,952
Other accrued liabilities	18,414	49,289
Total Accrued Liabilities	\$ 314,805	\$ 259,713

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, 2017 and 2016, 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 years ended June 30, 2017 and 2016, were \$162,283 and \$142,161, respectively, and are included in the statements of functional expenses. Future minimum rental payments are approximately as follows for years ending June 30:

2018	\$ 212,350
2019	138,952
2020	104,751
	\$ 456,053

The Organization leases office space for its Garden Grove clinic. Rental 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 obligation for 2019 is unknown. Therefore, only the annual rent due for fiscal year 2017-2018 is included in the future minimum rent payments above.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2013, the Organization entered into an agreement with ADP TotalSource, Inc., a professional employer organization ("PEO"), in which ADP TotalSource, Inc. provides the Organization with PEO services as defined in the agreement. Under the agreement, ADP 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, 2017 and 2016.

Note 9: Related-Party Transactions

During the years ended June 30, 2017 and 2016, the Organization paid three and two of its board members, respectively, for dental and consulting services totaling approximately \$188,000 and \$138,000, respectively. At June 30, 2017 and 2016, there were no amounts due to these related parties.

HEALTHY SMILES FOR KIDS OF ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 9: Related-Party Transactions (Continued)

During the years ended June 30, 2017 and 2016, the Organization paid approximately \$26,000 and \$37,000, respectively, for information technology services to a company that is owned by a board member. At June 30, 2017 and 2016, amounts due to the related party totaled approximately \$2,000 and \$2,300, respectively.

Note 10: Special Events

The Organization holds several events for fund-raising purposes. Revenue from these events for the years ended June 30, 2017 and 2016, totaled \$214,413 and \$124,048, respectively. Expenses from these events for the years ended June 30, 2017 and 2016, totaled \$138,528 and \$71,641, respectively. The net revenue of \$75,885 and \$52,407 at June 30, 2017 and 2016, respectively, is included in special events in the accompanying statements of activities.

Note 11: Reclassifications

Certain reclassifications have been made to the 2016 financial statements in order to conform with the current year presentation.

Note 12: Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of October 6, 2017, which is the date the financial statements were available to be issued.