

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016



AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
American Association of Endodontists Foundation

We have audited the accompanying financial statements of the American Association of Endodontists Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows 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.

Auditor's 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 audits 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 financial position of the American Association of Endodontists Foundation as of December 31, 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.

Calibre CPA Group, PLLC

Chicago, IL
May 5, 2017

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 141,145	\$ 108,754
Accounts receivable	-	1,035
Prepaid expenses	3,280	3,280
Pledges receivable, net	1,651,739	1,484,030
Investments	28,323,980	27,323,312
Property and equipment	<u>4,100</u>	<u>15,097</u>
Total assets	<u>\$ 30,124,244</u>	<u>\$ 28,935,508</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 10,868	\$ 199,280
Due to American Association of Endodontists	139,982	90,551
Deferred revenue	2,750	-
Grants payable		
Due to American Association of Endodontists	113,210	132,227
Due to other third parties	<u>73,904</u>	<u>92,481</u>
Total liabilities	<u>340,714</u>	<u>514,539</u>
NET ASSETS		
Unrestricted	28,131,791	26,936,939
Temporarily restricted	<u>1,651,739</u>	<u>1,484,030</u>
Total net assets	<u>29,783,530</u>	<u>28,420,969</u>
Total liabilities and net assets	<u>\$ 30,124,244</u>	<u>\$ 28,935,508</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Contributions	\$ 210,622	\$ 746,370	\$ 956,992
Investment income (loss)	2,371,179	-	2,371,179
	2,581,801	746,370	3,328,171
Net assets released from restrictions - satisfaction of time restrictions	578,661	(578,661)	-
Total revenue and support	3,160,462	167,709	3,328,171
EXPENSES			
Administrative reimbursement - American Association of Endodontists	398,366	-	398,366
Annual session	31,778	-	31,778
Credit card charges	6,127	-	6,127
Depreciation	10,997	-	10,997
Grants			
Educator	274,360	-	274,360
Competitive research	135,644	-	135,644
Resident research	42,500	-	42,500
Other	768,716	-	768,716
Insurance	6,248	-	6,248
Investments fees	47,018	-	47,018
Miscellaneous	2,922	-	2,922
Postage and mail service	10,242	-	10,242
Printing	29,905	-	29,905
Professional fees	69,835	-	69,835
Supplies	554	-	554
Telephone	502	-	502
Trustee meetings	129,896	-	129,896
Total expenses	1,965,610	-	1,965,610
CHANGE IN NET ASSETS	1,194,852	167,709	1,362,561
NET ASSETS			
Beginning of year	26,936,939	1,484,030	28,420,969
End of year	\$ 28,131,791	\$ 1,651,739	\$ 29,783,530

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND OTHER SUPPORT			
Contributions	\$ 148,769	\$ 965,603	\$ 1,114,372
Investment income (loss)	<u>(997,586)</u>	<u>-</u>	<u>(997,586)</u>
	(848,817)	965,603	116,786
Net assets released from restrictions - satisfaction of time restrictions	<u>989,763</u>	<u>(989,763)</u>	<u>-</u>
Total revenue and support	<u>140,946</u>	<u>(24,160)</u>	<u>116,786</u>
EXPENSES			
Administrative reimbursement - American Association of Endodontists	380,477	-	380,477
Annual session	67,984	-	67,984
Credit card charges	16,730	-	16,730
Depreciation	10,124	-	10,124
Grants			
Educator	234,382	-	234,382
Competitive research	207,394	-	207,394
Resident research	60,000	-	60,000
Other	867,939	-	867,939
Insurance	5,285	-	5,285
Investments fees	37,653	-	37,653
Miscellaneous	5,361	-	5,361
Postage and mail service	12,525	-	12,525
Printing	26,058	-	26,058
Professional fees	53,082	-	53,082
Supplies	1,854	-	1,854
Telephone	189	-	189
Trustee meetings	<u>139,871</u>	<u>-</u>	<u>139,871</u>
Total expenses	<u>2,126,908</u>	<u>-</u>	<u>2,126,908</u>
CHANGE IN NET ASSETS	(1,985,962)	(24,160)	(2,010,122)
NET ASSETS			
Beginning of year	<u>28,922,901</u>	<u>1,508,190</u>	<u>30,431,091</u>
End of year	<u>\$ 26,936,939</u>	<u>\$ 1,484,030</u>	<u>\$ 28,420,969</u>

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 789,283	\$ 1,113,145
Investment income received	1,046,130	1,160,943
Payments to vendors, suppliers, and grantees	(2,127,403)	(2,260,291)
Net cash provided by (used for) operating activities	(291,990)	13,797
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,046,130)	(18,213,951)
Proceeds from sales of investments	1,370,511	17,990,184
Net cash provided by (used for) investing activities	324,381	(223,767)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,391	(209,970)
CASH AND CASH EQUIVALENTS		
Beginning of year	108,754	318,724
End of year	\$ 141,145	\$ 108,754
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Change in net assets	\$ 1,362,561	\$ (2,010,122)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Donated securities	-	(25,386)
Depreciation and amortization	10,997	10,124
Net (appreciation) depreciation of investments	(1,325,049)	2,158,529
Accretion (amortization) of discount on pledges receivable	34,724	26,819
Changes in:		
Accounts receivable	1,035	1,665
Prepaid expenses	-	3,049
Pledges receivable	(202,433)	(2,660)
Accounts payable and accrued expenses	(188,412)	(4,842)
Deferred revenue	2,750	-
Due to American Association of Endodontists	49,431	(56,819)
Grants payable	(37,594)	(86,560)
Net cash provided by (used for) operating activities	\$ (291,990)	\$ 13,797

See accompanying notes to financial statements.

AMERICAN ASSOCIATION OF ENDODONTISTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1. ORGANIZATION

The American Association of Endodontists Foundation (the Foundation), located in Chicago, Illinois, seeks to improve oral health by securing contributions, shepherding resources and sharing grant funds that support research, generate new knowledge and enhance endodontic education.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation - The financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC), Not-For-Profit Entities*.

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

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.

Temporarily Restricted Net Assets - Net assets subject to donor imposed stipulations that will be met by actions of the Foundation or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Investment earnings, and gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions, including unconditional promises to give, are recognized as revenues in the period the donor makes the promise to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value when received.

Cash and Cash Equivalents - Cash and cash equivalents include amounts held in checking and money market accounts, and short-term highly-liquid investments that are readily convertible to known amounts of cash, and so near their maturity that the risk of change in value is negligible.

Investments - Investments are carried at fair value and are valued based on quoted market prices in active markets at the financial statement date.

Property and Equipment - Property and equipment consists of computer software and office furniture and is carried at cost. Major additions are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, generally five years for software and equipment, and seven years for furniture.

Grants - Grants are recognized when approved by the Board of Trustees and conditions of funding grants have been met.

Use of Estimates - The preparation of financial statements in accordance 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 or revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain significant estimates used in the preparation of these financial statements include recording investments at fair value, the present value of pledge contributions receivable, and determining an allowance for doubtful pledge contributions. The ultimate realization of the investments and pledge contributions receivable is based upon future economic factors. It is reasonably possible that the recorded amounts or related disclosures could significantly change in the near future as new information becomes available.

NOTE 3. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value inputs are categorized in three levels as follows:

Level 1 - Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

NOTE 3. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 - Valuations are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose significant inputs are observable.

Level 3 - Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability. These unobservable inputs are significant to the fair value measurement.

Investments measured at fair value as of December 31, 2016, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and money market funds	\$ 562,132	\$ 562,132	\$ -	\$ -
Bond mutual funds	7,679,657	7,679,657	-	-
Equity mutual funds	18,548,512	18,548,512	-	-
Other mutual and exchange- traded funds	<u>1,533,679</u>	<u>1,533,679</u>	<u>-</u>	<u>-</u>
	<u>\$ 28,323,980</u>	<u>\$ 28,323,980</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at fair value as of December 31, 2016, are summarized in the following table by the type of inputs applicable to the fair value measurements:

	Total Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and money market funds	\$ 876,240	\$ 876,240	\$ -	\$ -
Bond mutual funds	7,490,253	7,490,253	-	-
Equity mutual funds	17,421,922	17,421,922	-	-
Other mutual and exchange- traded funds	<u>1,534,897</u>	<u>1,534,897</u>	<u>-</u>	<u>-</u>
	<u>\$ 27,323,312</u>	<u>\$ 27,323,312</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. INVESTMENTS

The carrying value of investments consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash and money market funds	\$ 562,132	\$ 876,240
Bond mutual funds		
Intermediate term	2,482,843	2,520,250
Inflation protected	1,686,033	1,622,730
Multi-sector	1,324,673	1,258,244
World	2,186,108	2,089,029
Equity mutual funds		
Small-cap growth	926,438	845,997
Mid-cap growth	2,256,318	2,422,007
Mid-cap blend	2,794,163	2,554,277
Large-cap blend	4,009,545	3,669,221
Large-cap value	2,418,500	2,135,970
Small-cap value	2,016,073	1,835,159
Foreign large growth	966,819	1,082,716
Foreign large-cap blend	1,019,201	975,864
Diversified emerging markets	2,104,149	1,866,951
Moderate allocation	37,306	33,760
Other mutual and exchange-traded funds		
Real estate	934,986	986,205
Energy master limited partnerships	598,693	548,692
	<u>\$ 28,323,980</u>	<u>\$ 27,323,312</u>

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Computer software	\$ 44,403	\$ 44,403
Furniture and equipment	<u>15,695</u>	<u>15,695</u>
	60,098	60,098
Less: accumulated depreciation	<u>(55,998)</u>	<u>(45,001)</u>
	<u>\$ 4,100</u>	<u>\$ 15,097</u>

NOTE 6. PLEDGES RECEIVABLE

Pledges receivable are generally due within five years. Upon receipt of the pledge from the donor, the pledge is recorded at fair value, which is the portion of the face amount expected to be received at the inception of the pledge less a discount for the net present value of expected future cash flows. An allowance has also been established for the carrying value of pledges when collection is uncertain. Management evaluates the collectability of pledges receivable based on the age of the pledge and the donor's payment history.

The net balance of pledges receivable at December 31, 2016 is summarized as follows:

	<u>Individual</u>	<u>Corporate</u>	<u>Total</u>
Unconditional promise to give	\$ 2,678,958	\$ 809,500	\$ 3,488,458
Less: discount to present value	(36,333)	(28,424)	(64,757)
Less: allowance for uncollectible pledges	<u>(1,360,777)</u>	<u>(411,185)</u>	<u>(1,771,962)</u>
	<u>\$ 1,281,848</u>	<u>\$ 369,891</u>	<u>\$ 1,651,739</u>

The net balance of pledges receivable at December 31, 2015 is summarized as follows:

	<u>Individual</u>	<u>Corporate</u>	<u>Total</u>
Unconditional promise to give	\$ 3,130,260	\$ 677,667	\$ 3,807,927
Less: discount to present value	(35,439)	(21,833)	(57,272)
Less: allowance for uncollectible pledges	<u>(1,863,251)</u>	<u>(403,374)</u>	<u>(2,266,625)</u>
	<u>\$ 1,231,570</u>	<u>\$ 252,460</u>	<u>\$ 1,484,030</u>

NOTE 6. PLEDGES RECEIVABLE (CONTINUED)

Unconditional promises to give at December 31, 2016 are estimated to be due as follows:

	<u>Individual</u>	<u>Corporate</u>	<u>Total</u>
Due in less than one year	\$ 864,202	\$ 130,000	\$ 994,202
Due in one to five years	<u>1,814,756</u>	<u>679,500</u>	<u>2,494,256</u>
	<u>\$ 2,678,958</u>	<u>\$ 809,500</u>	<u>\$ 3,488,458</u>

NOTE 7. GRANTS PAYABLE

The liability to third parties for unconditional promises to give for the Foundation's fellowship program and research grants was \$73,904 at December 31, 2016 and \$92,481 at December 31, 2015. All amounts are due within one year.

In the event a beneficiary of a grant does not fulfill grant requirements after the grant has been funded, the grant proceeds are to be returned to the Foundation with penalties and interest. There were no such returned funds in 2016 or 2015.

The Foundation also issues multi-year research grants in the field of regenerative endodontics. Currently, the Foundation funds two such research projects: Cell Based Approaches in Endodontic Regeneration and Regeneration of Pulp-Dentin Development in Teeth with Necrotic Pulp and Immature Roots. Both projects were initially funded in 2014 for six years. For both projects, subsequent funding is specifically contingent on assessment of the program's progress and approval by the Foundation's Board of Trustees. As of December 31, 2016, the amount of conditional grants promised in future periods is \$1,150,000.

NOTE 8. TEMPORARILY RESTRICTED NET ASSETS

The balance of temporarily restricted nets assets consists of net pledges receivable of \$1,651,739 and \$1,484,030 at December 31, 2016 and 2015, respectively. All amounts are subject to implied time restrictions that will expire as pledge payments are received.

NOTE 9. RELATED PARTY TRANSACTIONS

The Foundation is affiliated with the American Association of Endodontists (AAE). In previous years, certain administrative expenses such as salaries, fringes, occupancy, and other general expenses incurred by the Foundation were paid by AAE and not reimbursed. Starting in 2014, AAE and the Foundation agreed that the Foundation would fully reimburse AAE for these costs. AAE also collects contributions and pays certain other expenses on behalf of the Foundation. The Foundation reimbursed the AAE \$398,366 and \$380,477 for administrative costs, salary and fringe benefit costs of AAE employees providing services to the Foundation in 2016 and 2015, respectively. In addition, AAEF granted \$161,445 and \$144,602 to AAE for education related

NOTE 9. RELATED PARTY TRANSACTIONS (CONTINUED)

AAE workshops and events in 2016 and 2015, respectively. Amounts due to and from AAE at December 31, 2016 and 2015 were grants approved to be paid or amounts collected before year end and were transferred to and from the Foundation in a timely manner after year end.

NOTE 10. FUNCTIONAL EXPENSES

Management has estimated the allocation of functional expenses as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 1,342,536	\$ 1,495,858
Management and general	380,441	324,381
Fund-raising	<u>242,633</u>	<u>306,669</u>
	<u>\$ 1,965,610</u>	<u>\$ 2,126,908</u>

NOTE 11. TAX STATUS

The Foundation is a not-for-profit entity as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from income taxes, except to the extent of any unrelated business income. There was no unrelated business income for the years ended December 31, 2016 and 2015. The Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. The Foundation's tax returns for 2013, 2014, and 2015 are open to examination.

NOTE 12. CONCENTRATION OF CREDIT RISK

Cash and cash equivalents invested in money market accounts held by the Foundation are subject to the risk that funds may not be fully insured by the brokerage firm. Management believes this credit risk to be minimal at this time.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 5, 2017, which date the financial statements were available to be issued. The review and evaluation revealed no new material event or transaction which would require an additional adjustment to, or disclosure in, the accompanying financial statements.