
**WORLD FEDERATION OF
ORTHODONTISTS**
*FINANCIAL STATEMENTS
DECEMBER 31, 2016*

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Independent Accountants' Review Report

Executive Committee
World Federation of Orthodontists
St. Louis, Missouri

We have reviewed the accompanying financial statements of the World Federation of Orthodontists (the Federation), a not-for-profit organization, consisting of the statement 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Federation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Accountants' Responsibility

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

RubinBrown LLP

August 28, 2017

WORLD FEDERATION OF ORTHODONTISTS

STATEMENT OF FINANCIAL POSITION

Assets

	December 31,	
	2016	2015
Cash and cash equivalents (Note 1)	\$ 128,014	\$ 55,622
Accounts receivable, net of allowance for uncollectible accounts of \$250 in 2016 and \$250 in 2015 (Notes 1 and 3)	14,408	71,834
Prepaid expenses	7,108	8,596
Investments (Note 4)	1,961,679	1,907,643
Inventory	2,277	2,865
Loans to affiliated organizations (Note 3)	100,000	200,000
Intangible assets, net of accumulated amortization of \$60,187 in 2016 and \$54,801 in 2015	98	5,484
Total Assets	\$ 2,213,584	\$ 2,252,044

Liabilities And Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 43,985	\$ 13,778
Due to affiliated entity (Note 3)	3,386	1,815
Deferred dues and fees	481,583	571,082
Total Liabilities	528,954	586,675

Net Assets

Unrestricted	1,664,107	1,644,846
Temporarily restricted (Note 1)	20,523	20,523
Total Net Assets	1,684,630	1,665,369

Total Liabilities And Net Assets	\$ 2,213,584	\$ 2,252,044
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WORLD FEDERATION OF ORTHODONTISTS

STATEMENT OF ACTIVITIES

	For The Years Ended December 31,	
	2016	2015
Changes In Unrestricted Net Assets:		
Revenues		
Membership dues and fees	\$ 251,373	\$ 279,232
Affiliation fees	10,281	10,175
Advertising revenue	4,700	7,500
Sales - promotional items (net of expenses of \$647 in 2016 and \$1,444 in 2015)	1,280	2,731
Investment income (loss), net of fees of 4,441 in 2016 and \$5,714 in 2015 (Note 4)	(48,790)	75,603
International Orthodontic Congress meeting revenue	—	61,059
Total Revenues	218,844	436,300
Expenses (Notes 3 And 5)		
Salaries and personnel expenses	18,000	56,467
Amortization	5,386	11,158
Annual session meetings	1,154	1,831
Bank and credit card fees	7,559	9,221
Conferences and expositions	—	16,796
Executive committee	2,036	4,727
Insurance	4,395	4,339
Management fees (Note 3)	140,000	81,667
Membership	—	562
Miscellaneous	101	813
Office expenses	—	7,780
Postage	6,836	13,687
Printing	5,436	6,163
Professional fees	6,425	7,425
Telephone	1,249	1,993
Website	925	1,629
Travel/meetings	31,286	26,707
WFO Gazette	43,822	51,416
WFO Journal	140,641	135,282
Total Expenses	415,251	439,663
Excess Of Expenses Over Revenues Before Unrealized Gain (Loss) On Investments	(196,407)	(3,363)
Unrealized Gain (Loss) On Investments (Note 4)	215,668	(204,931)
Increase (Decrease) In Unrestricted Net Assets	19,261	(208,294)
Changes In Temporarily Restricted Net Assets		
Contributions	—	2,000
Increase (Decrease) In Net Assets	19,261	(206,294)
Net Assets - Beginning Of Year	1,665,369	1,871,663
Net Assets - End Of Year	\$ 1,684,630	\$ 1,665,369

WORLD FEDERATION OF ORTHODONTISTS

STATEMENT OF CASH FLOWS

	For The Years	
	Ended December 31,	
	2016	2015
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 19,261	\$ (206,294)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Amortization	5,386	11,158
Unrealized (gain) loss on investments	(215,668)	204,931
Realized (gain) loss on sale of investments	101,150	(7,841)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	57,426	(61,583)
(Increase) decrease in prepaid expenses	1,488	(3,051)
(Increase) decrease in inventory	588	(2,500)
Increase (decrease) in accounts payable and accrued expenses	30,207	(13,809)
Decrease in deferred dues and fees	(89,499)	(53,135)
Net Cash Used In Operating Activities	(89,661)	(132,124)
Cash Flows From Investing Activities		
Proceeds from sale of investments	529,606	211,119
Purchases of investments	(469,124)	—
Repayments from affiliate organizations	100,000	(167,863)
Net Cash Provided By Investing Activities	160,482	43,256
Cash Flows Provided By (Used In) Financing Activities		
Net borrowings from (repayments to) affiliated entity	1,571	(17,214)
Net Increase (Decrease) In Cash And Cash Equivalents	72,392	(106,082)
Cash And Cash Equivalents - Beginning Of Year	55,622	161,704
Cash And Cash Equivalents - End Of Year	\$ 128,014	\$ 55,622

WORLD FEDERATION OF ORTHODONTISTS

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 And 2015

1. Summary Of Significant Accounting Policies

Accounting Basis

The financial statements of the World Federation of Orthodontists (the Federation) have been prepared using the accrual basis of accounting.

Basis Of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board and reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. At December 31, 2016 and 2015, net assets of \$20,523 are temporarily restricted for the T.M. Graber Memorial Fund. The remaining net assets are unrestricted.

Estimates And Assumptions

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

Cash And Cash Equivalents

The Federation considers all highly liquid short-term investments, which are available for the Federation's operational needs, to be cash equivalents.

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Cash	\$ 83,021	\$ 23,472
Money market funds	44,993	32,150
	<u>\$ 128,014</u>	<u>\$ 55,622</u>

WORLD FEDERATION OF ORTHODONTISTS

Notes To Financial Statements *(Continued)*

Accounts Receivable And Loans To Affiliated Organizations

Accounts receivable and the loans to affiliated organizations are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollected amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the receivable. At December 31, 2016 and 2015, no allowance against the loans to affiliated organizations was deemed necessary; however, management has established allowances of \$250 December 31, 2016 and 2015 against accounts receivable.

Investments

Investments in bond and equity mutual funds are carried at fair value as quoted on major securities exchanges (Level 1). Gains and losses on sales of investments are generally determined on a specific cost identification method. Unrealized gains and losses are determined based on fluctuations in the market price.

The Federation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

Inventory

Inventory consists of promotional items available for sale to members and is stated at lower of cost or market determined by the first-in, first-out (FIFO) method.

Intangible Assets

Intangible assets consist of computer software and website costs, which are carried at cost, less accumulated amortization computed using the straight-line method over three to seven years.

Membership Dues And Fees

Membership dues and fees are recorded by the Federation as revenue in the applicable membership period or period when such service is provided. Member payments received in advance of the applicable membership period or service period are recorded as deferred dues and fees.

WORLD FEDERATION OF ORTHODONTISTS

Notes To Financial Statements *(Continued)*

Description Of Program Services And Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Programs - Lectures And Publications

Includes expenditures incurred to educate members through scientific lecture programs and publications and promote research and high standards in orthodontics throughout the world.

Management And General

Includes the functions necessary to provide coordination and articulation of the Federation's program strategy; secure proper administrative functioning of the Executive Committee; maintain competent legal services for the program administration of the Federation; and manage the financial and budgetary responsibilities of the Federation.

Income Taxes

The Federation was incorporated on June 1, 1995 in the State of Missouri as a tax-exempt organization and has received an Internal Revenue Service determination letter that it is exempt from federal tax on income from its related, exempt activities under Section 501(c)(6) of the Internal Revenue Code. The Federation's tax returns for tax years 2013 and later remain subject to examination by taxing authorities.

Subsequent Events

Management evaluates subsequent events through the date the financial statements are available for issue, which is the date of the Independent Accountants' Review Report.

2. Operations

The Federation receives membership dues and other income to provide for the advancement of the science and art of orthodontics worldwide.

WORLD FEDERATION OF ORTHODONTISTS

Notes To Financial Statements *(Continued)*

3. Transactions With Affiliated Entities

Prior to June 2015, The Federation paid the American Association of Orthodontists monthly fees for telephone, office expenses, data processing and accounting services. The total fees charged to expense amounted to \$8,804 in 2015. During June 2015, the Federation entered into an agreement whereby AAO Services, Inc. (AAO Services), a related party, would provide management services to the Federation for an annual fee of \$140,000, payable on a quarterly basis. The annual fee may be increased by 5% each year of the term of the agreement. The agreement expires May 31, 2018. The total fees charged to expense amounted to \$140,000 and \$81,667 in 2016 and 2015, respectively. At December 31, 2016 and 2015, the Federation had balances due to this related party amounting to \$3,386 and \$1,815, respectively, which are reflected on the statement of financial position as due to affiliated entity.

During 2008, the Federation advanced \$100,000 to an affiliated organization from which it also receives fees. The loan was provided interest-free to the affiliated organization which coordinated the 2015 international meeting. Repayment of the loan was made in 2016 as proceeds from the meeting were collected.

During 2013, the Federation advanced \$100,000 to another affiliated organization from which it also receives fees. The loan was provided interest-free to the affiliated organization which is coordinating the 2020 international meeting. Repayment of the loan is to be received as proceeds from the meeting are collected in 2020.

The American Association of Orthodontists also collects on-line member dues payments on behalf of the Federation. At December 31, 2016 and 2015, the Federation had balances due from this related party amounting to \$7,620 and \$6,340, respectively, which are included in accounts receivable on the statement of financial position.

WORLD FEDERATION OF ORTHODONTISTS

Notes To Financial Statements (Continued)

4. Investments

Investments consist of the following:

	December 31, 2016		December 31, 2015	
	Cost	Fair Value	Cost	Fair Value
Mutual funds - bond funds	\$ 937,176	\$ 904,385	\$ 1,052,116	\$ 958,332
Mutual funds - equity funds	1,002,405	1,057,294	1,049,098	949,311
	<u>\$ 1,939,581</u>	<u>\$ 1,961,679</u>	<u>\$ 2,101,214</u>	<u>\$ 1,907,643</u>

Investment income for 2016 is composed of dividend and interest income of \$52,360 (net of \$4,441 of investment fees) and \$101,150 of realized losses. Investment income for 2015 is composed of dividend and interest income of \$67,762 (net of \$5,714 of investment fees) and \$7,841 of realized gains. Unrealized gains (losses) to adjust investments to fair value were \$215,668 and \$(204,931) in 2016 and 2015, respectively.

5. Functional Expenses

The following is a detail of expenses by functional classification for the years ended December 31:

	2016	2015
Program services	\$ 305,225	\$ 333,196
Management and general	110,026	106,467
Total expenses	<u>\$ 415,251</u>	<u>\$ 439,663</u>