AMERICAN ASSOCIATION OF ORTHODONTISTS FOUNDATION

Financial Statements and Independent Auditors' Report

YEAR ENDED JULY 31, 2025
(WITH SUMMARIZED COMPARATIVE INFORMATION
FOR JULY 31, 2024)

Contents

Independent Auditors' Report

Board of Directors
American Association of Orthodontists Foundation
St. Louis, Missouri

Opinion

We have audited the accompanying financial statements of the American Association of Orthodontists Foundation (a not-for-profit organization), which comprise the statement of financial position as of July 31, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the American Association of Orthodontists Foundation as of July 31, 2025, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the American Association of Orthodontists Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the American Association of Orthodontists Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 American Association of Orthodontists Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the American Association of Orthodontists Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the American Association of Orthodontists Foundation's 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 28, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended July 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anders Minkler Huber & Helm LLP

February 10, 2026
St. Louis, Missouri

American Association of Orthodontists Foundation
Statement of Financial Position
July 31, 2025
(With Summarized Comparative Information as of July 31, 2024)

Assets

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Current Assets				
Cash and cash equivalents	$ 252,879	$ -	$ 252,879	$ 150,906
Accounts receivable	19,238	-	19,238	17,521
Prepaid expenses	20,173	-	20,173	19,829
Promises to give, net	-	1,969,330	1,969,330	1,114,936
Due from (to) Legacy Fund	165,132	(165,132)	-	-
Total Current Assets	457,422	1,804,198	2,261,620	1,303,192
Investments, at fair value	5,452,722	11,391,819	16,844,541	14,395,495
Promises to Give, net	-	242,962	242,962	1,079,781
Assets Restricted for Perpetual Investment				
Investments, at fair value	-	22,391,466	22,391,466	22,346,025
Promises to give, net	-	489,614	489,614	601,709
Total Assets Restricted for Perpetual Investment	-	22,881,080	22,881,080	22,947,734
Total Assets	$ 5,910,144	$ 36,320,059	$42,230,203	$ 39,726,202

Liabilities and Net Assets

	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Current Liabilities				
Accounts payable and accrued expenses	$ 323,868	$ -	$ 323,868	$ 313,207
Awards payable	344,984	-	344,984	240,000
Total Current Liabilities	668,852	-	668,852	553,207
Awards Payable	90,000	-	90,000	195,000
Total Liabilities	758,852	-	758,852	748,207
Net Assets				
Without donor restrictions	5,151,292	-	5,151,292	4,850,831
With donor restrictions	-	36,320,059	36,320,059	34,127,164
Total Net Assets	5,151,292	36,320,059	41,471,351	38,977,995
Total Liabilities and Net Assets	$ 5,910,144	$ 36,320,059	$42,230,203	$ 39,726,202

American Association of Orthodontists Foundation
Statement of Activities
Year Ended July 31, 2025
(With Summarized Comparative Information for the Year Ended July 31, 2024)

	2025			2024
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Support and Revenues				
Contributions	$ 214,986	$ 1,282,187	$ 1,497,173	$ 345,913
Gifts-in-kind	442,825	-	442,825	81,158
Special events (net of expenses of $15,448 in 2025)	(12,548)	-	(12,548)	(17,282)
Other income	82,857	-	82,857	47,571
Net assets released from restrictions:				
Endowment income appropriated for expenditure	1,102,244	(1,102,244)	-	-
Satisfaction of program restrictions	169,503	(169,503)	-	-
Expiration of time restrictions	336,167	(336,167)	-	-
Total Support and Revenues	2,336,034	(325,727)	2,010,307	457,360
Expenses				
Program Services	1,564,199	-	1,564,199	874,294
Supporting Activities				
Fundraising	338,578	-	338,578	255,172
Management and general	397,759	-	397,759	301,559
Total Expenses	2,300,536	-	2,300,536	1,431,025
Bad Debt Losses	-	(272,115)	(272,115)	(207,777)
Change in Net Assets Before Investment Income	35,498	(597,842)	(562,344)	(1,181,442)
Interest and Dividends, net of investment fees	18,339	1,054,205	1,072,544	940,724
Net Realized and Unrealized Gains on Investments	246,624	1,736,532	1,983,156	2,583,738
Change in Net Assets	300,461	2,192,895	2,493,356	2,343,020
Net Assets, Beginning of Year	4,850,831	34,127,164	38,977,995	36,634,975
Net Assets, End of Year	$ 5,151,292	$ 36,320,059	$ 41,471,351	$ 38,977,995

American Association of Orthodontists Foundation
Statement of Functional Expenses
Year Ended July 31, 2025
(With Summarized Comparative Information for the Year Ended July 31, 2024)

	Program Services	Supporting Activities			Total Expenses	2024 Total Expenses
		Fundraising	Management & General	Total		
Salaries and related benefits	$ 134,100	$ 92,777	$ 211,578	$ 304,355	$ 438,455	$ 388,797
Professional services	18,515	69,751	97,995	167,746	186,261	141,505
Honoraria and speaker fees	18,000	-	-	-	18,000	22,000
Grants, awards, and contributions	1,321,480	32,500	-	32,500	1,353,980	633,304
Marketing and promotion	373	-	-	-	373	14,159
Travel and meetings	32,197	82,709	48,598	131,307	163,504	84,121
Printing and postage	2,271	43,074	2,766	45,840	48,111	50,979
Bank and credit card fees	2,994	1,561	3,745	5,306	8,300	6,790
Miscellaneous	-	2,438	-	2,438	2,438	4,437
Office expense and insurance	6,400	3,191	7,705	10,896	17,296	23,387
Information technology	22,987	8,031	19,265	27,296	50,283	48,339
Occupancy	4,882	2,546	6,107	8,653	13,535	13,207
Total Expenses	$ 1,564,199	$ 338,578	$ 397,759	$ 736,337	$ 2,300,536	$ 1,431,025

American Association of Orthodontists Foundation
Statement of Cash Flows
Year Ended July 31, 2025
(With Summarized Comparative Information for the Year Ended July 31, 2024)

	2025	2024
Cash Flows From Operating Activities		
Change in net assets	$ 2,493,356	$ 2,343,020
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Perpetual endowment contributions	(20,393)	(41,874)
Bad debt losses	272,115	207,777
Unrealized gain on investments	(1,571,549)	(379,319)
Realized gain on investments	(411,607)	(2,204,419)
(Increase) decrease in assets:		
Accounts receivable	(1,717)	(5,593)
Prepaid expenses	(344)	(6,607)
Promises to give	(194,592)	280,329
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,661	59,590
Awards payable	(16)	(364,937)
Net Cash Provided by (Used in) Operating Activities	575,914	(112,033)
Cash Flows From Investing Activities		
Purchases of investments	(7,202,668)	(6,563,305)
Proceeds from sales of investments	6,691,337	6,585,642
Net Cash Provided by (Used in) Investing Activities	(511,331)	22,337
Cash Flows From Financing Activities		
Proceeds from perpetual endowment contributions	37,390	76,577
Net Cash Provided by Financing Activities	37,390	76,577
Net Increase (Decrease) in Cash and Cash Equivalents	101,973	(13,119)
Cash and Cash Equivalents, Beginning of Year	150,906	164,025
Cash and Cash Equivalents, End of Year	$ 252,879	$ 150,906

1. Nature of Operations and Basis of Presentation

Organization

The American Association of Orthodontists Foundation ("Foundation") is a not-for-profit organization that represents orthodontists throughout the United States, Canada, and the world. The Foundation's mission is to advance the specialty of orthodontics by supporting exceptional education and research that leads to excellence in patient care, and by promoting orthodontic charitable giving.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with the provisions of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification (the "FASB ASC"), which is the source of authoritative, non-governmental accounting principles generally accepted in the United States of America ("GAAP"). All references to authoritative accounting guidance contained in our disclosures are based on the general accounting topics within the FASB ASC.

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

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Board designated funds are established by the Board of Directors and represent net assets without donor restrictions that have been set aside for discretionary purposes.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that may be satisfied by specific activities or the passage of time, or are required to be maintained in perpetuity by the Foundation. The income earned on any related investments may be subject to donor-imposed stipulations.

The financial statements include certain prior-year summarized comparative information in total but not by class of net assets. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Certain amounts in the 2024 financial statements have been reclassified to conform to the current year presentation. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended July 31, 2024, from which the summarized information was derived.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value Measurements

The Foundation follows guidance issued by the FASB on fair value measurements, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. The three general valuation techniques used to measure fair value are the market approach, cost approach, and income approach.

Cash and Cash Equivalents

The Foundation classifies as cash and cash equivalents all checking, savings, and money market accounts and all highly liquid investments maturing within 90 days of purchase.

Investments

The Foundation carries investments at fair value with unrealized holding gains and losses included in earnings. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold. Dividend and interest income is recognized when earned.

Promises to Give

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received.

The Foundation provides an allowance for doubtful promises equal to the estimated losses that will be incurred in the collection of promises to give. This estimate is based on historical experience coupled with a review of the current status of existing promises. The allowance and associated promises are reduced when the promises are determined to be uncollectible. The allowance for doubtful promises totaled $2,173,924 as of July 31, 2025.

Endowment Fund

The State of Missouri enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective August 28, 2009. The Foundation follows FASB guidance on accounting for the net assets classification of restricted endowment funds for a not-for-profit organization that is subject to the enacted version of the UPMIFA. The Foundation has determined that there are funds that meet the definition of endowment funds under UPMIFA.

The Foundation has interpreted the UPMIFA as requiring the preservation of the original gift amount. As a result of this interpretation, the Foundation classifies as donor-restricted endowment funds invested in perpetuity, the original value of gifts donated to the perpetual endowment. The remaining portion of funds are appropriated for expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA.

Support and Revenue

Contributions are recorded as received and unconditional promises to give are recorded as the promise is made. All contributions are available for use unless specifically restricted by the donor. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions with donor restrictions in which the restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Awards and Grants

Awards and grants are reported as expenses when approved by the Foundation's Board of Directors. Awards payable after July 31, 2026 are classified as long-term on the statement of financial position. Refunded awards are recorded as other income and totaled $71,257 for the year ended July 31, 2025.

Donated Materials and Services (In-Kind)

Donated noncash assets are recorded as contributions at their fair value at the date of the donation.

Functional Expense Allocation

The costs of program services and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"), except on net income derived from unrelated business activities as defined in the Code. Accordingly, the Foundation files as a tax exempt organization.

The Foundation follows guidance issued by the FASB on accounting for income taxes and has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provision for income taxes is necessary to cover any uncertain tax positions. The Foundation's returns for tax years 2022 and later remain subject to examination by taxing authorities.

Subsequent Events

The Foundation has evaluated subsequent events through February 10, 2026, the date the financial statements were available to be issued.

3. Fair Value Measurements

The framework for measuring fair value establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into Levels 1, 2, and 3. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 — Inputs to the valuation methodology are unadjusted quoted prices for identical instruments in active markets.

Level 2 — Inputs to the valuation methodology to include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, inputs other than quoted prices that are observable for the instrument, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The instruments' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

American Association of Orthodontists Foundation
Notes to Financial Statements
July 31, 2025

Following is a description of the valuation methodologies used for instruments measured at fair value:

Level 1 — Instruments consist of mutual funds. These securities are valued at the daily closing price of funds at year-end.

Investments also consist of a hedge fund account which is directly invested in Magnitude International. This security is valued at the net asset value ("NAV") based on the observable underlying investments. The NAV is used as a practical expedient to estimate fair value.

The following table presents the fair value measurements of instruments recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements are categorized at July 31, 2025:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	$ 34,975,206	$ -	$ -	$ 34,975,206
Total assets in fair value hierarchy	$ 34,975,206	$ -	$ -	34,975,206
Investments measured at NAV				4,260,800
				$ 39,236,006

In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy.

Investments measured at fair value based on NAV per share practical expedient as of July 31, 2025 are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund - Magnitude International	$ 4,260,800	N/A	Quarterly	65 days

The amounts are reported in the statement of financial position as follows:

Investments (without donor restrictions)	$ 5,452,722
Investments (with donor restrictions for time and purpose)	11,391,819
Investments restricted for perpetual endowment	22,391,466
	$ 39,236,007

4. Investments

A summary of the cost and fair value of the Foundation's investments as of July 31, 2025 is as follows:

	Cost	Unrealized Gains	Fair Value
Mutual funds	$ 30,338,914	$ 4,636,292	$ 34,975,206
Hedge funds	1,425,000	2,835,800	4,260,800
	$ 31,763,914	$ 7,472,092	$ 39,236,006

Investment income for the year ended July 31, 2025 is summarized as follows:

Interest and dividend income, net	$ 1,072,545
Net realized and unrealized gains on investments reported at fair value	1,550,754
Net realized gains on other investments	432,402
Total Investment Income	$ 3,055,701

5. Promises to Give

Unconditional promises to give at July 31, 2025 are as follows:

	With Donor Restrictions		
	Time and purpose	Perpetual in nature	Total
Less than one year	$ 2,321,001	$ 1,371,394	$ 3,692,395
One to five years	940,225	123,061	1,063,286
Thereafter	194,738	13,747	208,485
	3,455,964	1,508,202	4,964,166
Less:			
Allowance for uncollectible promises	(1,165,620)	(1,008,304)	(2,173,924)
Unamortized discount	(78,051)	(10,284)	(88,335)
Net unconditional promises to give	$ 2,212,293	$ 489,614	$ 2,701,907

Unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.00%, 4.75%, 2.50%, and 1.50% depending on the timing of the original unconditional promise. The amounts are classified on the statement of financial position as follows:

Unconditional promises to give - current	$ 1,969,330
Unconditional promises to give - long-term	242,962
Unconditional promises to give - restricted for perpetual endowment	489,614
	$ 2,701,906

6. Liquidity and Availability of Financial Assets

The following reflects the Foundation's financial assets as of July 31, 2025 excluding amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating reserves.

Cash and cash equivalents	$ 252,879
Accounts receivable	19,238
Operating investments	5,452,722
Endowment spending-rate distributions and appropriations	1,248,275
Financial Assets Available to Meet Cash Needs for Expenditures Within One Year	$ 6,973,114

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure. The endowment of $22,881,080 is subject to an annual spending rate of 5 percent as described in Note 9. Although the Foundation does not intend to spend more than 5 percent, an increased spend rate can be approved by the board if necessary.

The Foundation's primary sources of support are contributions and investment income. Some support is required to be used in accordance with the purpose restrictions imposed by the donors.

7. Related Party Transactions

The Foundation paid, under cost-sharing agreements, monthly fees for occupancy, telephone, office equipment rental, data processing and accounting services to the American Association of Orthodontists ("AAO"). The total fees, under this cost-sharing agreement, amounted to $140,282, which includes $13,536 of in-kind rent for the Foundation, for the year ended July 31, 2025. AAO owed the Foundation $19,236 at July 31, 2025, which is included in accounts receivable on the statement of financial position. The Foundation owed AAO $253,380 at July 31, 2025, which is included in accounts payable and accrued expenses on the statement of financial position.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at July 31, 2025:

Unappropriated endowment investment earnings:	
General endowment	$ 10,019,393
Jarabak Fund	24,273
Research Initiative Fund	477,347
	10,521,013
Amounts subject to program restrictions:	
Lee W. Graber Fund	150,763
J.A. Salzmann Fund	12,165
FFT Fellowship Fund	951,602
Disaster Relief Fund	109,391
Gifted Smiles	176,978
	1,400,899
Amounts subject to time and program restrictions - Legacy Collections Project	(98,943)
Amounts subject to time restrictions - unconditional promises to give	1,616,010
	$ 13,438,979

Endowments:

General endowment	$ 21,842,233
Research Initiative Fund	988,847
Jarabak Fund	50,000
	$ 22,881,080

Assets released from restrictions for the year ended July 31, 2025 are as follows:

Endowment income appropriated for expenditure	$ 1,102,244
Funding of Salzmann Annual Lecture	4,000
Funding of Graber Award	40,000
Funding of Gifted Smiles Program	65,503
Funding of Disaster Relief Fund Program	60,000
Collection of unconditional promises to give	336,167
	$ 1,607,914

J. A. Salzmann Fund

Established by a $25,000 donation from Dr. J. A. Salzmann for the purpose of funding the Salzmann Annual Lecture and providing annual additions, as determined by the Foundation's Board of Directors, to the American Association of Orthodontists Library.

Legacy Collections Project

To preserve in perpetuity several orthodontic record collections containing records that have been accumulated over generations, for educational purposes, as well as controls for research and growth studies, not only in orthodontics but also in other academic disciplines.

Endowment Fund

Established through the contribution of funds which are required to be perpetually invested and the income generated used for the purposes of research, education, and support.

Research Initiative Fund

Established through the contribution of funds which are required to be perpetually invested and the income generated used only for the purpose of providing additional funding for research in North America to ensure the residents of the United States and Canada remain on the cutting edge of advances in orthodontic treatment and patients world-wide receive the highest quality orthodontic care.

Jarabak Fund

Established by a $50,000 donation from Dr. Joseph R. Jarabak which is required to be perpetually invested and the income generated used only for the purpose of awarding an outstanding orthodontic teacher.

Lee W. Graber Fund

Established by a $50,000 donation from Dr. Lee W. Graber which is required to be used to support the Graber Family Biomedical Teaching and Research Award.

Disaster Relief Fund

The purpose of the Disaster Relief Fund is to collect contributions in order to award grants to members who reside and/or practice in areas affected by disasters and who have been affected by such disasters.

Gifted Smiles

The purpose of Gifted Smiles is to provide pro bono orthodontic treatment for low-income children and teens who do not qualify for other types of treatment coverage.

FFT Fellowship Fund

The purpose of the FFT Fellowship Fund is to provide junior faculty members and residents attending U.S. and Canadian CODA-accredited orthodontic graduate programs incentive to teach orthodontics as a full-time orthodontics educator at a CODA accredited institution.

9. Endowment Funds

The Board of Directors has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful promises) donated to the Endowment and (b) any accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Endowment funds as of July 31, 2025 consist of the following:

	Restricted for time or purpose	Restricted in perpetuity	Total Endowment Assets
Unappropriated endowment investment earnings			
General endowment fund	$10,019,393	$ -	$10,019,393
Jarabak Fund	24,273	-	24,273
Research Initiative Fund	477,347	-	477,347
Donor-restricted endowment funds			
General endowment fund	-	21,842,233	21,842,233
Research Initiative Fund	-	988,847	988,847
Jarabak Fund	-	50,000	50,000
	$10,521,013	$22,881,080	$33,402,093

Changes in assets invested for Endowment for the year ended July 31, 2025 were as follows:

	Restricted for time or purpose	Restricted in perpetuity	Total Endowment Assets
Endowment net assets, beginning of year	$ 8,896,760	$22,947,734	$31,844,494
Contributions	-	6,600	6,600
Investment income	2,726,497	-	2,726,497
Net present value discount	-	13,794	13,794
Allowance for bad debts	-	(87,048)	(87,048)
Amounts appropriated for expenditure	(1,102,244)	-	(1,102,244)
Endowment net assets, end of year	$10,521,013	$22,881,080	$33,402,093

Funds with Deficiencies

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At July 31, 2025, there were no underwater endowments.

Return Objective and Risk Parameters

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. These funds include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy as approved by the Board of Directors, these assets are invested in a manner that is intended to maximize long-term total returns consistent with prudent levels of risk. The Foundation expects its Endowment funds, over time, to provide an average annualized rate of return greater than the comparable index for each fund manager. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments and incorporates alternative investments to achieve its long-term goals within prudent risk constraints.

Spending Policy

The Foundation uses an endowment spending-rate formula to determine the maximum amount to spend from the Endowment, including those endowments deemed to be underwater, each fiscal year. The rate, determined and adjusted from time to time by the Board of Directors, is applied to the average fair value of the Endowment investments for the prior 12 quarters at May 1 of each year to determine the spending amount for the upcoming year. During 2025, the spending rate maximum was 5 percent. In establishing this policy, the Board considered the long-term expected return on Endowment and set the rate with the objective of maintaining the purchasing power of the Endowment over time. In addition, it is anticipated that the Endowment will experience growth through redemption of current pledges and future contributions.

10. Contributed Nonfinancial Assets

The Foundation received the following contributions of nonfinancial assets for the year ended July 31, 2025:

Services	$ 422,539
Rent	13,536
Insurance	6,751
	$ 442,826

Contributed services are recognized as in-kind revenues at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. The Foundation receives contributed orthodontic services reported using current rates for similar orthodontic services. Contributed orthodontic services are recorded as in-kind revenue with a corresponding increase in in-kind expense.

Contributed rent received by the Foundation for use of space within the AAO's facilities at no charge is recorded as in-kind revenue with a corresponding increase to rent expense.

Contributed insurance received by the Foundation for coverage by the AAO's insurance at no charge is recorded as in-kind revenue with a corresponding increase to insurance expense.

Contributed Annual Session booth fees received by the Foundation for use of a booth at the AAO's Annual Session at no charge are recorded as in-kind revenue with a corresponding increase to member meeting expense.

11. Retirement Plan

The Foundation maintains a contributory retirement savings plan under Section 401(k) of the Code covering substantially all employees who meet certain eligibility requirements. Employer contributions to the plan totaled $17,524 for the year ended July 31, 2025.

12. Risks and Uncertainties

Concentrations

GAAP require the disclosure of certain concentrations involving volume of transactions for any particular customer, supplier, lender, grantor, or contributor. For the year ended July 31, 2025, contributions from four donors were 55 percent of the Foundation's total contributions.

Concentration of Credit Risk

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents, accounts receivable, and investments. The Foundation maintains its cash primarily with one financial institution. Deposits at this bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At July 31, 2025, there were cash balances of $152,100 in excess of FDIC limits at the bank. The Foundation performs ongoing credit evaluations of its donors and maintains allowances, as needed, for potential credit losses. Although the Foundation is directly affected by the financial stability of its donor base, management does not believe significant credit risk exists at July 31, 2025.

The Foundation maintains its investments primarily with one brokerage firm. Securities held at this firm are insured by the Securities Investor Protection Corporation ("SIPC") up to $500,000. As of July 31, 2025, there were investment balances of approximately $38,200,000 in excess of SIPC limits at the brokerage firm. Although the Foundation is directly affected by the financial stability of the financial firm, management does not believe significant credit risk exists at July 31, 2025.

Investments

The Foundation 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 certain 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 accompanying statement of financial position.

13. Contingencies

From time to time, the Foundation is a party to legal proceedings incidental to its operations. In the opinion of management, any ultimate liability with respect to these matters will not have a material adverse effect on the Foundation’s financial position or cash flows. As these matters develop, it is reasonably possible that management’s estimate of the effect could change and an accrual for additional liabilities could be required.