

**THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.**

*(A NONPROFIT CORPORATION)*

**FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
AUGUST 31, 2011 and 2010**

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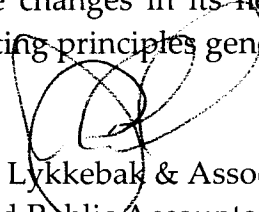
## *INDEPENDENT AUDITOR'S REPORT*

The Board of Directors of  
The Association of  
Birth Defect Children, Inc.

We have audited the accompanying statements of financial position of The Association of Birth Defect Children, Inc. (a nonprofit organization) as of August 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Association of Birth Defect Children, Inc. as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

  
John D. Lykkebak & Associates  
Certified Public Accountants  
October 5, 2011

THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

Statements of Financial Position  
As of August 31, 2011 and 2010

ASSETS

	2011	2010
Current assets:		
Cash and cash equivalents	\$ 81,021	\$ 57,899
Expense refund receivable	-0-	2,565
Unconditional promises to give		
Unrestricted, due in less than one year	106,021	142,577
Temporarily restricted, split-interest		
Charitable remainder trust	935,316	872,480
Total current assets	\$ 1,122,358	\$ 1,075,521
Equipment, Net of accumulated depreciation of \$11,084	2,535	-0-
Deposits	2,284	1,120
<b>TOTAL ASSETS</b>	<b>\$ 1,127,177</b>	<b>\$ 1,076,641</b>

LIABILITIES & NET ASSETS

Current liabilities:		
Accrued expenses	\$ 1,955	\$ 797
Net assets:		
Unrestricted	189,906	203,364
Temporarily restricted	935,316	872,480
Permanently restricted	-0-	-0-
Total net assets	\$ 1,125,222	\$ 1,075,844
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 1,127,177</b>	<b>\$ 1,076,641</b>

See accompanying notes to financial statements.

THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

Statements of Activities and Changes in Net Assets  
For the years ended August 31, 2011 and 2010

	2011	2010
<b>UNRESTRICTED NET ASSETS:</b>		
Support and revenue		
Donated Services	\$ 69,929	\$ 82,789
Allocated by Combined Federal Campaign	43,853	43,185
Grants, contract and other revenue	60,019	161,938
Contributions	17,892	13,427
Investment income	3	6
<b>Total Unrestricted Support &amp; Revenues</b>	<b>191,696</b>	<b>301,345</b>
<b>FUNCTIONAL EXPENSES:</b>		
Program services	179,501	186,579
Support services		
Fundraising	18,689	9,575
Management and general	6,964	6,381
<b>Total Functional Expenses</b>	<b>205,154</b>	<b>202,535</b>
<b>(DECREASE) IN UNRESTRICTED NET ASSETS</b>	<b>(13,458)</b>	<b>98,810</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Support		
Change in value of split-interest agreement	62,836	28,986
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>49,378</b>	<b>127,796</b>
<b>Net assets, beginning of year</b>	<b>1,075,844</b>	<b>948,048</b>
<b>Net assets, end of year</b>	<b>\$ 1,125,222</b>	<b>\$ 1,075,844</b>

See accompanying notes to financial statements.

THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

Statement of Cash Flows  
For the years ended August 31, 2011 and 2010

	2011	2010
<b>OPERATING ACTIVITIES:</b>		
Cash inflows:		
Grants and contributions	\$ 158,320	\$ 110,459
Dividend income	3	6
Total cash inflows from operating activities	158,323	110,465
Cash outflows:		
Employee compensation, benefits & taxes	97,026	87,035
Other expenses	35,445	37,101
Total cash outflows from operating activities	132,471	124,136
<b>Net cash provided by (used by) operating activities</b>	<b>25,852</b>	<b>(13,671)</b>
 <b>INVESTING ACTIVITIES:</b>		
Cash outflows:		
Purchase of furniture & equipment	2,730	-0-
 <b>FINANCING ACTIVITIES</b>		
Net cash provided by (used by) all activities	-0-	-0-
Net cash provided by (used by) all activities	23,122	(13,671)
Cash and cash equivalent, beginning of year	57,899	71,570
Cash and cash equivalent, end of year	\$ 81,021	\$ 57,899
 Reconciliation of the change in net assets to cash used by operating activities:		
Increase (decrease) in net assets	\$ 49,378	\$ 127,796
Add back:		
Noncash expense - depreciation	195	-0-
(Increase) decrease in value of split-interest agreement	(62,836)	(28,986)
(Increase) decrease in unconditional promises to give	36,556	(108,091)
(Decrease) increase in expense refund receivable	2,565	(2,565)
(Decrease) increase in accrued expenses & deposits	(6)	(1,825)
<b>Sub-total</b>	<b>(23,526)</b>	<b>(141,467)</b>
<b>Net cash used by operating activities</b>	<b>\$ 25,852</b>	<b>\$ (13,671)</b>

See accompanying notes to financial statements.

THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

Statement of Functional Expenses  
For the year ended August 31, 2011

Supporting Services

	Program Services	Fundraising	Management & General	Total Supporting Services	Total 2010
Salaries	\$ 72,375	\$ 9,683	\$ 3,967	\$ 13,650	\$ 86,025
Payroll taxes & benefits	9,254	1,239	508	1,747	11,001
Advertising	3,500	7,428		7,428	10,928
Fundraising		339		339	339
Insurance	723		80	80	803
Postage & shipping	779		87	87	866
Professional fees	3,600		400	400	4,000
Rent	9,131		1,015	1,015	10,146
Telephone	1,993		221	221	2,214
License & registration fees	2,017				2,017
Computer expenses	861		96	96	957
Depreciation	178		17	17	195
Office & supplies	2,088		232	232	2,320
Other	3,073		341	341	3,414
Donated Services – Public Out-Reach	69,929				69,929
<b>Total expenses</b>	<b>\$ 179,501</b>	<b>\$ 18,689</b>	<b>\$ 6,964</b>	<b>\$ 25,653</b>	<b>\$ 205,154</b>

See accompanying notes to financial statements.

THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

Statement of Functional Expenses  
For the year ended August 31, 2010

Supporting Services

	Program Services	Fundraising	Management & General	Total Supporting Services	Total 2010
Salaries	\$ 66,420	\$ 6,398	\$ 4,280	\$ 10,678	\$ 77,098
Payroll taxes & benefits	9,918	489	327	816	10,734
Advertising	500	1,294		1,294	1,794
Fundraising		1,394		1,394	1,394
Insurance	811		90	90	901
Postage & shipping	634		70	70	704
Professional fees	12,875		400	400	13,275
Rent	6,048		672	672	6,720
Telephone	2,299		255	255	2,554
Travel	1,710				1,710
Computer expenses	548		61	61	609
Other	2,027		226	226	2,253
Donated Services - Public Out-Reach	82,789				82,789
<b>Total expenses</b>	<b>\$ 186,579</b>	<b>\$ 9,575</b>	<b>\$ 6,381</b>	<b>\$ 15,956</b>	<b>\$ 202,535</b>

See accompanying notes to financial statements.

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THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

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Summary of Significant Accounting Policies  
For the years ended August 31, 2011 and 2010

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Nature of Activities:

The Association of Birth Defect Children, Inc. (Association) serves as an international clearinghouse to provide information about all kinds of structural and functional birth defects as well as support systems and resources to assist families who have children with these conditions. The Association sponsors the National Birth Defects Registry, a research and birth defects prevention project. The Association also assists in client referral, follow-up, information and support services in addition to research on several birth defect issues related to veterans' service in Vietnam, the Gulf War or in communities with toxic environmental exposures.

Basis of Presentation:

The financial statements are presented in accordance with Statements of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*, which requires the Association to report 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.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Association considers all investment instruments purchased with a maturity of three months or less to be cash equivalents.

Unconditional Promises to Give:

Contributions are recognized when the donor makes a promise to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

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Summary of Significant Accounting Policies  
For the years ended August 31, 2011 and 2010

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Unconditional Promises to Give (continued):

Donations of equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Contributions of donated services that create or enhance non-financial 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, are recorded at their fair values in the period received, if material.

Allowance for Doubtful Accounts:

The Association uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible promises to give at August 31, 2011 and 2010.

Equipment:

Equipment is recorded at cost, or fair market value if donated, and depreciated over the estimated useful lives of the assets using the straight-line method. The Association's policy is to capitalize expenditures for items in excess of \$500. Lesser amounts are expensed.

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THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

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Summary of Significant Accounting Policies  
For the years ended August 31, 2011 and 2010

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Functional Expenses:

The costs of the Association's programs are reported on a functional basis. Expenses are charged to each program based on direct expenditures incurred. Any program expenditures and support costs not directly chargeable are allocated based on labor hours estimated by management.

Advertising:

The Association does not engage in direct-response advertising that results in probable future benefits. Advertising costs are expensed as incurred. Advertising expense totaled \$10,928 during the fiscal year ended August 31, 2011 and \$1,794 during fiscal year ended August 31, 2010.

Income Tax Status:

The Association is a tax exempt organization under Section 501 (c)(3) of the Internal Revenue Code and, as such is not subject to income taxes on income received for exempt purposes.

Use of Estimates:

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

Donated Services:

The Association received an in-kind service grant to facilitate its public outreach via the internet. The services provided by the donor, Google.com, were valued at \$69,929 during the fiscal year ended August 31, 2011 and \$82,789 during the fiscal year ended August 31, 2010. The donated services are recorded in the accompanying Statements of Activities and Functional Expenses.

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THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

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Notes to the Financial Statements  
For the years ended August 31, 2011 and 2010

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**NOTE A – UNCONDITIONAL PROMISES TO GIVE**

The Association estimates that unconditional promises to give shall be collected as follows for the year ended:

<u>Unrestricted</u>	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Less than one year	\$ 106,021	\$ 142,577
 <u>Temporarily Restricted</u>		
More than five years	\$ 935,316	\$ 872,480

**NOTE B – RELATED PARTY TRANSACTIONS**

The Association's President, who also serves as Executive Director, has donated the use of various office furnishings and equipment to the Association. No amounts are reflected in the financial statements for the free use of these items because the fair value cannot be objectively measured. Also, the Executive Director's son is the Administrative Assistant.

**NOTE C – CONCENTRATIONS OF CREDIT RISK**

Financial instruments that are potentially subject to concentrations of credit risk consist principally of unconditional promises to give.

Concentrations of credit risk with respect to unrestricted unconditional promises to give are derived from the Combined Federal Campaign and are limited due to the numerous contributors involved in the campaign throughout the United States and abroad.

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THE ASSOCIATION OF  
BIRTH DEFECT CHILDREN, INC.

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Notes to the Financial Statements  
For the years ended August 31, 2011 and 2010

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**NOTE C – (continued)**

Contributions were received from the National Veterans Service Fund and Apgar Foundation, Inc. which comprised 49% and 73% of the total revenue for the fiscal years ended August 31, 2011 and 2010 respectively.

Concentrations of credit risk with respect to temporarily restricted promises to give are derived from two donors. These donors comprised 96% and 99% of unconditional promises to give as of August 31, 2011 and 2010 respectively.

**NOTE D – EQUIPMENT**

Equipment consists of the following:

	FYE August 31, 2011	FYE August 31, 2010
Office furniture and equipment	\$ 13,619	\$ 10,889
Accumulated depreciation	<u>-11,084</u>	<u>-10,889</u>
	<u>2,535</u>	<u>-0-</u>
Depreciation expense	<u>\$ 195</u>	<u>\$ -0-</u>

**NOTE E – TEMPORARILY RESTRICTED NET ASSETS**

During 1997, a split-interest agreement in the form of a charitable remainder trust was funded, with the Association as one-half beneficiary upon the death of the income beneficiary. An individual independent of the Association is the trustee. The basis used for recognizing assets related to the split-interest agreement is fair-market value. Due to the terms of the agreement, the fair market value amount is \$935,316 at August 31, 2011 using a 2.2% discount rate. At August 31, 2010 the fair market value was \$872,480 and was discounted using a 2.6% rate. An increase in the value of the split-interest agreement in the amount of \$62,836 and \$28,986 was recorded during the years ended August 31, 2011 and 2010 respectively. In accordance with SFAS No. 116, contributions of assets to be received in the future under split-interest agreements carry an implied time restriction and thus are classified as temporarily restricted revenue. Also see Note A.

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THE ASSOCIATION OF  
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Notes to the Financial Statements  
For the years ended August 31, 2011 and 2010

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**NOTE F – LEASES**

The Association leases its office facility for \$1,142 per month. The lease commenced March 18, 2011 and expires February 28, 2014. The rent increases 2 ½% per year. The association has the option to renew the lease.

Future minimum lease payments:

<u>Fiscal year ended</u>	<u>Amount</u>
August 31, 2012	\$ 13,875
August 31, 2013	\$ 14,222
August 31, 2014	\$ 7,199

Rent expense was \$10,146 for the fiscal year ended August 31, 2011 and \$7,280 for the fiscal year ended August 31, 2010.