FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

Chattanooga, Tennessee

FINANCIAL STATEMENTS

Year Ended June 30, 2018

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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JOHNSON HICKEY MURCHISON
CERTIFIED PUBLIC ACCOUNTANTS • SINCE 1977

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Faces: The National Craniofacial Association

We have reviewed the accompanying financial statements of Faces: The National Craniofacial Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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

Johnson, Hickey & Murchison, P.C.

February 11, 2019
Chattanooga, Tennessee

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FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	57,328
Investments		224,776
Promises to give, net		10,205
Total current assets		292,309
PROPERTY AND EQUIPMENT		
Equipment		3,573
Furniture and fixtures		7,936
		11,509
Less accumulated depreciation		(11,509)
		-
OTHER ASSET		
Security deposit		575
	$	292,884

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	1,513
Accrued expenses		1,576
Total current liabilities		3,089
NET ASSETS		
Unrestricted		262,047
Temporarily restricted		27,748
		289,795
	$	292,884

(The accompanying notes are an integral part of these statements.)

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	$ 106,597	$ -	$ 106,597
Fundraising	109,271	-	109,271
Total revenue and support	215,868	-	215,868
EXPENSES			
Program services	163,376	-	163,376
Management and general	10,166	-	10,166
Fundraising	4,912	-	4,912
Total expenses	178,454	-	178,454
OTHER INCOME			
Rent income	111		111
Net investment earnings	2,731	-	2,731
	2,842	-	2,842
INCREASE IN NET ASSETS	40,256	-	40,256
NET ASSETS			
Beginning	221,791	27,748	249,539
Ending	$ 262,047	$ 27,748	$ 289,795

(The accompanying notes are an integral part of these statements.)

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fundraising	Total
EXPENSES				
Bank charges	$ -	$ 292	$ -	$ 292
Dues and subscriptions	678	-	-	678
Employee benefits	15,784	588	420	16,792
Grants to clients	24,198	-	-	24,198
Insurance	1,164	776	-	1,940
Occupancy	23,274	743	743	24,760
Office expense	719	101	25	845
Payroll taxes	7,178	267	191	7,636
Postage	367	-	198	565
Printing and supplies	504	-	413	917
Professional fees	-	3,300	-	3,300
Salaries	87,090	3,243	2,316	92,649
Taxes and licenses	862	56	19	937
Travel and meetings	355	284	71	710
Utilities	1,203	516	516	2,235
	$ 163,376	$ 10,166	$ 4,912	$ 178,454

(The accompanying notes are an integral part of these statements.)

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$	40,256
Adjustments to reconcile increase in net assets to cash provided by operating activities		
Net realized and unrealized loss on investments		2,392
Net (increase) decrease in operating assets		
Promises to give		6,696
Net increase (decrease) in operating liabilities		
Accounts payable		(1,724)
Accrued expenses		(262)
Net cash provided by operating activities		47,358
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		(5,123)
Proceeds from sale of investments		5,000
Net cash used by investing activities		(123)
NET INCREASE IN CASH AND CASH EQUIVALENTS		47,235
CASH AND CASH EQUIVALENTS		
Beginning		10,093
Ending	$	57,328

(The accompanying notes are an integral part of these statements.)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Faces: The National Craniofacial Association (the "Association") is a nonprofit organization incorporated under the laws of the State of Tennessee. The Association has a three-fold mission:

1) Financial assistance for transportation, food, and lodging to enable clients and one parent to travel to a specialized craniofacial medical center for treatment; those families who, without assistance, would be unable to afford to take their children for these life-changing surgeries;

2) Public awareness and understanding of craniofacial disorders and the children who have them;

3) Information and support to craniofacially disfigured persons about specific conditions and resources available to them.

Basis of presentation

The accompanying financial statements are presented in accordance with current professional standards for reporting as applicable to nonprofit organizations. Under current professional standards, a nonprofit organization is required 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.

The ultimate classification of the Association's net assets into the three classes of net assets is based upon the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets

The part of the Association's net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets

The part of the Association's net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Association pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the Association pursuant to those stipulations.

Permanently Restricted Net Assets

The part of the Association's net assets resulting (a) from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise be removed by actions of the Association, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting

Revenues and expenses are recorded on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized in the period incurred. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the accompanying statement of activities.

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.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Promises to give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. The Association records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Property, equipment, and depreciation

Property and equipment are recorded at cost for purchased assets and at fair market value at the date of the gift for donated assets. Depreciation is provided on the straight-line method based upon the estimated useful lives of the respective assets. Expenditures for property and equipment over $500 are capitalized. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is included in income.

Contributed services

The Association receives a significant amount of contributed services from unpaid volunteers who assist in various projects. No amounts have been recognized in the statement of activities because criteria for recognition under current applicable accounting standards have not been satisfied.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

The Association is a recognized nonprofit organization pursuant to Internal Revenue Code Section 501(c)(3). As such, the Association is not subject to income taxes.

The Association recognizes a tax position as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

As of June 30, 2018 the Association has accrued no interest and no penalties related to uncertain tax positions. It is the Association's policy to recognize interest and/or penalties related to income tax matters in income tax expense.

The Association's Form 990, Return of Organization Exempt From Income Tax, for the years ended June 30, 2017, 2016 and 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Advertising

The Association expenses advertising and promotional costs as incurred.

Functional expenses

The cost of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity 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 of revenues and expenses during the reporting period. Actual results may differ from those estimates.

(2) PROMISES TO GIVE

Unconditional promises to give consist of individual pledges made through the Combined Federal Campaign and other pledges as follows:

Receivable in less than one year	$	13,793
Less allowance for uncollectible promises		3,588
	$	10,205

(3) INVESTMENTS

Investments are recorded at fair value. The cost and fair value of the investments as of June 30, 2018, are as follows:

	Cost	Market
Mutual funds	$ 235,188	$ 224,776

Investment income (loss) consists of the following:

Dividends	$ 8,530
Net realized and unrealized loss	(2,392)
Investment fees	(3,407)
	$ 2,731

(4) FAIR VALUE MEASUREMENTS

Current accounting guidelines establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets and for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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 assets or liabilities in active markets that the Organization has the ability to access.

Level 2:
Inputs to the valuation methodology include (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted market prices that are observable for the asset or liability; (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset's or liability's 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 used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(4) FAIR VALUE MEASUREMENTS (continued)

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

Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and

Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques, and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets itemized below were measured at fair value during the year ended June 30, 2018, using the market approach.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies and assumptions to determine fair value of certain instruments could result in different fair value measurement at the reporting date.

As required by fair value measurement guidelines, at June 30, 2018, the Organization's investment portfolio was classified as follows, based on fair values:

	Level 1	Level 2	Level 3	Fair Value
Mutual funds	$ 224,776	$ -	$ -	$ 224,776

(5) CREDIT CARD

The Association has an unsecured credit card, which provides short term borrowings up to $20,000. The amount due on the credit card at June 30, 2018 was $583, which is included in accounts payable in the accompanying financial statements.

(6) GRANTS TO CLIENTS

Any person with a qualifying craniofacial disorder is eligible to apply to receive grants from the Association based on a program for assistance with transportation. The client must be more than 100 miles from the treatment center to receive reimbursement. During the year ended June 30, 2018, the Association provided $24,198 of assistance to its clients.

(7) LEASE OF OFFICE SPACE

The Association leases office space under a three year agreement, executed on May 1, 2014, at $575 per month. The lease was renewed in April 2017, and runs through April 30, 2020.

The Association also rents space for use in fundraising and promotional activities under a two year agreement, executed on April 1, 2016, at $1,560 per month. The lease expired on March 31, 2018. The association is currently renting the facility on a month by month terms.

The total future minimum rental payments under the agreements are as follows:

For the year ending:		
June 30, 2019	$	6,900
2020		2,300
	$	9,200

Rent expense for the year ended June 30, 2018, was $24,760.

(8) RESTRICTION ON NET ASSETS

Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes. Such contributions are reported as temporarily restricted net assets and are reclassified to unrestricted net assets when the restrictions have been satisfied. These contributions are included in the cash balance at June 30, 2018.

No restricted net assets were used during the year ended June 30, 2018. Temporarily restricted net assets are available to be used for facial reconstruction surgery for a specific client. The funds are to be used for this specific client first, with any remaining amounts being used only for program service costs of other clients. No funds are to be used for fundraising, management and general, or capital expenditures.

(9) CONTINGENCIES, RISKS, AND UNCERTAINTIES

The Association maintains its cash in several local financial institutions. At times these balances may exceed federally insured amounts.

The Association is dependent on grants and contributions from certain agencies and private donors to fund the services it provides to clients. If these funds were reduced, there would be a reduction in the services provided.

The Association's investments are primarily mutual funds which are subject to volatility with changes in the market. If these investments produce substantial losses, there could be a reduction in the services provided.

(10) SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 11, 2019, which is the date the financial statements were available to be issued.