

**FACES: THE NATIONAL CRANIOFACIAL  
ASSOCIATION**

Chattanooga, Tennessee

**FINANCIAL STATEMENTS**

Year Ended June 30, 2019

**JOHNSON, HICKEY & MURCHISON, P.C.**

Certified Public Accountants  
Chattanooga, Tennessee

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## 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, 2019, 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, Wickey & Meucham, P.C.*

December 10, 2019  
Chattanooga, Tennessee

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2019**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$	25,080
Investments		224,107
Promises to give, net		<u>8,548</u>
Total current assets		<u>257,735</u>

**PROPERTY AND EQUIPMENT**

Equipment		3,573
Furniture and fixtures		<u>7,936</u>
		11,509
Less accumulated depreciation		<u>(11,509)</u>
		<u>-</u>

**OTHER ASSET**

Security deposit		<u>575</u>
		<u>\$ 258,310</u>

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$	1,513
Accrued expenses		<u>1,482</u>
Total current liabilities		<u>2,995</u>

**NET ASSETS**

Without donor restrictions		227,567
With donor restrictions		<u>27,748</u>
		<u>255,315</u>
		<u>\$ 258,310</u>

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

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE AND SUPPORT</b>			
Contributions	\$ 63,352	\$ -	\$ 63,352
Fundraising	76,093	-	76,093
Rent income	4,289	-	4,289
Net investment earnings	5,789	-	5,789
Total revenue and support	149,523	-	149,523
<b>EXPENSES</b>			
Program services	165,998	-	165,998
Management and general	11,821	-	11,821
Fundraising	6,184	-	6,184
	184,003	-	184,003
<b>DECREASE IN NET ASSETS</b>	(34,480)	-	(34,480)
<b>NET ASSETS</b>			
Beginning	262,047	27,748	289,795
Ending	\$ 227,567	\$ 27,748	\$ 255,315

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

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2019**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
<b>EXPENSES</b>				
Bank charges	\$ -	\$ 2,035	\$ -	\$ 2,035
Dues and subscriptions	3,730	-	-	3,730
Employee benefits	10,915	406	291	11,612
Grants to clients	26,493	-	-	26,493
Insurance	1,184	790	-	1,974
Occupancy	24,083	769	768	25,620
Office expense	1,127	159	40	1,326
Payroll taxes	7,363	274	196	7,833
Postage	943	-	508	1,451
Printing and supplies	1,883	-	1,541	3,424
Professional fees	-	3,450	-	3,450
Salaries	84,823	3,158	2,256	90,237
Taxes and licenses	518	34	11	563
Travel and meetings	1,720	231	58	2,009
Utilities	1,216	515	515	2,246
	<u>\$ 165,998</u>	<u>\$ 11,821</u>	<u>\$ 6,184</u>	<u>\$ 184,003</u>

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

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Decrease in net assets	\$	(34,480)
Adjustments to reconcile decrease in net assets to cash used by operating activities		
Net realized and unrealized gain on investments		(2,210)
Net (increase) decrease in operating assets		
Promises to give		1,657
Net increase (decrease) in operating liabilities		
Accrued expenses		<u>(94)</u>
Net cash used by operating activities		<u>(35,127)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Sale of investments		6,459
Purchase of investments		<u>(3,580)</u>
Net cash provided by investing activities		<u>2,879</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (32,248)

**CASH AND CASH EQUIVALENTS**

Beginning		<u>57,328</u>
Ending	\$	<u><u>25,080</u></u>

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

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(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 care-giver to travel to specialized craniofacial and medical centers for treatment; those who, without assistance, would be unable to afford to travel to these life-changing surgeries;
- 2) Public awareness and understanding of craniofacial disorders, whether from birth, accident, or disease and the people who have them and awareness of facial discrimination and the need for equality;
- 3) Information and support to facially disfigured persons about specific conditions and resources available to them.

**Basis of presentation**

The financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. During 2018, the Association adopted the provisions of Accounting Standards Update (“ASU”) 2016-14: *Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*, which improves the current net asset classifications and the related information presented in the financial statements and notes about the Association’s liquidity, financial performance, and cash flows. The Association reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

**Basis of accounting**

The financial statements of the Association have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

**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.

**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 in net assets with donor restrictions are reported as increases in net assets without donor restrictions 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.

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 either net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions 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.

**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, 2019 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 year ended June 30, 2016 and beyond, remain 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.

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Functional allocation of expenses**

The costs of providing the Association's various programs and supporting services 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.

The Association has reviewed all overhead costs and determined that it is appropriate to allocate a portion of these costs to the program services. There are a number of allocation methodologies that are used focusing on the location the costs are incurred along with staffing levels and program service cost incurred prior to allocations.

**Change in accounting principle**

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* which simplifies the current net asset classification requirements and improves the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The standard is effective for years beginning after December 15, 2017. The Association has adopted the guidance and has applied the changes retrospectively to all periods presented. The financial statements include a disclosure about liquidity and availability of resources in Note 2. The new standard changes the following aspects of the Association's financial statements:

The unrestricted net asset class has been renamed net assets without donor restrictions.

The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.

Total net assets did not change as a result of adoption of the ASU. A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 follows:

<b>AS ORIGINALLY STATED:</b>	<u><b>June 30, 2018</b></u>
Net assets, end of year	
Unrestricted net assets	\$ 262,047
Temporarily restricted net assets	<u>27,748</u>
Total net assets, end of year	<u><u>\$ 289,795</u></u>
<b>AS RESTATED:</b>	
Net assets, end of year	
Without donor restrictions	\$ 262,047
With donor restrictions	<u>27,748</u>
Total net assets, end of year	<u><u>\$ 289,795</u></u>

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial statement presentation**

The Association reports information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Association. These net assets may be used at the discretion of the Association's management and the board of trustees.

*Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Association or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019, the Association does not have donor restricted funds which are required to be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. For contributions restricted to the acquisition of property and equipment, the restrictions are released when the asset is placed in service unless the donor has provided more explicit requirements.

**(2) LIQUIDITY**

The following represents the Association's financial assets at June 30, 2019:

Cash	\$ 25,080
Promises to give, net	8,548
Investments	<u>224,107</u>
 Financial assets available to meet cash needs for general expenditures within one year	 \$ <u>257,735</u>

As part of the Association's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**(3) 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	\$ 11,008
Less allowance for uncollectible promises	<u>2,460</u>
	<u>\$ 8,548</u>

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(4) INVESTMENTS**

Investments are recorded at fair value. The cost and fair value of the investments as of June 30, 2019, are as follows:

	<b>Cost</b>	<b>Market</b>
Mutual funds	\$ -	\$ 224,107
Cash	-	6,459
	\$ -	\$ 230,566

Investment income (loss) consists of the following:

Dividends	\$ 6,902
Net realized and unrealized gain	2,210
Investment fees	(3,323)
	\$ 5,789

**(5) 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.

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(5) 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, 2019, 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, 2019, the Organization’s investment portfolio was classified as follows, based on fair values:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Investments	\$ <u>230,566</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>230,566</u>

**(6) CREDIT CARD**

The Association has an unsecured credit card, which provides short term borrowings up to \$20,000. There was no outstanding balance due on the credit card at June 30, 2019.

**(7) 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, 2019, the Association provided \$26,493 of assistance to its clients.

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**(8) LEASE OF OFFICE SPACE**

The Association leases office space under a month to month 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 and is currently renting the facility on month by month terms, at \$1,560 per month.

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

For the year ending:

June 30, 2020	\$ <u>2,300</u>
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Rent expense for the year ended June 30, 2019, was \$25,620 under these leases.

**(9) NET ASSETS**

Net assets with donor restrictions consist of contributions restricted by the donor for specific purposes. Such contributions are reported as net assets with donor restrictions and are reclassified to net assets without donor restrictions when the restrictions have been satisfied.

No net assets with donor restrictions were used during the year ended June 30, 2019. Net assets with donor restrictions 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.

**(10) 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.

**(11) SUBSEQUENT EVENTS**

Subsequent events have been evaluated through December 10, 2019, which is the date the financial statements were available to be issued.

