

**FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION
CHATTANOOGA, TENNESSEE**

FINANCIAL STATEMENTS

June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Faces: The National Craniofacial Association
Chattanooga, Tennessee

We have audited the accompanying financial statements of Faces: The National Craniofacial Association (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Faces: The National Craniofacial Association as of June 30, 2015, 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.

Mann & Miller, P.C.

December 7, 2015

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 20,407
Investments	266,727
Promises to give, net	<u>34,587</u>
Total Current Assets	<u>321,721</u>
PROPERTY AND EQUIPMENT	
Equipment	3,573
Furniture and fixtures	<u>7,936</u>
	11,509
Less accumulated depreciation	<u>(11,509)</u>
Property and Equipment, Net	<u>-</u>
OTHER ASSET	
Security deposit	<u>575</u>
Total Assets	<u>\$ 322,296</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 5,878
Accrued expenses	<u>1,779</u>
Total Current Liabilities	<u>7,657</u>
NET ASSETS	
Unrestricted	286,891
Temporarily restricted	<u>27,748</u>
Total Net Assets	<u>314,639</u>
Total Liabilities and Net Assets	<u>\$ 322,296</u>

The accompanying notes are an integral part of these financial statements.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	\$ 70,778	\$ -	\$ 70,778
Fundraising	95,247	-	95,247
In-kind contributions	7,500	-	7,500
Net assets released from restrictions	11,504	(11,504)	-
Total Revenue and Support	185,029	(11,504)	173,525
EXPENSES			
Program services	169,264	-	169,264
Management and general	9,707	-	9,707
Fundraising	28,184	-	28,184
Total Expenses	207,155	-	207,155
OTHER INCOME (EXPENSE)			
Net loss on investments	(7,348)	-	(7,348)
Change in Net Assets	(29,474)	(11,504)	(40,978)
Net assets, beginning of year	316,365	39,252	355,617
Net Assets, End of Year	\$ 286,891	\$ 27,748	\$ 314,639

The accompanying notes are an integral part of these financial statements.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Advertising	\$ 1,696	\$ -	\$ 424	\$ 2,120
Bank charges	-	8	-	8
Dues and subscriptions	285	-	-	285
Employee benefits	20,909	779	556	22,244
Fundraising expense	-	-	19,082	19,082
Grants to clients	20,034	-	-	20,034
In-kind	6,000	-	1,500	7,500
Insurance	987	658	-	1,645
Occupancy	22,842	729	729	24,300
Office expense	902	128	32	1,062
Payroll taxes	6,035	225	161	6,421
Postage	1,390	-	749	2,139
Printing and supplies	2,824	-	2,083	4,907
Professional fees	-	3,000	-	3,000
Salaries	82,037	3,055	2,182	87,274
Taxes and licenses	1,535	100	33	1,668
Travel and meetings	620	496	124	1,240
Utilities	1,168	529	529	2,226
Total Expenses	<u>\$ 169,264</u>	<u>\$ 9,707</u>	<u>\$ 28,184</u>	<u>\$ 207,155</u>

The accompanying notes are an integral part of these financial statements.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$(40,978)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Unrealized loss on investments	22,113
Changes in assets and liabilities:	
Promises to give	10,683
Accounts payable	1,170
Accrued expenses	<u>(740)</u>
Net Cash Used by Operating Activities	<u>(7,752)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(49,151)
Proceeds from sale of investments	<u>53,386</u>
Net Cash Provided by Investing Activities	<u>4,235</u>

Net Decrease in Cash (3,517)

Cash and cash equivalents at beginning of year 23,924

Cash and cash equivalents at End of Year **\$ 20,407**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Amount paid for:	
Interest	<u>\$ -</u>
Taxes	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1. 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; these 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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.

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.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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.

The Association received food, printing services, awards and free advertising from local television and radio stations during the year ended June 30, 2015 to help promote its fundraising event as well as program services. The fair market value of these items is recorded as in-kind contributions and expenses in the accompanying financial statements.

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, 2015, 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, 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

Advertising

The Association expenses advertising and promotional costs as incurred. Total advertising, including in-kind expense for the year ended June 30, 2015, was \$9,620.

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.

Subsequent Events

Subsequent events have been evaluated through December 7, 2015, which is the date the financial statements were available to be issued.

NOTE 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	\$ 41,474
Less allowance for uncollectible promises	<u>(6,887)</u>
Promises to Give, net	<u>\$ 34,587</u>

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 4. INVESTMENTS

Investments are recorded at fair value. The cost and fair value of the investments as of June 30, 2015, are as follows:

	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	\$ 258,412	\$ 266,727

Investment income (loss) consists of the following:

Dividends	\$ 18,811
Unrealized loss	(22,113)
Investment fees	<u>(4,046)</u>
Net loss on investments	<u>\$(7,348)</u>

NOTE 5. FAIR VALUE MEASUREMENTS

Current professional standards establish a framework of 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 highest priority to unadjusted quoted prices in active markets 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 under current professional standards are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

Level 2

Inputs to valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 5. FAIR VALUE MEASUREMENTS-CONTINUED

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 with 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.

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

Mutual funds: Valued at the net asset value of shares held by the Association at year end.

The following table sets forth by level, within the fair value hierarchy, the Association's assets measured at fair value on a recurring basis as of June 30, 2015:

Assets at Fair Value as of June 30, 2013

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	<u>\$ 266,727</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,727</u>

NOTE 6. 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, 2015 was \$689, which is included in accounts payable in the accompanying financial statements.

NOTE 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, 2015 the Association provided \$20,034 of assistance to its clients.

FACES: THE NATIONAL CRANIOFACIAL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2015

NOTE 8. LEASE OF OFFICE SPACE

The Association leases office space under a three year agreement, executed on May 1, 2014, at \$575 per month. The total future minimum rental payments under the agreement are as follows:

For the year ending:

June 30, 2016	\$ 6,900
June 30, 2017	<u>5,750</u>

Total Future Minimum Lease Payments	<u>\$ 12,650</u>
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The Association also rents space for use in fundraising and promotional activities on an as needed basis. Rent expense for the year ended June 30, 2015, was \$24,300.

NOTE 9. RESTRICTIONS 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, 2015.

During the year ended June 30, 2015, \$11,504 of temporarily restricted net assets was used for cleft clients only and therefore the restriction was released, and the remaining temporarily restricted net assets are available to be used for the 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.

NOTE 10. CONTINGENCIES, RISKS AND UNCERTAINTIES

The Association maintains its cash in several local financial institutions. At times these balances 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.