

**DOWN SYNDROME ASSOCIATION
OF MIDDLE TENNESSEE**

FINANCIAL STATEMENTS

December 31, 2016

**Down Syndrome Association of Middle Tennessee
December 31, 2016**

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USELTON CLAY & BRIGHT, P.C.

certified public accountants | consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Down Syndrome Association of Middle Tennessee

We have audited the accompanying financial statements of Down Syndrome Association of Middle Tennessee (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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

The Organization's 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 Down Syndrome Association of Middle Tennessee as of December 31, 2016, 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.

Uselton, Clay & Bright, P.C.

September 29, 2017
Nashville, Tennessee

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Down Syndrome Association of Middle Tennessee
Statement of Financial Position
December 31, 2016

ASSETS

CURRENT ASSETS

| | |
|-----------------------------------|-----------------------|
| Cash and cash equivalents | \$ 212,958 |
| Inventory | 52,955 |
| Investments | 13,846 |
| Contributions receivable | 8,675 |
| Notes receivable, current portion | <u>1,328</u> |
| Total Current Assets | <u>289,762</u> |

OTHER ASSETS

| | |
|---|----------------------|
| Notes receivable, current portion above | 75,760 |
| Website, net of accumulated amortization of \$2,222 | <u>13,778</u> |
| Total Other Assets | <u>89,538</u> |

| | |
|---------------------|--------------------------|
| Total Assets | <u>\$ 379,300</u> |
|---------------------|--------------------------|

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|--|----------------------|
| Accounts payable and accrued liabilities | <u>\$ 14,943</u> |
| Total Current Liabilities | <u>14,943</u> |

NET ASSETS

| | |
|-------------------------|-----------------------|
| Unrestricted | 347,632 |
| Temporarily restricted | 8,675 |
| Permanently restricted | <u>8,050</u> |
| Total Net Assets | <u>364,357</u> |

| | |
|---|--------------------------|
| Total Liabilities and Net Assets | <u>\$ 379,300</u> |
|---|--------------------------|

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

Down Syndrome Association of Middle Tennessee
Statement of Activities
For the year ended December 31, 2016

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|--------------------------|---------------------------|---------------------------|--------------------------|
| REVENUES | | | | |
| Contributions | \$ 97,484 | \$ 8,675 | \$ - | \$ 106,159 |
| Special event revenue | 254,390 | - | - | 254,390 |
| Program events and activities | 13,524 | - | - | 13,524 |
| Sale of merchandise, less cost of sales of \$483 | 598 | - | - | 598 |
| Interest income | 1,005 | - | - | 1,005 |
| Return on endowment fund | 26 | - | - | 26 |
| Net assets released from restrictions | <u>254</u> | <u>(254)</u> | <u>-</u> | <u>-</u> |
| Total Revenues | <u>367,281</u> | <u>8,421</u> | <u>-</u> | <u>375,702</u> |
| EXPENSES | | | | |
| Program services | 187,909 | - | - | 187,909 |
| Management and general | 13,855 | - | - | 13,855 |
| Fundraising | <u>180,711</u> | <u>-</u> | <u>-</u> | <u>180,711</u> |
| Total Expenses | <u>382,475</u> | <u>-</u> | <u>-</u> | <u>382,475</u> |
| Change in Net Assets | <u>(15,194)</u> | <u>8,421</u> | <u>-</u> | <u>(6,773)</u> |
| Net assets, beginning of year, as previously stated | 383,765 | 254 | 8,050 | 392,069 |
| Prior period adjustment | <u>(20,939)</u> | <u>-</u> | <u>-</u> | <u>(20,939)</u> |
| Net assets, beginning of year, as restated | <u>362,826</u> | <u>254</u> | <u>8,050</u> | <u>371,130</u> |
| Net assets, end of year | <u>\$ 347,632</u> | <u>\$ 8,675</u> | <u>\$ 8,050</u> | <u>\$ 364,357</u> |

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

Down Syndrome Association of Middle Tennessee
Statement of Cash Flows
For the year ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|-------------------------|
| Change in net assets | \$(6,773) |
| Adjustments to reconcile change in net assets to net cash used by operating activities: | |
| Depreciation | 3,647 |
| Amortization | 2,222 |
| Changes in operating assets and liabilities: | |
| Inventory | (52,955) |
| Investments | (26) |
| Contributions receivable | (8,675) |
| Accounts receivable | 3,250 |
| Accounts payable and accrued liabilities | <u>(1,164)</u> |
| Cash Flows Used by Operating Activities | <u>(60,474)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|--|-------------------------|
| Website development costs | (16,000) |
| (Increase) decrease in notes receivable | <u>5,656</u> |
| Cash Flows Used in Investing Activities | <u>(10,344)</u> |

Net Decrease in Cash and Cash Equivalents (70,818)

Net Cash and Cash Equivalents, beginning of year 283,776

Net Cash and Cash Equivalents, end of year **\$ 212,958**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

| | |
|-------------------|--------------------|
| Interest paid | <u>\$ -</u> |
| Income taxes paid | <u><u>\$ -</u></u> |

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

Down Syndrome Association of Middle Tennessee
Statement of Functional Expenses
For the year ended December 31, 2016

| | Program Services | Management and General | Fundraising | Total |
|------------------------------|-----------------------------|-----------------------------------|--------------------------|--------------------------|
| Amortization | \$ 1,778 | \$ 222 | \$ 222 | \$ 2,222 |
| Depreciation | 2,917 | 365 | 365 | 3,647 |
| Donations and outreach | 9,458 | - | 6,155 | 15,613 |
| Insurance | 4,017 | 446 | 385 | 4,848 |
| Merchant fees | 1,109 | - | 5,168 | 6,277 |
| Other expenses | 4,732 | 525 | 1,280 | 6,537 |
| Outside services | 30,098 | 3,344 | 8,779 | 42,221 |
| Postage, printing and office | 7,240 | 805 | 292 | 8,337 |
| Program events | 27,660 | - | - | 27,660 |
| Rent | 3,357 | 373 | - | 3,730 |
| Salaries and wages | 37,174 | 4,130 | 78,977 | 120,281 |
| Supplies | 30,815 | 3,425 | 48,591 | 82,831 |
| Travel | 1,983 | 220 | 8,007 | 10,210 |
| Venue fees | <u>25,571</u> | <u>-</u> | <u>22,490</u> | <u>48,061</u> |
| Total Expenses | <u>\$ 187,909</u> | <u>\$ 13,855</u> | <u>\$ 180,711</u> | <u>\$ 382,475</u> |

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

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 1. ORGANIZATION

Down Syndrome Association of Middle Tennessee (the "Association") is a non-profit corporation incorporated in the state of Tennessee on February 29, 1996. The purpose of the Association is to enhance the quality of life throughout the lifespan of all individuals with Down Syndrome by providing support, information and education to families, professionals and communities.

Activities of the Association include development and distribution of educational materials relating to Down Syndrome affected persons, educational and support meetings and fundraising activities for Down Syndrome individuals.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Association uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

Classification of Net Assets

In the accompanying financial statements, the Association's net assets that have similar characteristics have been combined into the following three categories:

- Unrestricted net assets are free of donor-imposed restrictions and included all revenues, expenses, gains and losses that are not subject to donor-imposed restrictions.
- Temporarily restricted net assets include gifts, grants, income, gains, and pledges for which donor-imposed restrictions have not been met.
- Permanently restricted net assets include gifts and trusts which require that the corpus be invested in perpetuity in accordance with donor restrictions and gains which have been donor-stipulated to be permanently invested.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase. The Association considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents.

The Association classifies investments with an original maturity of more than three months on their acquisition date as investments.

Inventory

Inventory consists of jewelry held for resale that was donated during 2016. The inventory was valued at the fair market value of the jewelry on date of donation and is being accounted for using the first-in, first-out method. Inventory will be periodically evaluated and written down to the lower of cost or market if a loss of value occurs.

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments

The Association carries investments in marketable securities with readily determinable market values at their market values in the statement of financial position. Realized and unrealized gains and losses are reflected in the change in net assets and in the accompanying statement of activities.

Contributions and Promises to Give

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. The Association does not recognize a conditional promise to give until the conditions on which the promise depends are substantially met. A promise that calls for specific outcomes to be achieved will be treated as a conditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets. If a donor's restriction is met in the same period that the support is recognized, the contribution is reported as an increase in unrestricted net assets.

Property and Equipment

Fixed assets are recorded at cost, or in the case of contributed property, at the fair market value at the date of contribution. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is expensed as incurred. The Association moved its office during the current year and disposed of all assets over the capitalization policy threshold of \$1,000. Depreciation is computed generally using the straight-line method over estimated useful lives as follows:

| <u>Asset Category</u> | <u>Years</u> |
|-----------------------|--------------|
| Furniture & Fixtures | 5-7 |
| Equipment | 5-7 |
| Vehicles | 5 |
| Computer equipment | 3 |

Depreciation expense for the year ended December 31, 2016 totaled \$3,647.

Advertising

The Association uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2016 was \$580.

Donated Service

Unpaid volunteers make contribution of time in various administrative and program functions. The value of contributed time is not reflected in the financial statements as it is not susceptible to objective measurement of valuation.

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Allocation of Expenses

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

In-Kind Donations

Contributions of donated non-cash assets are recorded at the fair values in the period received.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Tax Status

The Association is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue code and similar state income tax laws. Accordingly, no provision has been made for income taxes in the financial statements.

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 December 31, 2016, the Association has accrued no interest or 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 Association Exempt From Income Tax, for the years ended December 31, 2016 and 2015 and 2014 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Subsequent Events

Subsequent events have been evaluated through September 29, 2017, which is the date the financial statements were available to be issued.

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 3. ENDOWMENT

The Association has an endowment with the Community Foundation of Middle Tennessee. The endowment was established by the Association in 2004 with a \$5,000 contribution designated by the Board of Directors to establish the fund and function as an endowment. As required by accounting principles generally accepted in the U.S. net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Association has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Association, and (7) the Association's investment policies.

Investment Return Objectives, Risk Parameters and Strategies

The Association has no control over the investment allocation of the endowment fund. The Community Foundation of Middle Tennessee maintains the funds and investments follow the investment policies adopted and approved by the Board of Directors of The Community Foundation of Middle Tennessee. Accordingly, the Association has not adopted an investment policy related to the endowment.

Spending Policy

The Association has no control over the amount that is distributed from the endowment and the amount that is being distributed is minimal. Accordingly, the Association has not adopted a spending policy related to the endowment.

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|----------------------------------|------------------------|-----------------------------------|-----------------------------------|---|
| Donor-restricted endowment funds | \$ 2,138 | \$ - | \$ 3,050 | \$ 5,188 |
| Board-designated endowment funds | <u>3,658</u> | <u>-</u> | <u>5,000</u> | <u>8,658</u> |
| Total Funds | <u>\$ 5,796</u> | <u>\$ -</u> | <u>\$ 8,050</u> | <u>\$ 13,846</u> |

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 3. ENDOWMENT - CONTINUED

Changes in endowment net assets as of December 31, 2016 are as follows:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total Endowment Net Assets</u> |
|--|------------------------|-----------------------------------|-----------------------------------|---|
| Endowment net assets, beg. of year | \$ 5,770 | \$ - | \$ 8,050 | \$ 13,820 |
| Interest/dividend income | 214 | - | - | 214 |
| Realized gain (loss) | 403 | - | - | 403 |
| Unrealized gain (loss) | 220 | - | - | 220 |
| Grants paid out | (700) | - | - | (700) |
| Fees | (111) | - | - | (111) |
| Endowment net assets, end of year | <u>\$ 5,796</u> | <u>\$ -</u> | <u>\$ 8,050</u> | <u>\$ 13,846</u> |

Note 4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2016 were as follows:

| | |
|--------------------------------------|------------------------|
| Receivable in less than one year | \$ 8,675 |
| Contributions Receivable, Net | <u>\$ 8,675</u> |

Note 5. MORTGAGES RECEIVABLE AND CONTINGENT LIABILITY

The Association holds a first and second mortgage associated with the sale of a home constructed as part of the Home of Your Own program. The mortgage is secured by the home. The first mortgage in the original amount is a non-interest bearing loan with 384 monthly payments in the amount of \$111. The mortgage is serviced by Pinnacle National Bank. The second mortgage is a non-interest bearing loan with 384 payments of \$104 that are forgiven with each month so long as the first mortgage is not in default.

The Association holds a second mortgage with the sale of a home constructed as part of the same program. The mortgage is secured by the home and the payment of \$111 per month are forgiven so long as the first mortgage is not in default. If the owner of the home defaults the first mortgage held by FAHE, Inc., the Association would be obligated to purchase the first mortgage from the holder. The Association would then be able to foreclose on and sell the property. The current balance of this first mortgage is \$26,757. The first mortgage currently held by FAHE, Inc. has historically been paid on time and is currently in good standing, therefore the Association has not recorded a liability for the unpaid principal.

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 5. MORTGAGES RECEIVABLE AND CONTINGENT LIABILITY - CONTINUED

The Association maintains the note receivable balances at the original note amount less principal payments. The amounts that represent loan forgiveness are recognized each month. The note balance as of December 31, 2016 were as follows

| | |
|--------------------------------------|-------------------------|
| Unpaid principal of notes receivable | \$ 25,345 |
| Unrecorded forgiveness of principle | <u>51,743</u> |
| Total Notes Receivable | <u>\$ 77,088</u> |

During the year the Association forgave debt of \$2,578.

The following is the note status summary as of December 31, 2016:

| <u>Note Status</u> | <u>Note Balance</u> | <u>Collateral Value</u> |
|----------------------------|-------------------------|--------------------------|
| Current | \$ 77,088 | \$ 248,500 |
| Less than 30 days overdue | - | - |
| 30-60 days overdue | - | - |
| 61-90 days overdue | - | - |
| 91-120 days overdue | - | - |
| More than 120 days overdue | <u>-</u> | <u>-</u> |
| Total | <u>\$ 77,088</u> | <u>\$ 248,500</u> |

Note 6. WEBSITE

During the year the Association developed a new website to promote its services and incurred \$16,000 of website development costs. The website development costs are being amortized over a three year period.

Amortization expense for the year ending December 31, 2016 totaled \$2,222.

Note 7. RESTRICTED NET ASSETS

As of December 31, 2016 the Association's only restricted net assets include the principle investment and donor restricted donations held within the endowment fund totaling \$8,050 which are presented as permanently restricted net assets and the amount of contributions receivable of \$8,675 are considered temporarily restricted net assets due to time restrictions.

Down Syndrome Association of Middle Tennessee
Notes to the Financial Statements
December 31, 2016

Note 8. COMPENSATED ABSENCES

Employees of the Association are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. Any unused paid time off expires annually and does not carry over from year to year, and accordingly, no liability has been recorded in the accompanying financial statements. The Association's policy is to recognize the cost of compensated absences when actually paid to employees.

Note 9. CONCENTRATIONS

The Association maintains deposits in financial institutions that at times exceed the amounts covered by insurance provided by the Federal Deposit Insurance Corporation ("FDIC").

The Association is heavily reliant on revenues earned during special events and receiving charitable donations. If the Association's funding sources decreased extensively, the Association would experience significant difficulty in sustaining its current level of operations.

Note 10. BEGINNING BALANCE ADJUSTMENT

Unrestricted beginning net assets have been restated due to the outstanding balance on the notes receivables being incorrectly stated in the prior period. During the year ending December 31, 2016 management was able to request documentation detailing note receivable balances over the life of the note. Due to principle payments being received earlier than scheduled and no monthly adjustment being made to forgive the second mortgages, notes receivables were overstated by \$20,939.

END OF NOTES