

**LIVING FREE, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



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**CERTIFIED PUBLIC ACCOUNTANTS**

# LIVING FREE, INC.

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JUNE 30, 2018 AND 2017

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Living Free, Inc.  
Chattanooga, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Living Free, Inc., Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 Living Free, Inc., as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chattanooga, Tennessee  
November 30, 2018

*Henderson Hutcherson*

# LIVING FREE, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

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	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 55,688	\$ 35,033
Restricted cash	18,935	21,923
Accounts receivable (less allowance for uncollectible amounts of \$2,500 in 2018 and 2017)	5,887	10,143
Inventories (less allowance for obsolete inventory of \$9,000 and \$5,910 in 2018 and 2017, respectively)	44,931	54,654
Prepaid expenses	1,500	-
Other assets	<u>608</u>	<u>984</u>
Total current assets	127,549	122,737
<b>PROPERTY AND EQUIPMENT, net</b>	<u>266,826</u>	<u>284,625</u>
<b>TOTAL ASSETS</b>	<u>\$ 394,375</u>	<u>\$ 407,362</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 8,999	\$ 8,652
Accounts payable and accrued expenses	<u>11,219</u>	<u>17,354</u>
Total current liabilities	20,218	26,006
<b>LONG-TERM DEBT, net of current maturities</b>	<u>89,435</u>	<u>98,409</u>
Total liabilities	<u>109,653</u>	<u>124,415</u>
<b>NET ASSETS</b>		
Unrestricted	284,379	282,064
Temporarily restricted	<u>343</u>	<u>883</u>
Total net assets	<u>284,722</u>	<u>282,947</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 394,375</u>	<u>\$ 407,362</u>

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

# LIVING FREE, INC.

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2018

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	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 285,170	\$ 9,445	\$ 294,615
Material sales	253,044	-	253,044
Seminars	13,149	-	13,149
Interest income	41	-	41
Net assets released from restrictions	<u>9,985</u>	<u>(9,985)</u>	<u>-</u>
Total revenues and other support	<u>561,389</u>	<u>(540)</u>	<u>560,849</u>
<b>EXPENSES</b>			
Program services	351,440	-	351,440
Management and general	147,250	-	147,250
Fundraising	<u>60,384</u>	<u>-</u>	<u>60,384</u>
Total expenses	<u>559,074</u>	<u>-</u>	<u>559,074</u>
<b>CHANGE IN NET ASSETS</b>	2,315	(540)	1,775
Net assets - beginning of year	<u>282,064</u>	<u>883</u>	<u>282,947</u>
Net assets - end of year	<u>\$ 284,379</u>	<u>\$ 343</u>	<u>\$ 284,722</u>

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

# LIVING FREE, INC.

## STATEMENT OF ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2017

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	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 240,599	\$ 105,104	\$ 345,703
Material sales	230,157	-	230,157
Seminars	10,090	-	10,090
Interest income	58	-	58
Other income	290	-	290
Net assets released from restrictions	<u>153,233</u>	<u>(153,233)</u>	<u>-</u>
Total revenues and other support	<u>634,427</u>	<u>(48,129)</u>	<u>586,298</u>
<b>EXPENSES</b>			
Program services	378,583	-	378,583
Management and general	177,287	-	177,287
Fundraising	<u>59,158</u>	<u>-</u>	<u>59,158</u>
Total expenses	<u>615,028</u>	<u>-</u>	<u>615,028</u>
<b>CHANGE IN NET ASSETS</b>	19,399	(48,129)	(28,730)
Net assets - beginning of year	<u>262,665</u>	<u>49,012</u>	<u>311,677</u>
Net assets - end of year	<u>\$ 282,064</u>	<u>\$ 883</u>	<u>\$ 282,947</u>

# LIVING FREE, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

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	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 176,588	\$ 82,176	\$ 41,633	\$ 300,397
Cost of materials for sale	79,633	-	-	79,633
Dues and subscriptions	133	334	866	1,333
Professional fees	587	8,215	2,934	11,736
Office expenses	18,788	14,050	5,846	38,684
Auto and travel	12,331	-	649	12,980
Seminars	2,502	-	-	2,502
Program expansion and development	16,933	-	-	16,933
Board meetings	-	399	-	399
Administrative consulting fee	18,376	34,126	-	52,502
Fund raising expenses	-	-	4,433	4,433
Royalties	6,306	-	-	6,306
Bad debts	73	-	-	73
Insurance	5,337	2,152	1,119	8,608
Interest	2,544	1,026	533	4,103
Miscellaneous	-	211	-	211
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	340,131	142,689	58,013	540,833
Depreciation	<hr/> 11,309	<hr/> 4,561	<hr/> 2,371	<hr/> 18,241
Total functional expenses	<u>\$ 351,440</u>	<u>\$ 147,250</u>	<u>\$ 60,384</u>	<u>\$ 559,074</u>



# LIVING FREE, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

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	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and benefits	\$ 201,908	\$ 83,238	\$ 43,449	\$ 328,595
Cost of materials for sale	79,934	-	-	79,934
Dues and subscriptions	144	361	937	1,442
Professional fees	563	7,883	2,816	11,262
Office expenses	16,903	12,038	5,094	34,035
Auto and travel	2,264	436	70	2,770
Seminars	2,279	-	-	2,279
Program expansion and development	47,474	-	-	47,474
Board meetings	-	1,009	-	1,009
Administrative consulting fee	-	63,811	-	63,811
Fund raising expenses	-	-	2,391	2,391
Royalties	5,275	-	-	5,275
Bad debts	505	-	-	505
Insurance	5,541	2,111	1,143	8,795
Interest	2,798	1,066	577	4,441
Miscellaneous	-	384	-	384
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	365,588	172,337	56,477	594,402
Depreciation	<hr/> 12,995	<hr/> 4,950	<hr/> 2,681	<hr/> 20,626
Total functional expenses	<u>\$ 378,583</u>	<u>\$ 177,287</u>	<u>\$ 59,158</u>	<u>\$ 615,028</u>

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

# LIVING FREE, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

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	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,775	\$ (28,730)
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation	18,241	20,626
Change in restricted cash	2,988	970
Change in operating assets and liabilities:		
Accounts receivable	4,256	(4,818)
Inventories	9,723	(1,134)
Prepaid expenses	(1,500)	-
Other assets	376	331
Accounts payable and accrued expenses	<u>(6,135)</u>	<u>11,768</u>
Net cash from operating activities	<u>29,724</u>	<u>(987)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(442)</u>	<u>(10,842)</u>
Net cash from investing activities	<u>(442)</u>	<u>(10,842)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	<u>(8,627)</u>	<u>(8,262)</u>
Net cash from financing activities	<u>(8,627)</u>	<u>(8,262)</u>
<b>NET CHANGE IN CASH</b>	20,655	(20,091)
Cash - beginning of year	<u>35,033</u>	<u>55,124</u>
Cash - end of year	<u>\$ 55,688</u>	<u>\$ 35,033</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest during the year	<u>\$ 4,103</u>	<u>\$ 4,441</u>

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Nature of Operations**

Living Free, Inc. (Living Free) is a nonprofit organization that primarily provides training, materials and other services to churches and para-church organizations in the area of helping people with life-controlling problems. The Company was incorporated under the laws of Tennessee on November 11, 1989 as Turning Point Ministries, Inc. The Company legally changed its name to Living Free, Inc. in December 2016.

#### **Basis of Presentation**

The financial statements of Living Free have been prepared on the accrual basis of accounting, which recognizes revenues and expenses in the period to which they apply rather than when received or expended.

#### **Financial Statement Presentation**

The financial statement presentation follows the guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958. Under FASB ASC 958, net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Living Free and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Living Free or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If net assets were released from restrictions by incurring expenses satisfying the purpose of the grant or contribution within the same reporting period, those net assets have been classified as unrestricted.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by Living Free. Generally, the donors of these assets permit Living Free to use all or part of the income earned on any related investments for general or specific purposes. At June 30, 2018 and 2017, there were no permanently restricted net assets.

#### **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. Actual results could differ from those estimates.

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# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Restricted Cash

As of June 30, 2018 and 2017, the balance of the restricted cash was \$18,935 and \$21,923, respectively. These accounts are utilized to support the office building and warehouse expenses.

#### Accounts Receivable

Accounts receivable arise from the sale of Living Free's products or services and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off of accounts receivable with a corresponding charge to the valuation allowance. Living Free considers all accounts greater than 90 days old past due and does not charge interest.

#### Inventories

Inventories consist of training and educational materials and are stated at the lower of cost or market utilizing the first-in, first-out (FIFO) method of inventory valuation.

#### Property and Equipment

Property and equipment are stated at cost, or if donated, at the approximate fair value at the date of the donation. Significant additions and improvements that have estimated useful lives in excess of one year are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Useful Life
Buildings	30 years
Building improvements	10-15 years
Equipment and furniture	3-7 years

#### Income Tax Status

Living Free qualifies as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from federal and state income taxes.

#### Contributions

Living Free reports contributions as unrestricted support unless explicit donor stipulations specify how the donated assets must be used, in which case the contributions are recorded as restricted support. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, the changes in temporarily restricted net assets are reported separately in the statements of activities.

(Continued)

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Functional Allocation of Expenses

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

#### Reclassification

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. This reclassification has no effect on previously reported net income.

### NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017, consists of the following:

	2018	2017
Land	\$ 47,500	\$ 47,500
Buildings	433,765	433,765
Equipment	<u>42,408</u>	<u>112,746</u>
	523,673	594,011
Accumulated depreciation	<u>(256,847)</u>	<u>(309,386)</u>
	<u>\$ 266,826</u>	<u>\$ 284,625</u>

### NOTE 3 – LONG-TERM DEBT

The Organization has a note payable to SunTrust Bank which has an interest rate of 3.95% and principal and interest payments of \$1,061 due in monthly installments through September 2022, with the remaining balance due October 2022. The note is secured by a building. As of June 30, 2018 and 2017, the balance of the note was \$98,434 and \$107,061, respectively.

Aggregate maturities of principal payments required on the notes payable obligations are as follows:

2019	\$ 8,999
2020	9,361
2021	9,706
2022	10,130
2023	<u>60,238</u>
	<u>\$ 98,434</u>

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

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### NOTE 4 – RELATED PARTY TRANSACTIONS

One of the board members of Living Free is also the president of another nonprofit corporation, National Center for Youth Issues (National). Living Free and National jointly own land and facilities used for office space and a warehouse for storing inventory. Both organizations have recorded a 50 percent ownership of the facilities and the associated debt. Living Free paid National for administrative and accounting fees totaling \$52,502 and \$63,811 for each of the years ended June 30, 2018 and 2017, respectively.

### NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions restricted by the donor for specific purposes or with time restrictions. Such contributions are reported as temporarily restricted net assets and are reclassified to unrestricted net assets when the restrictions have been satisfied. Temporarily restricted net assets are available to be used for the following purposes:

	2018	2017
Ministry expansion	\$ 343	\$ 16
Online Academy project	-	144
Life Line Ministry	-	723
	<u>\$ 343</u>	<u>\$ 883</u>

### NOTE 6 – EMPLOYEE BENEFITS

Living Free sponsors a 401(k) retirement plan for all full-time salaried employees. Living Free deposits three percent of the participant's employee contributions into the plan and matches employee contributions up to an additional two percent of employee contributions. Total payments by Living Free to the 401(k) plan for the years ended June 30, 2018 and 2017, were \$7,829 and \$12,027, respectively.

### NOTE 7 – CONCENTRATION OF CREDIT RISK

Living Free maintains its cash balances at SunTrust Bank. The Federal Deposit Insurance Corporation insures balances in each bank up to \$250,000. At June 30, 2018 and 2017, Living Free had no uninsured bank balances; however, cash balances are subject to significant fluctuations throughout the year.

Concentration of credit risk with respect to accounts receivable is limited due to the large number of customers comprising Living Free's customer base.

### NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to the statement of financial position date through the date of the auditor's report (the date the financial statements were available to be issued) for potential recognition or disclosure in the financial statements. Management has not identified any items requiring recognition or disclosure.