

**LIVING FREE, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019 AND 2018**

**HHM**

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**CERTIFIED PUBLIC ACCOUNTANTS**

LIVING FREE, INC.

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JUNE 30, 2019 AND 2018

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CERTIFIED PUBLIC ACCOUNTANTS  
CHATTANOOGA | MEMPHIS

## 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., (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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  
September 2, 2019

*Henderson Hutcherson*

# LIVING FREE, INC.

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 18,048	\$ 55,688
Restricted cash	13,836	18,935
Accounts receivable, net of estimated uncollectible of \$2,500 and \$2,500, respectively	2,633	5,887
Inventories, net of estimated obsolescence of \$9,000 and \$9,000, respectively	50,541	44,931
Prepaid expenses	-	1,500
Other assets	1,006	608
Total current assets	86,064	127,549
<b>PROPERTY AND EQUIPMENT, net</b>	255,984	266,826
<b>TOTAL ASSETS</b>	<u>\$ 342,048</u>	<u>\$ 394,375</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 9,361	\$ 8,999
Accounts payable and accrued expenses	5,984	11,219
Total current liabilities	15,345	20,218
<b>LONG-TERM DEBT, net of current maturities</b>	80,094	89,435
Total liabilities	95,439	109,653
<b>NET ASSETS</b>		
Without donor restrictions	241,682	284,379
With donor restrictions	4,927	343
Total net assets	246,609	284,722
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 342,048</u>	<u>\$ 394,375</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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 219,163	\$ 8,285	\$ 227,448
Material sales	277,856	-	277,856
Seminars	29,867	-	29,867
Interest income	48	-	48
Net assets released from restrictions	<u>3,701</u>	<u>(3,701)</u>	<u>-</u>
Total revenues and other support	<u>530,635</u>	<u>4,584</u>	<u>535,219</u>
<b>EXPENSES</b>			
Program services	368,685	-	368,685
Management and general	144,768	-	144,768
Fundraising	<u>59,879</u>	<u>-</u>	<u>59,879</u>
Total expenses	<u>573,332</u>	<u>-</u>	<u>573,332</u>
<b>CHANGE IN NET ASSETS</b>	(42,697)	4,584	(38,113)
Net assets - beginning of year	<u>284,379</u>	<u>343</u>	<u>284,722</u>
Net assets - end of year	<u>\$ 241,682</u>	<u>\$ 4,927</u>	<u>\$ 246,609</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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	Without Donor Restrictions	With Donor Restrictions	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 FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019

	Program Services	Management and General	Fundraising	Total
Administrative consulting fee	\$ 19,017	\$ 35,317	\$ -	\$ 54,334
Auto and travel	11,526	-	607	12,133
Bad debts	520	-	-	520
Board meetings	-	623	-	623
Cost of materials for sale	81,318	-	-	81,318
Dues and subscriptions	125	311	810	1,246
Fund raising expenses	-	-	2,934	2,934
Insurance	4,284	1,826	913	7,023
Interest	2,308	984	492	3,784
Miscellaneous	-	232	-	232
Office expenses	18,392	9,495	5,464	33,351
Professional fees	610	8,542	3,051	12,203
Program expansion and development	36,437	-	-	36,437
Royalties	6,692	-	-	6,692
Salaries and benefits	171,186	82,772	43,275	297,233
Seminars	5,323	-	-	5,323
<b>Total functional expenses before depreciation</b>	<b>357,738</b>	<b>140,102</b>	<b>57,546</b>	<b>555,386</b>
Depreciation	10,947	4,666	2,333	17,946
<b>Total functional expenses</b>	<b><u>\$ 368,685</u></b>	<b><u>\$ 144,768</u></b>	<b><u>\$ 59,879</u></b>	<b><u>\$ 573,332</u></b>

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



# LIVING FREE, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

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

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

# LIVING FREE, INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (38,113)	\$ 1,775
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation	17,946	18,241
Change in restricted cash	5,099	2,988
(Increase) decrease in:		
Accounts receivable	3,254	4,256
Inventories	(5,610)	9,723
Prepaid expenses	1,500	(1,500)
Other assets	(398)	376
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(5,235)</u>	<u>(6,135)</u>
Net cash from operating activities	<u>(21,557)</u>	<u>29,724</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(7,104)</u>	<u>(442)</u>
Net cash from investing activities	<u>(7,104)</u>	<u>(442)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	<u>(8,979)</u>	<u>(8,627)</u>
Net cash from financing activities	<u>(8,979)</u>	<u>(8,627)</u>
<b>NET CHANGE IN CASH</b>	(37,640)	20,655
Cash - beginning of year	<u>55,688</u>	<u>35,033</u>
Cash - end of year	<u>\$ 18,048</u>	<u>\$ 55,688</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid for interest during the year	<u>\$ 3,784</u>	<u>\$ 4,103</u>

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

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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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.

#### New Accounting Pronouncement

On August 18, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Living Free has adjusted the presentation of these statements accordingly.

#### Basis of Presentation

The financial statements of Living Free have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”), which require Living Free to report 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 organization. These net assets may be used at the discretion of Living Free's management and the board of directors.

**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 Living Free or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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, 2019 AND 2018

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

#### Restricted Cash

As of June 30, 2019 and 2018, the balance of the restricted cash was \$13,836 and \$18,935, 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

#### Advertising

Advertising costs are expensed as incurred. Advertising expense was \$3,774 and \$3,703 for the years ended June 30, 2019 and 2018, respectively.

#### 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.

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# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

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

#### Contributions

Living Free reports contributions as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used, in which case the contributions are recorded as net assets with donor restrictions. When the donor restriction expires, that is, when a stipulated time restriction ends, or purpose of restriction is accomplished, the changes in net assets with donor restrictions are reported separately in the statements of activities.

#### Functional 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. All allocations are determined by management and allocated based on time and effort.

### NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2019 and 2018, consists of the following:

	2019	2018
Land	\$ 47,500	\$ 47,500
Buildings	438,255	433,765
Equipment	<u>45,021</u>	<u>42,408</u>
	530,776	523,673
Accumulated depreciation	<u>(274,792)</u>	<u>(256,847)</u>
	<u>\$ 255,984</u>	<u>\$ 266,826</u>

### NOTE 3 – LONG-TERM DEBT

Living Free 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, 2019 and 2018, the balance of the note was \$89,455 and \$98,434, respectively.

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

2020	\$ 9,361
2021	9,706
2022	10,130
2023	<u>60,258</u>
	<u>\$ 89,455</u>

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### 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 \$54,334 and \$52,502 for each of the years ended June 30, 2019 and 2018, respectively.

### NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of contributions restricted by the donor for specific purposes or with time restrictions. 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. Net assets with donor restrictions are available to be used for the following purposes:

	2019	2018
Ministry expansion	\$ -	\$ 343
Legacy start up gifts	4,427	-
Life Line Staff	500	-
	<u>\$ 4,927</u>	<u>\$ 343</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, 2019 and 2018, were \$8,043 and \$7,829, 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, 2019 and 2018, 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.

# LIVING FREE, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

### NOTE 8 – AVAILABILITY AND LIQUIDITY

The following represents Living Free's financial assets at June 30:

	2019	2018
Financial assets at year-end:		
Cash	\$ 31,884	\$ 74,623
Accounts receivable	2,633	5,887
Other assets	<u>1,006</u>	<u>608</u>
Total financial assets	<u>35,523</u>	<u>81,118</u>
Less amounts not available to be used within one year:		
Board restricted cash	13,836	18,935
Net assets with donor restrictions	4,927	343
Less net assets with purpose restrictions to be met in less than a year	<u>(4,927)</u>	<u>(343)</u>
	<u>13,836</u>	<u>18,935</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 21,687</u>	<u>\$ 62,183</u>

Living Free is substantially supported by restricted and unrestricted contributions, as well as by sales of religious and educational materials. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Living Free must maintain sufficient resources to meet those responsibilities to its donors. However, all net assets with donor restrictions have purpose restrictions that are to be met in less than a year, therefore, financial assets should be available for general expenditure within one year.

As part of Living Free's cash management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, Living Free has approximately 8% of its estimated annual functional expenditures in cash.

### NOTE 9 – 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.