

LIVING FREE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023



CERTIFIED PUBLIC ACCOUNTANTS

LIVING FREE, INC.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Living Free, Inc., (a nonprofit organization) which comprise the statements of financial position as of June 30, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Living Free, Inc., as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Living Free, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Living Free, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Living Free, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Living Free, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Chattanooga, Tennessee
September 19, 2024

*Henderson Hutcherson
& McCullough, PLLC*

LIVING FREE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2024 AND 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash	\$ 96,673	\$ 102,667
Restricted cash	17,319	17,119
Accounts receivable (less allowance for credit losses of \$1,050 in 2024 and 2023)	3,126	12,905
Inventories	78,097	32,390
Other assets	<u>881</u>	<u>881</u>
Total current assets	196,096	165,962
PROPERTY AND EQUIPMENT, net	<u>173,947</u>	<u>191,344</u>
TOTAL ASSETS	<u>\$ 370,043</u>	<u>\$ 357,306</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 10,754	\$ 10,218
Accounts payable and accrued expenses	<u>10,345</u>	<u>5,419</u>
Total current liabilities	21,099	15,637
LONG-TERM DEBT, net of current maturities	<u>29,392</u>	<u>40,275</u>
Total liabilities	<u>50,491</u>	<u>55,912</u>
NET ASSETS		
Without donor restrictions	316,173	262,622
With donor restrictions	<u>3,379</u>	<u>38,772</u>
Total net assets	<u>319,552</u>	<u>301,394</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 370,043</u>	<u>\$ 357,306</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, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 225,375	\$ -	\$ 225,375
Material sales	291,881	-	291,881
Seminars	1,110	-	1,110
Interest income	337	-	337
Other income	8,068	-	8,068
Net assets released from restrictions	<u>35,393</u>	<u>(35,393)</u>	<u>-</u>
Total revenues and other support	<u>562,164</u>	<u>(35,393)</u>	<u>526,771</u>
EXPENSES			
Program services	391,762	-	391,762
Management and general	60,470	-	60,470
Fundraising	<u>56,381</u>	<u>-</u>	<u>56,381</u>
Total expenses	<u>508,613</u>	<u>-</u>	<u>508,613</u>
CHANGE IN NET ASSETS	53,551	(35,393)	18,158
Net assets - beginning of year	<u>262,622</u>	<u>38,772</u>	<u>301,394</u>
Net assets - end of year	<u>\$ 316,173</u>	<u>\$ 3,379</u>	<u>\$ 319,552</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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 228,920	\$ 70,717	\$ 299,637
Material sales	270,452	-	270,452
Seminars	2,841	-	2,841
Interest income	92	-	92
Net assets released from restrictions	<u>93,894</u>	<u>(93,894)</u>	<u>-</u>
Total revenues and other support	<u>596,199</u>	<u>(23,177)</u>	<u>573,022</u>
EXPENSES			
Program services	408,195	-	408,195
Management and general	157,695	-	157,695
Fundraising	<u>87,519</u>	<u>-</u>	<u>87,519</u>
Total expenses	<u>653,409</u>	<u>-</u>	<u>653,409</u>
CHANGE IN NET ASSETS	(57,210)	(23,177)	(80,387)
Net assets - beginning of year	<u>319,832</u>	<u>61,949</u>	<u>381,781</u>
Net assets - end of year	<u>\$ 262,622</u>	<u>\$ 38,772</u>	<u>\$ 301,394</u>

LIVING FREE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024

	Program Services	Management and General	Fundraising	Total
Administrative consulting fee	\$ 9,147	\$ -	\$ -	\$ 9,147
Auto and travel	1,576	-	500	2,076
Board meetings	-	144	-	144
Cost of materials for sale	59,304	-	-	59,304
Dues and subscriptions	1	-	-	1
Fundraising expenses	-	-	5,319	5,319
Insurance	5,117	2,326	1,861	9,304
Interest	1,200	545	436	2,181
Miscellaneous	1,079	188	156	1,423
Office expenses	12,133	4,551	4,919	21,603
Professional fees	-	30,073	800	30,873
Program expansion and development	101,488	-	-	101,488
Royalties	12,962	-	-	12,962
Salaries and benefits	171,524	18,294	38,911	228,729
Seminars	6,662	-	-	6,662
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	382,193	56,121	52,902	491,216
Depreciation	9,569	4,349	3,479	17,397
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL FUNCTIONAL EXPENSES	\$ 391,762	\$ 60,470	\$ 56,381	\$ 508,613

LIVING FREE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Fundraising	Total
Administrative consulting fee	\$ 23,863	\$ 36,550	\$ -	\$ 60,413
Auto and travel	7,460	437	646	8,543
Board meetings	-	3,370	-	3,370
Cost of materials for sale	76,488	-	-	76,488
Dues and subscriptions	122	243	852	1,217
Fundraising expenses	-	-	7,164	7,164
Insurance	5,469	2,486	1,989	9,944
Interest	1,419	645	516	2,580
Office expenses	18,258	6,849	7,402	32,509
Professional fees	980	17,647	980	19,607
Program expansion and development	73,985	-	1,331	75,316
Royalties	7,317	-	-	7,317
Salaries and benefits	180,461	85,241	63,257	328,959
Seminars	<u>3,074</u>	<u>-</u>	<u>-</u>	<u>3,074</u>
Total functional expenses before depreciation	398,896	153,468	84,137	636,501
Depreciation	<u>9,299</u>	<u>4,227</u>	<u>3,382</u>	<u>16,908</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 408,195</u>	<u>\$ 157,695</u>	<u>\$ 87,519</u>	<u>\$ 653,409</u>

LIVING FREE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 18,158	\$ (80,387)
Adjustment to reconcile change in net assets to net cash and restricted cash from operating activities:		
Depreciation	17,397	16,908
(Increase) decrease in operating assets:		
Accounts receivable	9,779	(11,351)
Inventories	(45,707)	10,600
Other assets	-	818
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	<u>4,926</u>	<u>(2,472)</u>
Net cash from operating activities	<u>4,553</u>	<u>(65,884)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(10,347)</u>	<u>(9,930)</u>
Net cash from financing activities	<u>(10,347)</u>	<u>(9,930)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	(5,794)	(75,814)
Cash and restricted cash - beginning of year	<u>119,786</u>	<u>195,600</u>
Cash and restricted cash - end of year	<u>\$ 113,992</u>	<u>\$ 119,786</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	<u>\$ 2,181</u>	<u>\$ 2,579</u>

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and 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. Living Free was incorporated under the laws of Tennessee on November 11, 1989, as Turning Point Ministries, Inc. The organization 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 in conformity with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board (FASB) establishes GAAP in the Accounting Standards Codification (ASC). Updates to the ASC are done through the issuance of Accounting Standards Updates (ASU).

Net assets of Living Free are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

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, whereby 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.

Cash and Restricted Cash

Living Free has \$113,992 and \$119,786 in cash and restricted cash as reflected on the statements of cash flows as of June 30, 2024 and 2023, respectively. Of that amount, \$17,319 and \$17,119 are restricted for expenditures related to the office building and the warehouse shared with the National Center of Youth Issues (National), a related party, as of June 30, 2024 and 2023, respectively. The remainder of \$96,673 and \$102,667 is unrestricted and available for general operations as of June 30, 2024 and 2023, respectively.

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

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 ninety days old past due and does not charge interest.

Allowance for Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASC 326), which significantly changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by Living Free that are subject to the guidance in ASC 326 were accounts receivable.

Living Free adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements.

Inventories

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

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$30,138 and \$6,927 for the years ended June 30, 2024 and 2023, 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.

Revenue Recognition

Living Free follows the guidance of ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, ASC 606). ASC 606 outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step revenue recognition model is as follows:

- 1) Identify the contract with a customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to performance obligations in the contract
- 5) Recognize revenue when or as Living Free satisfies a performance obligation

The adoption of this ASU did not have an impact on Living Free's financial statements. Based on Living Free's evaluation process, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Living Free receives revenues primarily from the sale of educational and training materials, hosting conferences, contributions, and grants. Revenues from educational and training materials are recognized at the time of shipment. Revenue from contributions and grants are recorded in the period in which they are pledged or received.

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 consists of the following at June 30:

	2024	2023
Land	\$ 47,500	\$ 47,500
Buildings	438,255	438,255
Equipment	<u>51,642</u>	<u>51,642</u>
	537,397	537,397
Accumulated depreciation	<u>(363,450)</u>	<u>(346,053)</u>
	<u>\$ 173,947</u>	<u>\$ 191,344</u>

NOTE 3 – LONG-TERM DEBT

Living Free refinanced their note payable to Truist Bank in December 2022. The new terms include an interest rate of 5.00% and principal and interest payments of \$1,045 due in monthly installments through December 2027. The note is secured by a building. As of June 30, 2024 and 2023, the balance of the note was \$40,146 and \$50,493, respectively.

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2024 AND 2023

NOTE 3 – LONG-TERM DEBT (Continued)

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

2025	\$	10,754
2026		11,312
2027		11,899
2028		<u>6,181</u>
	\$	<u>40,146</u>

NOTE 4 – RELATED PARTY TRANSACTIONS

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% ownership of the facilities and the associated debt. Living Free paid National for administrative and accounting fees totaling \$9,147 and \$60,414 for each of the years ended June 30, 2024 and 2023, 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:

	2024	2023
Curriculum renewal	\$ 2,710	\$ 38,772
LF Academy Online	<u>669</u>	<u>-</u>
	<u>\$ 3,379</u>	<u>\$ 38,772</u>

NOTE 6 – EMPLOYEE BENEFITS

Living Free sponsors a 401(k) retirement plan for all full-time salaried employees. Living Free deposits 3% 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, 2024 and 2023, were \$1,959 and \$6,957, respectively.

NOTE 7 – CONCENTRATION OF CREDIT RISK

Living Free maintains its cash balances at Truist Bank. The Federal Deposit Insurance Corporation insures balances in each bank up to \$250,000. At both June 30, 2024 and 2023, 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, 2024 AND 2023

NOTE 8 – CONCENTRATIONS

Living Free did not have a concentration of its sales for the year ended June 30, 2024.

Living Free's largest customer accounted for 11% of its sales for the year ended June 30, 2023.

NOTE 9 – AVAILABILITY AND LIQUIDITY

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

	2024	2023
Financial assets at year-end:		
Cash and restricted cash	\$ 113,992	\$ 119,786
Accounts receivable	3,126	12,905
Other assets	<u>881</u>	<u>881</u>
Total financial assets	<u>117,999</u>	<u>133,572</u>
Less amounts not available to be used within one year:		
Board restricted cash	17,319	17,119
Net assets with donor restrictions	3,379	38,772
Less net assets with purpose restrictions to be met in less than a year	<u>(3,379)</u>	<u>(38,772)</u>
	<u>17,319</u>	<u>17,119</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 100,680</u>	<u>\$ 116,453</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 20% of its estimated annual functional expenditures in available financial assets.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events and transactions subsequent to June 30, 2024 through September 19, 2024 (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.