

LIVING FREE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020



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 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, 2021 and 2020, 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, 2021 and 2020, 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 17, 2021

Henderson Hutcherson

LIVING FREE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

ASSETS		
	2021	2020
CURRENT ASSETS		
Cash	\$ 250,408	\$ 221,924
Restricted cash	16,785	12,537
Accounts receivable, net of estimated uncollectible of \$1,050 and \$2,500, respectively	1,007	91
Inventories, net of estimated obsolescence of \$- and \$9,000, respectively	38,427	43,267
Prepaid expenses	-	200
Other assets	<u>989</u>	<u>1,041</u>
Total current assets	307,616	279,060
PROPERTY AND EQUIPMENT, net	<u>223,736</u>	<u>239,271</u>
TOTAL ASSETS	<u><u>\$ 531,352</u></u>	<u><u>\$ 518,331</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 9,361	\$ 9,361
Accounts payable and accrued expenses	8,952	2,060
Deferred revenue	<u>-</u>	<u>15,679</u>
Total current liabilities	18,313	27,100
LONG-TERM DEBT, net of current maturities	<u>61,152</u>	<u>70,758</u>
Total liabilities	<u>79,465</u>	<u>97,858</u>
NET ASSETS		
Without donor restrictions	354,391	317,073
With donor restrictions	<u>97,496</u>	<u>103,400</u>
Total net assets	<u>451,887</u>	<u>420,473</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 531,352</u></u>	<u><u>\$ 518,331</u></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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 289,366	\$ 6,185	\$ 295,551
Material sales	179,655	-	179,655
Seminars	8,181	-	8,181
Interest income	27	-	27
Other income	1	-	1
Governmental revenue	78,079	-	78,079
Net assets released from restrictions	<u>12,089</u>	<u>(12,089)</u>	<u>-</u>
Total revenues and other support	<u>567,398</u>	<u>(5,904)</u>	<u>561,494</u>
EXPENSES			
Program services	334,756	-	334,756
Management and general	140,492	-	140,492
Fundraising	<u>54,832</u>	<u>-</u>	<u>54,832</u>
Total expenses	<u>530,080</u>	<u>-</u>	<u>530,080</u>
CHANGE IN NET ASSETS	37,318	(5,904)	31,414
Net assets - beginning of year	<u>317,073</u>	<u>103,400</u>	<u>420,473</u>
Net assets - end of year	<u>\$ 354,391</u>	<u>\$ 97,496</u>	<u>\$ 451,887</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, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
Contributions	\$ 297,886	\$ 101,360	\$ 399,246
Material sales	243,670	-	243,670
Seminars	15,545	-	15,545
Interest income	33	-	33
Other income	66	-	66
Governmental revenue	46,721	-	46,721
Net assets released from restrictions	<u>2,887</u>	<u>(2,887)</u>	<u>-</u>
Total revenues and other support	<u>606,808</u>	<u>98,473</u>	<u>705,281</u>
EXPENSES			
Program services	336,319	-	336,319
Management and general	137,410	-	137,410
Fundraising	<u>57,688</u>	<u>-</u>	<u>57,688</u>
Total expenses	<u>531,417</u>	<u>-</u>	<u>531,417</u>
CHANGE IN NET ASSETS	75,391	98,473	173,864
Net assets - beginning of year	<u>241,682</u>	<u>4,927</u>	<u>246,609</u>
Net assets - end of year	<u>\$ 317,073</u>	<u>\$ 103,400</u>	<u>\$ 420,473</u>

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

LIVING FREE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Fundraising	Total
Administrative consulting fee	\$ 23,824	\$ 36,440	\$ -	\$ 60,264
Auto and travel	6,266	-	330	6,596
Bad debts recovery	(1,060)	-	-	(1,060)
Board meetings	-	755	-	755
Cost of materials for sale	50,314	-	-	50,314
Dues and subscriptions	203	508	1,321	2,032
Fund raising expenses	-	-	1,663	1,663
Insurance	5,588	2,095	1,048	8,731
Interest	2,000	750	374	3,124
Miscellaneous	-	4	-	4
Office expenses	16,418	8,098	4,903	29,419
Professional fees	638	9,567	2,551	12,756
Program expansion and development	27,216	-	2,963	30,179
Royalties	4,215	-	-	4,215
Salaries and benefits	182,902	77,730	37,406	298,038
Seminars	4,111	-	-	4,111
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	322,635	135,947	52,559	511,141
Depreciation	<hr/> 12,121	<hr/> 4,545	<hr/> 2,273	<hr/> 18,939
Total functional expenses	<u>\$ 334,756</u>	<u>\$ 140,492</u>	<u>\$ 54,832</u>	<u>\$ 530,080</u>

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

LIVING FREE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020

	Program Services	Management and General	Fundraising	Total
Administrative consulting fee	\$ 18,007	\$ 33,443	\$ -	\$ 51,450
Auto and travel	4,386	-	231	4,617
Bad debts	386	-	-	386
Board meetings	-	1,120	-	1,120
Cost of materials for sale	66,650	-	-	66,650
Dues and subscriptions	78	194	505	777
Fund raising expenses	-	-	2,445	2,445
Insurance	5,682	2,291	1,191	9,164
Interest	2,104	849	441	3,394
Office expenses	16,708	5,992	4,961	27,661
Professional fees	567	8,503	2,268	11,338
Program expansion and development	16,174	-	1,519	17,693
Royalties	5,152	-	-	5,152
Salaries and benefits	185,349	80,465	41,759	307,573
Seminars	3,784	-	-	3,784
	<u>325,027</u>	<u>132,857</u>	<u>55,320</u>	<u>513,204</u>
Total functional expenses before depreciation				
Depreciation	<u>11,292</u>	<u>4,553</u>	<u>2,368</u>	<u>18,213</u>
Total functional expenses	<u>\$ 336,319</u>	<u>\$ 137,410</u>	<u>\$ 57,688</u>	<u>\$ 531,417</u>

LIVING FREE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 31,414	\$ 173,864
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation	18,939	18,213
(Increase) decrease in operating assets:		
Accounts receivable	(916)	2,542
Inventories	4,840	7,274
Prepaid expenses	200	(200)
Other assets	52	(35)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	6,892	(3,924)
Deferred revenue	<u>(15,679)</u>	<u>15,679</u>
Net cash from operating activities	<u>45,742</u>	<u>213,413</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(3,404)</u>	<u>(1,500)</u>
Net cash from investing activities	<u>(3,404)</u>	<u>(1,500)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(9,606)</u>	<u>(9,336)</u>
Net cash from financing activities	<u>(9,606)</u>	<u>(9,336)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	32,732	202,577
Cash and restricted cash - beginning of year	<u>234,461</u>	<u>31,884</u>
Cash and restricted cash - end of year	<u>\$ 267,193</u>	<u>\$ 234,461</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	<u>\$ 3,124</u>	<u>\$ 3,394</u>

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

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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 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 \$267,193 and \$234,461 in cash and restricted cash as reflected on the statements of cash flows as of June 30, 2021 and 2020, respectively. Of that amount, \$16,785 and \$12,537 is 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, 2021 and 2020, respectively. The remainder of \$250,408 and \$221,924 is unrestricted and available for general operations as of June 30, 2021 and 2020, respectively.

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

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 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 \$14,794 and \$2,556 for the years ended June 30, 2021 and 2020, 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.

(Continued)

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

On July 1, 2020, Living Free adopted 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.

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.

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2021	2020
Land	\$ 47,500	\$ 47,500
Buildings	438,255	438,255
Equipment	<u>49,925</u>	<u>46,521</u>
	535,680	532,276
Accumulated depreciation	<u>(311,944)</u>	<u>(293,005)</u>
	<u>\$ 223,736</u>	<u>\$ 239,271</u>

NOTE 3 – LONG-TERM DEBT

Living Free has a note payable to Truist 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, 2021 and 2020, the balance of the note was \$70,513 and \$80,119, respectively.

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

2022	\$ 9,361
2023	<u>61,152</u>
	<u>\$ 70,513</u>

NOTE 4 – GOVERNMENTAL REVENUE

Living Free received funds from the Small Business Administration (“SBA”) for Paycheck Protection Program (“PPP”) loans. A PPP loan is forgivable in certain situations to promote continued employment and promote liquidity to small businesses harmed by coronavirus disease (“COVID-19”). During the year ended June 30, 2020, Living Free received a PPP loan totaling \$62,400, of which \$46,721 was recognized as governmental revenue in the year ended June 30, 2020. The remaining \$15,679 was recognized as governmental revenue in the year ended June 30, 2021. Living Free received full forgiveness from the SBA on this PPP loan in April 2021.

In May 2021, Living Free received a second round of PPP funding from the SBA totaling \$62,400. Living Free received full forgiveness from the SBA on this PPP loan in September 2021. Therefore, these funds have been included in the statement of activities and net assets as governmental revenue for the year ended June 30, 2021.

NOTE 5 – RELATED PARTY TRANSACTIONS

One of the board members of Living Free is also the president of another nonprofit corporation, 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 \$60,264 and \$51,450 for each of the years ended June 30, 2021 and 2020, respectively.

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 6 – 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:

	2021	2020
Curriculum renewal	\$ 95,661	\$ 100,700
International projects	1,000	-
Legacy start up gifts	5	5
Life Line Staff	830	2,695
	<u>\$ 97,496</u>	<u>\$ 103,400</u>

NOTE 7 – 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, 2021 and 2020, were \$12,120 and \$11,000, respectively.

NOTE 8 – 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 June 30, 2021 and 2020, 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 9 – RISK AND UNCERTAINTIES

During the year 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, COVID-19, by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Many industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. If the pandemic continues, it may have an adverse effect on the Organization's future operations, financial position, and liquidity.

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

NOTE 10 – AVAILABILITY AND LIQUIDITY

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

	2021	2020
Financial assets at year-end:		
Cash and restricted cash	\$ 267,193	\$ 234,461
Accounts receivable	1,007	91
Other assets	<u>989</u>	<u>1,041</u>
Total financial assets	<u>269,189</u>	<u>235,593</u>
Less amounts not available to be used within one year:		
Board restricted cash	16,785	12,537
Net assets with donor restrictions	97,496	103,400
Less net assets with purpose restrictions to be met in less than a year	<u>(97,496)</u>	<u>(103,400)</u>
	<u>16,785</u>	<u>12,537</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 252,404</u>	<u>\$ 223,056</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 50% of its estimated annual functional expenditures in cash.

NOTE 11 – 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, except as disclosed in Note 4.