

LIVING FREE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019



CERTIFIED PUBLIC ACCOUNTANTS

LIVING FREE, INC.

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JUNE 30, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 25, 2020

Henderson Hutcherson

LIVING FREE, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 221,924	\$ 18,048
Restricted cash	12,537	13,836
Accounts receivable, net of estimated uncollectible of \$2,500 and \$2,500, respectively	91	2,633
Inventories, net of estimated obsolescence of \$9,000 and \$9,000, respectively	43,267	50,541
Prepaid expenses	200	-
Other assets	<u>1,041</u>	<u>1,006</u>
Total current assets	279,060	86,064
PROPERTY AND EQUIPMENT, net	<u>239,271</u>	<u>255,984</u>
TOTAL ASSETS	<u>\$ 518,331</u>	<u>\$ 342,048</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 9,361	\$ 9,361
Accounts payable and accrued expenses	2,060	5,984
Deferred revenue	<u>15,679</u>	<u>-</u>
Total current liabilities	27,100	15,345
LONG-TERM DEBT, net of current maturities	<u>70,758</u>	<u>80,094</u>
Total liabilities	<u>97,858</u>	<u>95,439</u>
NET ASSETS		
Without donor restrictions	317,073	241,682
With donor restrictions	<u>103,400</u>	<u>4,927</u>
Total net assets	<u>420,473</u>	<u>246,609</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 518,331</u>	<u>\$ 342,048</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 ACTIVITIES AND NET ASSETS

YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
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>
EXPENSES			
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>
CHANGE IN NET ASSETS	(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>

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
	<hr/>	<hr/>	<hr/>	<hr/>
Total functional expenses before depreciation	325,027	132,857	55,320	513,204
Depreciation	<hr/> 11,292	<hr/> 4,553	<hr/> 2,368	<hr/> 18,213
Total functional expenses	<u>\$ 336,319</u>	<u>\$ 137,410</u>	<u>\$ 57,688</u>	<u>\$ 531,417</u>

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	<u>5,323</u>	<u>-</u>	<u>-</u>	<u>5,323</u>
Total functional expenses before depreciation	357,738	140,102	57,546	555,386
Depreciation	<u>10,947</u>	<u>4,666</u>	<u>2,333</u>	<u>17,946</u>
Total functional expenses	<u>\$ 368,685</u>	<u>\$ 144,768</u>	<u>\$ 59,879</u>	<u>\$ 573,332</u>

LIVING FREE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 173,864	\$ (38,113)
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation	18,213	17,946
(Increase) decrease in operating assets:		
Accounts receivable	2,542	3,254
Inventories	7,274	(5,610)
Prepaid expenses	(200)	1,500
Other assets	(35)	(398)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(3,924)	(5,235)
Deferred revenue	15,679	-
	<u>213,413</u>	<u>(26,656)</u>
Net cash from operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,500)</u>	<u>(7,104)</u>
Net cash from investing activities	<u>(1,500)</u>	<u>(7,104)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	<u>(9,336)</u>	<u>(8,979)</u>
Net cash from financing activities	<u>(9,336)</u>	<u>(8,979)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	202,577	(42,739)
Cash and restricted cash - beginning of year	<u>31,884</u>	<u>74,623</u>
Cash and restricted cash - end of year	<u>\$ 234,461</u>	<u>\$ 31,884</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	<u>\$ 3,394</u>	<u>\$ 3,784</u>

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

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

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 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, 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.

New Adopted Accounting Standard

On November 17, 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows, Restricted Cash*, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires an Organization’s reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents.

Cash and Restricted Cash

Living Free has \$234,461 and \$31,884 in cash and restricted cash as reflected on the statements of cash flows as of June 30, 2020 and 2019, respectively. Of that amount, \$12,537 and \$13,836 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, 2020 and 2019, respectively. The remainder of \$221,924 and \$18,048 is unrestricted and available for general operations as of June 30, 2020 and 2019, respectively.

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LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 \$2,556 and \$3,774 for the years ended June 30, 2020 and 2019, 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, 2020 AND 2019

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, 2020 and 2019, consists of the following:

	2020	2019
Land	\$ 47,500	\$ 47,500
Buildings	438,255	438,255
Equipment	<u>46,521</u>	<u>45,021</u>
	532,276	530,776
Accumulated depreciation	<u>(293,005)</u>	<u>(274,792)</u>
	<u>\$ 239,271</u>	<u>\$ 255,984</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, 2020 and 2019, the balance of the note was \$80,119 and \$89,455, respectively.

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

2021	\$ 9,361
2022	10,130
2023	<u>60,628</u>
	<u>\$ 80,119</u>

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 4 – GOVERNMENTAL REVENUE

In May 2020, Living Free received loan funds totaling \$62,400 through the Paycheck Protection Program (“PPP”) operated by the U.S. Small Business Administration. Under the terms of the program, the loan may be forgiven if the funds were spent in accordance with the program. Management believes these funds are being properly expensed and forgiveness is likely, therefore, they have included in the statement of activities as governmental revenue totaling \$46,721 for the year ended June 30, 2020. However, management did not utilize the total \$62,400 as of June 30, 2020, and therefore, has included in the statement of financial position deferred revenue totaling \$15,679 for the year ended June 30, 2020.

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 \$51,450 and \$54,334 for each of the years ended June 30, 2020 and 2019, respectively.

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:

	2020	2019
Curriculum renewal	\$ 100,700	\$ -
Legacy start up gifts	5	500
Life Line Staff	<u>2,695</u>	<u>4,427</u>
	<u>\$ 103,400</u>	<u>\$ 4,927</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, 2020 and 2019, were \$11,000 and \$11,715, 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, 2020 and 2019, 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, 2020 AND 2019

NOTE 9 – NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) in May 2014. This ASU will supersede most of the current revenue recognition guidance, including industry-specific guidance. This ASU establishes a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. ASU 2014-09 will be effective for Living Free's financial statements for the year ended June 30, 2021. Living Free's management is currently evaluating the impact that the adoption of this standard will have on its financials.

NOTE 10 – AVAILABILITY AND LIQUIDITY

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

	2020	2019
Financial assets at year-end:		
Cash and restricted cash	\$ 234,461	\$ 31,884
Accounts receivable	91	2,633
Other assets	<u>1,041</u>	<u>1,006</u>
Total financial assets	<u>235,593</u>	<u>35,523</u>
Less amounts not available to be used within one year:		
Board restricted cash	12,537	13,836
Net assets with donor restrictions	103,400	4,927
Less net assets with purpose restrictions to be met in less than a year	<u>(103,400)</u>	<u>(4,927)</u>
	<u>12,537</u>	<u>13,836</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 223,056</u>	<u>\$ 21,687</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 46% of its estimated annual functional expenditures in cash.

LIVING FREE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

NOTE 11 – 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, coronavirus disease (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.

NOTE 12 – 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.