

FREEDOM IN CHRIST MINISTRIES

Financial Statements

December 31, 2019 and 2018



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Independent Auditors' Report

To the Board of Directors
Freedom in Christ Ministries
Knoxville, Tennessee

We have audited the accompanying financial statements of Freedom in Christ Ministries (the "Ministry") (a Tennessee nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets 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.

Auditors' 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 from 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 auditors' 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 Ministry'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 Ministry'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 Freedom in Christ Ministries as of December 31, 2019 and 2018, 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.



Knoxville, Tennessee
April 30, 2020

FREEDOM IN CHRIST MINISTRIES
 Statements of Financial Position
 December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 664,487	\$ 445,904
Inventory	55,848	39,469
Accounts receivable	440	689
Prepaid expenses	<u>11,912</u>	<u>9,242</u>
Total current assets	732,687	495,304
Property and equipment, net	<u>3,046</u>	<u>8,284</u>
Total assets	<u>\$ 735,733</u>	<u>\$ 503,588</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 18,649	\$ 28,493
Accrued expenses and other liabilities	<u>106,962</u>	<u>78,356</u>
Total current liabilities	<u>125,611</u>	<u>106,849</u>
 Net Assets		
With Donor Restrictions	290,959	295,043
Without Donor Restrictions	<u>319,163</u>	<u>101,696</u>
Total net assets	<u>610,122</u>	<u>396,739</u>
Total liabilities and net assets	<u>\$ 735,733</u>	<u>\$ 503,588</u>

FREEDOM IN CHRIST MINISTRIES
 Statements of Activities and Changes in Net Assets
 Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets without Donor Restrictions		
Support and Revenues		
Sales of books and tapes, net of cost of materials of \$228,956 and \$202,699	\$ 48,944	\$ 31,658
Contributions	456,347	180,390
Community freedom ministry	51,239	55,131
Field staff administration	112,918	116,286
Royalty	1,204	1,828
Other	<u>3,104</u>	<u>3,941</u>
Total support and revenue without donor restrictions	673,756	389,234
Net assets released from donor restrictions		
Restrictions satisfied by payments	<u>1,150,691</u>	<u>1,102,123</u>
Total support and revenue without donor restrictions	<u>1,824,447</u>	<u>1,491,357</u>
Expenses		
Field ministry	1,173,226	1,113,628
Other compensation and benefits	234,967	201,342
General and administrative	119,836	120,988
Development	22,374	24,339
Conference and event	10,578	1,132
Depreciation	8,101	7,643
Community freedom ministry	<u>37,898</u>	<u>36,975</u>
Total expenses	<u>1,606,980</u>	<u>1,506,047</u>
Increase (decrease) in net assets without donor restrictions	<u>217,467</u>	<u>(14,690)</u>
Changes in Net Assets with Donor Restrictions		
Field ministry support and events	1,146,607	1,174,775
Net assets released from restrictions	<u>(1,150,691)</u>	<u>(1,102,123)</u>
(Decrease) increase in net assets with donor restrictions	<u>(4,084)</u>	<u>72,652</u>
Change in net assets	213,383	57,962
Net assets at the beginning of the year	<u>396,739</u>	<u>338,777</u>
Net assets at the end of the year	<u>\$ 610,122</u>	<u>\$ 396,739</u>

FREEDOM IN CHRIST MINISTRIES
 Statements of Cash Flows
 Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 213,383	\$ 57,962
Adjustments to reconcile change in net assets to cash flows from operating activities		
Depreciation	8,101	7,643
Decrease (increase) in assets		
Inventory	(16,379)	7,466
Accounts receivable	249	628
Prepaid expenses	(2,670)	3,853
Increase (decrease) in liabilities		
Accounts payable	(9,844)	(12,471)
Accrued expenses and other liabilities	<u>28,606</u>	<u>(17,815)</u>
Net cash flows from operating activities	<u>221,446</u>	<u>47,266</u>
 Cash Flows From Investing Activities		
Acquisition of property and equipment	<u>(2,863)</u>	<u>-</u>
Net cash flows from investing activities	(2,863)	-
Net change in cash and cash equivalents	218,583	47,266
Cash and cash equivalents at the beginning of the year	<u>445,904</u>	<u>398,638</u>
Cash and cash equivalents at the end of the year	<u>\$ 664,487</u>	<u>\$ 445,904</u>

FREEDOM IN CHRIST MINISTRIES
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Freedom in Christ Ministries (the “Ministry”) is a nonprofit corporation, under Internal Revenue Code Section 501(c)(3), which was formed on April 13, 1989 in order to establish an international and interdenominational Christian ministry. The Ministry’s national office is located in Knoxville, Tennessee. The Ministry sponsors conferences and seminars and provides resources and training for various churches and evangelical missionary organizations internationally.

Basis of Presentation - The presentation of the financial statements follows accounting principles generally accepted in the United States of America (“GAAP”). Under GAAP, the Ministry is required to report information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Ministry and changes therein are classified and reported as follows: Net assets with donor restrictions and without donor restrictions.

Use of Estimates and Assumptions - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Ministry considers all highly liquid investments with original maturity of three months or less, and readily convertible into cash without significant loss due to penalties or interest to be cash and cash equivalents.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Ministry has never experienced any losses related to these balances.

Inventory - Inventory consists of books, teaching materials, and other saleable items that are valued at the lower of cost or market, using the first-in, first-out method. A reserve is not deemed necessary by management as of December 31, 2019 and 2018.

Property and Equipment - Property and equipment are stated at cost and depreciation is provided over the estimated useful lives of the assets on a straight-line basis. Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation expense for the years ended December 31, 2019 and 2018 was \$8,101 and \$7,643, respectively. Depreciation is allocated among the program and supporting services benefited. Property and equipment is depreciated from 3 to 5 years.

Revenue Recognition - Contributions received are recorded as net assets with donor restrictions and net assets without donor restrictions. All donor restricted net assets are reported as an increase in donor restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Revenue Recognition from Contracts - On January 1, 2019, the Academy adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective approach. Under this method, the guidance is applied only to the most current period presented in the financial statements. ASU No. 2014-09 outlines a single comprehensive revenue recognition model for revenue arising from contracts with customers and superseded most of the previous revenue recognition guidance, including industry-specific guidance. Under ASU No. 2014-09, the Academy follows the five-step model provided in the guidance in order to recognize revenue in the following manner: 1) Identify the contract; 2) Identify the performance obligations of the contract; 3) Determine the transaction price of the contract; 4) Allocate the transaction price to the performance obligation; and, 5) Recognize revenue. Under this method, an entity recognizes revenue for the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. The Ministries’ revenue recognition policies remained substantially unchanged as a result of the adoption of ASU No. 2014-09, and there were no significant changes in business processes or systems.

FREEDOM IN CHRIST MINISTRIES
Notes to Financial Statements (Continued)

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

Functional Classification of Expenses - Functional classifications of expenses are based upon the guidance included in the *Audit and Accounting Guide for Not-For-Profit Organizations*, issued by the American Institute of Certified Public Accountants. The Ministry incurs costs and expenses related to its program services and supporting activities, such as fundraising and management. Expenses that are directly related to, and can be assigned to, program services or a single supporting activity are charged directly to such function. Expenses that are related to more than one function are allocated among the appropriate functions. The most significant of the Ministry’s joint costs are the costs associated with other compensation and benefits. The Ministry allocates these joint costs primarily using proportional methods based on the time expended by personnel on the various functions.

Net Asset Classification - Net assets are classified into two components as defined below:

- *Net Assets with Donor Restrictions* - This component of net assets consists of restrictions placed on net assets used through external constraints imposed by creditors, grantors, contributors, or laws or regulations or other governments or restrictions imposed by law through constitutional provisions or enabling legislation. At December 31, 2019 and 2018, net assets with donor restrictions totaled \$290,959 and \$295,043, which was made up of contributions for the field ministry staff.
- *Net Assets without Donor Restrictions* - This component of net assets consists of net assets that do not meet the definition of “restricted”. These net assets are available for current use by the Ministry.

Reclassifications - Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Date of Management’s Review - Management has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2019, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Ministry receives royalty income from the sale of books and tapes that are written by several members of the Ministry’s staff. Royalty income for the years ended December 31, 2019 and 2018 was \$1,204 and \$1,828, respectively.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 258,347	\$ 255,484
Leasehold improvements	<u>5,630</u>	<u>5,630</u>
Total property and equipment	263,977	261,114
Less accumulated depreciation	<u>260,931</u>	<u>252,830</u>
Net property and equipment	<u>\$ 3,046</u>	<u>\$ 8,284</u>

FREEDOM IN CHRIST MINISTRIES
Notes to Financial Statements (Continued)

NOTE 4 - INCOME TAXES

The Ministry is exempt from Federal income tax under Internal Revenue Code Section 501(c)(3). The Ministry is subject, however, to Federal income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the years ended December 31, 2019 and 2018, the Ministry had no activities unrelated to its exempt purpose, and therefore, incurred no tax liability due to unrelated business income.

The Ministry has evaluated its uncertain tax positions using the provisions of the standards. Accordingly, a loss contingency will be recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. Although the tax years ending December 31, 2017 through December 31, 2019 remain open for examination by various taxing authorities, it is management's opinion that no significant uncertain tax positions exist at December 31, 2019.

NOTE 5 - FUNCTIONAL EXPENSE ALLOCATION

Expenses are reported on the statement of activities and changes in net assets based on classifications most useful to management. Expense allocation among program and supporting services benefited is as follows:

	<u>2019</u>	<u>2018</u>
Program services	\$ 1,439,111	\$ 1,350,764
General and administrative	84,672	76,050
Fundraising	<u>83,197</u>	<u>79,233</u>
Total	<u>\$ 1,606,980</u>	<u>\$ 1,506,047</u>

Joint cost allocated for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>			
	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
Field ministry	\$ 1,173,226	\$ -	\$ -	\$ 1,173,226
Other compensation and benefits	136,281	61,091	37,595	234,967
General and administrative	71,662	20,013	28,161	119,836
Development	6,712	895	14,767	22,374
Conference and event expenses	10,578	-	-	10,578
Depreciation	2,754	2,673	2,674	8,101
Community freedom ministry	<u>37,898</u>	<u>-</u>	<u>-</u>	<u>37,898</u>
Total	<u>\$ 1,439,111</u>	<u>\$ 84,672</u>	<u>\$ 83,197</u>	<u>\$ 1,606,980</u>

FREEDOM IN CHRIST MINISTRIES
Notes to Financial Statements (Continued)

NOTE 5 - FUNCTIONAL EXPENSE ALLOCATION - (Continued)

	2018			
	Program	General and administrative	Fundraising	Total
Field ministry	\$ 1,113,628	\$ -	\$ -	\$ 1,113,628
Other compensation and benefits	116,778	52,349	32,215	201,342
General and administrative	72,351	20,205	28,432	120,988
Development	7,301	974	16,064	24,339
Conference and event expenses	1,132	-	-	1,132
Depreciation	2,599	2,522	2,522	7,643
Community freedom ministry	36,975	-	-	36,975
Total	\$ 1,350,764	\$ 76,050	\$ 79,233	\$ 1,506,047

NOTE 6 - LEASE OBLIGATIONS

The Ministry leases office space for their office location. The office space is under an agreement that expires in 2022. Rental expense for the office totaled \$28,868 and \$27,954 in 2019 and 2018. Future minimum lease payments as of December 31, 2019 is as follows:

2020	\$ 29,406
2021	30,087
2022	22,838
Total minimum lease payments	\$ 82,332

NOTE 7 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, without donor restrictions limiting their use within one year of the balance sheet date, comprise of the following:

	2019	2018
Cash and cash equivalents	\$ 373,528	\$ 150,861
Accounts receivable	440	689
Total assets	\$ 373,968	\$ 151,550

Cash consists of \$290,959 and \$295,043 restricted for field staff use as of December 31, 2019 and 2018.

FREEDOM IN CHRIST MINISTRIES
Notes to Financial Statements (Continued)

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, Leases (Subtopic 842) (“ASU 2016-02”). ASU 2016-02 provides revised guidance for lease accounting and related disclosure requirements, including a requirement for lessees to recognize lease assets and lease liabilities for certain operating leases. All leases with lease terms greater than one year are subject to ASU 2016-02, including leases in place as of the adoption date. Under the previous guidance, lessees were not required to recognize assets and liabilities for operating leases on the balance sheet. ASU 2016-02 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2021, with early adoption permitted. The Ministry is currently evaluating the potential effect of this ASU on its financial statements, including the potential amount of incremental lease assets and liabilities that are expected to be recognized upon adoption.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, “Presentation of Financial Statements of Not-for-Profit Entities” (ASU 2016-14), which resulted in changes to the way a Not-for-Profit presents their financial statements for users to better understand what portion of net assets can be used in operations. Net assets will change from the current three classes, permanently restricted, temporarily restricted, and unrestricted down to two classes of with donor restricted and without donor restricted classes. Designations by the board will be required to be more prominently disclosed either on the face or in the notes of the financial statements. Underwater Endowments will be presented as a component of with donor restrictions. The amendments in this update will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The amendments in this update will be applied on a retrospective basis, with early adoption permitted. Management effectively adopted this new standard and applied the treatment to all relevant balances.

NOTE 9 - BUSINESS RISK AND UNCERTAINTIES

On March 11, 2020 the World Health Organization designated COVID-19 a world health pandemic. Our existing contingency and disaster preparedness plans give management the tools necessary to guide the Ministry through such circumstances. We have evaluated the short-term and long-term impacts of this pandemic on the Ministry, the outcome of which is not predictable with assurance, and it is possible that the Ministry could be affected negatively by these circumstances. Although the ultimate financial impact of this pandemic cannot be ascertained, through a thorough evaluation of contracts in place, our customer base, and our overhead projections, management believes that any resulting financial impact should not materially affect the financial position of the Ministry as of December 31, 2019.

