

**FREE TO CHOOSE NETWORK, INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2021**

# **FREE TO CHOOSE NETWORK, INC.**

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FELIX & GLOEKLER, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

2306 Peninsula Drive • Erie, Pennsylvania 16506

### **Independent Auditor's Report**

To the Board of Directors of  
Free To Choose Network, Inc.

#### **Opinion**

We have audited the accompanying financial statements of Free To Choose Network, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Free To Choose Network, Inc. as of June 30, 2021, and the changes in its assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Free To Choose Network, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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; 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.

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 Free To Choose Network, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Independent Auditor's Report**  
**(Continued)**

**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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Free To Choose Network, 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 Free To Choose Network, 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.

*Felix and Gloekler, P.C.*  
Felix and Gloekler, P.C.

December 2, 2021  
Erie, Pennsylvania

# FREE TO CHOOSE NETWORK, INC.

## Statement of Financial Position

June 30, 2021

### Assets

#### Current Assets

Cash and cash equivalents	\$ 2,319,757
Accounts receivable	12,850
Inventory	71,961

Total Current Assets	2,404,568
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#### Property and Equipment

Office furniture and equipment	139,882
Less: Accumulated depreciation	(102,456)

Total Property and Equipment	37,426
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#### Other Assets

Goodwill, net of amortization	5,598
Investment in Capital Partners, LLC	428,127

Total Other Assets	433,725
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Total Assets	\$ 2,875,719
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### Liabilities and Net Assets

#### Current Liabilities

Payroll liabilities	\$ 6,200
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Total Current Liabilities	6,200
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#### Net Assets

##### Without donor restrictions

Designated - fixed assets and goodwill	43,024
Operations	268,447

Total Net Assets Without Donor Restrictions	311,471
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With donor restrictions	2,558,048
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Total Net Assets	2,869,519
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Total Liabilities and Net Assets	\$ 2,875,719
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See accompanying notes to the financial statements.

# FREE TO CHOOSE NETWORK, INC.

## Statement of Activities

For The Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Donations and contributions	\$ 1,970,431	\$ 2,566,977	\$ 4,537,408
Charges for services	57,538	30,300	87,838
Interest income	1,658	-	1,658
Miscellaneous	62,493	4,000	66,493
Total Revenues	2,092,120	2,601,277	4,693,397
Net assets released from restriction	1,057,697	(1,057,697)	-
Expenses			
Program Services			
Free to Choose Media	2,199,596	-	2,199,596
Total Program Services	2,199,596	-	2,199,596
Support Services			
Management and general	484,884	-	484,884
Fundraising	314,627	-	314,627
Total Support Services	799,511	-	799,511
Total Expenses	2,999,107	-	2,999,107
Change in Net Assets	150,710	1,543,580	1,694,290
Net Assets, Beginning of Year	160,761	1,014,468	1,175,229
Net Assets, End of Year	\$ 311,471	\$ 2,558,048	\$ 2,869,519

See accompanying notes to the financial statements.

# FREE TO CHOOSE, INC.

## Statement of Functional Expenses

For the Year Ended June 30, 2021

	Program	Management and General	Fundraising	Total
Personnel Expense:				
Salaries and wages	\$ 711,810	\$ 239,842	\$ 236,576	\$ 1,188,228
Payroll taxes and benefits	110,240	61,329	12,164	183,733
Total Salaries and Related Expenses	822,050	301,171	248,740	1,371,961
Consulting	426,068	9,092	24,000	459,160
Legal and professional	23,508	18,847	-	42,355
Bank fees and charges	-	15,802	-	15,802
Dues and subscriptions	-	5,317	4,955	10,272
Facility expenses	62,261	-	-	62,261
Amortization and depreciation	-	24,521	-	24,521
Office equipment	7,157	605	-	7,762
Rent	45,007	16,074	3,215	64,296
Shipping	25,777	989	4,293	31,059
Supplies	23,184	25,465	1,665	50,314
Utilities	19,095	4,429	4,429	27,953
Vehicle expense	2,604	5,209	5,209	13,022
Travel	70,230	-	10,520	80,750
Internet and computer expense	98,206	10,374	-	108,580
Public relations services	26,187	-	-	26,187
Advertising	63,323	-	-	63,323
Printing	1,731	-	7,601	9,332
Production services - broadcast	428,801	-	-	428,801
Post production services	10,111	-	-	10,111
Video expense	19,722	-	-	19,722
Conferences	9,388	-	-	9,388
Cleaning	-	1,971	-	1,971
Insurance	13,096	43,711	-	56,807
Miscellaneous	2,090	1,307	-	3,397
	<u>\$ 2,199,596</u>	<u>\$ 484,884</u>	<u>\$ 314,627</u>	<u>\$ 2,999,107</u>

See accompanying notes to the financial statements.

# FREE TO CHOOSE NETWORK, Inc.

## Statement of Cash Flows

For The Year Ended June 30, 2021

Cash Flows From Operating Activities	
Cash received from contributions, sales and other income	\$ 4,692,368
Interest received	1,658
Cash paid to suppliers and employees	(2,970,378)
Net cash provided (used) by operating activities	<u>1,723,648</u>
Cash Flows From Financing Activities	
Repayment of Paycheck Protection Program loan	(230,022)
Net cash provided (used) by financing activities	<u>(230,022)</u>
Cash Flows From Investing Activities	
Purchase of fixed assets	-
Purchase- investment in Capital Partners, LLC	(90,000)
Net cash provided (used) by investing activities	<u>(90,000)</u>
Net change in cash and cash equivalents	1,403,626
Cash and cash equivalents at beginning of the year	<u>916,131</u>
Cash and cash equivalents at end of the year	<u><u>\$ 2,319,757</u></u>
Reconciliation of Change in Net Assets to Net Cash	
Provided (Used) by Operations	
Change in Net Assets	<u>\$ 1,694,290</u>
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided (Used) by Operating Activities	
Depreciation and Amortization	24,521
Decrease (Increase) in:	
Accounts receivable	629
Inventory	5,485
Increase (Decrease) in:	
Payroll related liabilities	(1,277)
Total adjustments	<u>29,358</u>
Net cash provided (used) by operating activities	<u><u>\$ 1,723,648</u></u>

See accompanying notes to the financial statements.



**FREE TO CHOOSE NETWORK, INC.**  
**Notes to Financial Statements**  
**June 30, 2021**

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Free to Choose Network, Inc. (the Organization) produces and distributes documentary films for public television and educational videos. Videos are made available at no cost to any educator, or may be sold through a variety of venues. In addition, Free to Choose Network, Inc. is the operating manager of Capitaf Partners, LLC, an educational institute.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (GAAP).

Free To Choose Network, Inc. is required to report information regarding their financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions – Net assets that are not subject to external restrictions.

Net Assets With Donor Restrictions – Net assets subject to externally imposed restrictions that may or will be met either by passage of time or actions by the Organization.

Sequencing on the Statement of Financial Position

Assets are sequenced according to the nearness of conversion to cash, and liabilities are sequenced according to the nearness of their maturity and resulting use of cash.

Public Support and Revenue

Public support is generally available for use without donor restrictions in the year collected unless specifically restricted by the donor.

Grants and other contributions of cash are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the contribution. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Endowment contributions and investments are reported as income with donor restrictions. Investment earnings available for distribution are recorded as net assets without donor restrictions. Investment earnings with donor restrictions are recorded in net assets with donor restrictions.

## **NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Property and Equipment**

Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Depreciation expense for the year ended June 30, 2021 was \$13,325.

### **Goodwill**

Goodwill from the liquidation of Idea Channel, Inc. in December 31, 2006 is being amortized over fifteen years. The amortization expense for the year ended June 30, 2021 was \$11,196, and the accumulated amortization at June 30, 2021 was \$162,340.

### **Income Tax Status**

The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold.

### **Estimates**

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Organization considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

### **Accounts Receivable and Bad Debts**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Receivables are expensed as bad debt when management deems them to be uncollectable, using the direct charge off method.

## NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Inventory

Inventory is valued at the lower of cost or market, cost being determined by the first-in, first-out method and consists of media items that are sold or given to customers.

### Functional Allocation of Expenses

Salaries, benefits, and taxes are allocated to functional expenses based on estimated time employees spend on each function. The remaining expenses are specifically allocated wherever practical or are based on another equitable method.

### Evaluation of Subsequent Events

The Organization has evaluated subsequent events through December 2, 2021, the date of the independent auditor's report.

### Accounting Pronouncement Adopted

On July 1, 2020, the Organization adopted FASB ASU No. 2014-09 (Topic 606) - *Revenue from Contracts with Customers* ("ASU No. 2014-09" or "Topic 606"), which provides guidance for revenue recognition that superseded the revenue recognition requirements in Accounting Standards Codification ("ASC" Topic 605, *Revenue Recognition* ("Topic 605")) and most industry specific guidance. Under ASU 2014-09, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The Organization opted ASU 2014-09 under the modified retrospective approach, applying the amendments to prospective reporting periods. Results for reporting periods beginning after July 1, 2020 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 605.

### Future Changes in Accounting Principles

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842), which requires a lessee to recognize assets and liabilities on the balance sheet for those leases classified as operating leases under previous guidance. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842 (Leases)*, and ASU 2018-10, *Leases* (Topic 842), *Targeted Improvements*, which provide (1) narrow amendments to clarify how to apply certain aspects of the new lease standard, (2) entities with an additional transition method to adopt the new standard, and (3) lessors with a practical expedient for separating components of a contract. The Organization has one operating type lease commitment for its copiers that falls under this new accounting pronouncement. The lease obligation is recorded as a right to use asset and corresponding lease liability on the statement of financial position of the Organization on a modified retrospective approach. The Organization is in the process of evaluating the impact the standard will have on the financial statements for the year ending June 30, 2022.

## **NOTE 2 – CASH AND CASH EQUIVALENTS**

The Organization maintains its cash balances in one bank located in Erie, PA. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. During the year, the Organization may have cash balances in this financial institution in excess of this limit. As of June 30, 2021, \$2,102,331 was uninsured.

## **NOTE 3 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes:

Free to Choose Media Projects	\$2,558,048
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Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Free to Choose Media Projects	\$1,057,697
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## **NOTE 4 – RELATED PARTY TRANSACTION**

The Organization has hired Chitester Creative Associates, Inc. to supervise the production of various projects undertaken by the Organization. Chitester Creative Associates, Inc. is a Pennsylvania S Corporation which is wholly-owned by Robert Chitester and his children. Robert J. Chitester served as Executive Chairman of the Organization's Board of Directors during part of the fiscal year. The total amount paid to Chitester Creative Associates, Inc. by the Organization during the year ended June 30, 2021 was \$108,760. There was no outstanding balance owed to or from Chitester Creative Associates, Inc. at June 30, 2021 and no further obligations are owed.

## **NOTE 5 – INVESTMENT IN CAPITAF PARTNERS, LLC**

On June 27, 2016, Free To Choose Network, Inc. invested in a for-profit entity, CapitaF Partners, LLC. The Equity Method is used to account for the value of the Organization's investment.

The unaudited financial information of CapitaF Partners, LLC as of June 30, 2021 is as follows:

Total Assets	\$ 1,038,127
Total Liabilities	<u>-</u>
Total Partners CapitaF	<u><u>\$ 1,038,127</u></u>
Total Income	\$ -
Total Expenses	<u>-</u>
Net Profit (loss)	<u><u>\$ -</u></u>

## NOTE 6 – LEASE OBLIGATIONS

The Organization has extended several lease agreements for office space, which are classified as operating leases, through June 2022. Total rental payments during the year ended June 30, 2021 was \$64,296.

As of June 30, 2021, future minimum lease payments under the operating leases are as follows:

<u>Years ended June 30</u>	
2022	<u>\$ 63,420</u>

## NOTE 7 – RETIREMENT PLAN

The Organization established a SIMPLE IRA plan in September 2015, which is offered to all employees. The Organization matches up to a 3% maximum of each participant's deferral under the plan. The employer retirement plan expense for the year ended June 30, 2021 was \$18,727.

## NOTE 8 – MANAGEMENT OF FINANCIAL RESOURCES AND LIQUIDITY

The Organization is primarily funded through donor contributions. These funds are readily available to support the projects and operations of the Organization. Certain contributions are donor restricted, which requires the resources be used in a certain manner or future period; therefore, the Organization must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditures within one year. As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as general expenditures and liabilities as other obligations become due.

The Organization's available financial assets as of June 30, 2021, reduced by amounts that are not available for general use due to donor-imposed restrictions, are noted below. Amounts that are not available also include net assets consisting of the Organization's fixed assets and net of related debt.

	<u>2021</u>
Total assets as of June 30	\$ 2,875,719
Less those unavailable for general expenditure within one year due to:	
Donor restrictions	(2,558,048)
Fixed assets/Goodwill	<u>(43,024)</u>
Financial assets available for use within one year	<u>\$ 274,647</u>

## NOTE 9 – THE CARES ACT AND THE PAYCHECK PROTECTION PROGRAM

In May 2020, Free To Choose Network, Inc. received an unsecured, \$230,022 Paycheck Protection Loan. The Organization paid the loan in full on April 28, 2021, plus \$2,225 of interest.

## NOTE 10 – REVENUE RECOGNITION

### Revenue Recognition

Revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services by following a five-step process, (1) identify the contract with the customer, (2) identify the performance obligation in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Organization satisfies a performance obligation, as further described below.

*Identify the contract with a customer.* The Organization generally considers a contract or agreement with clients and other agencies as a customer contract provided that the collection is considered probable, which is assessed based on the creditworthiness of the customer as determined by payment histories and/or other circumstances. The Organization considers a contract upon the sale of merchandise including videos and books.

*Identify the performance obligations in the contract.* Service performance obligations by the Organization are considered at the time of purchase and payment.

*Determine the transaction price.* The transaction price for the Organization's contract with its customers consists of variable consideration.

*Allocate the transaction price to the performance obligations in the contract.* The price is allocated based on the sale prices noted on the website.

*Recognize revenue when or as the Organization satisfies a performance obligation.* Revenue is recognized at the time of sale.

There are no receivables for the sale of merchandise.