



LOVE OUT LOUD
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022



LOVE OUT LOUD

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Love Out Loud
Winston-Salem, North Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Love Out Loud, which comprise the consolidated statement of financial position as of December 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Love Out Loud as of December 31, 2022, and the changes in its consolidated net 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 (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 Love Out Loud 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 the 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 Love Out Loud's ability to continue as a going concern for one year after the date that the financial statements are 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 Love Out Loud'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 Love Out Loud'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.

Pettit & Company, PLLC

Indianapolis, Indiana
October 10, 2023

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2022

Assets

Current assets	
Cash and cash equivalents	\$ 433,000
Investments, at fair value	609,912
Accounts receivable	56,475
Other receivable	424
Total current assets	<u>1,099,811</u>
Property and equipment	
Land	24,600
Buildings	394,090
Total property and equipment	418,690
Accumulated depreciation	<u>(25,677)</u>
Net property and equipment	<u>393,013</u>
Total assets	<u>\$ 1,492,824</u>

Liabilities and net assets

Current liabilities	
Accounts payable	\$ 8,215
Total liabilities	<u>8,215</u>
Net assets	
Without donor restrictions	425,827
With donor restrictions	<u>1,058,782</u>
Total net assets	<u>1,484,609</u>
Total liabilities and net assets	<u>\$ 1,492,824</u>

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CONSOLIDATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Support and revenue			
Grants	\$ 80,424	\$ 60,790	\$ 141,214
Contributions	247,446	815,921	1,063,367
School of Love tuition	10,000	-	10,000
Miscellaneous	11,696	-	11,696
Net assets released from restrictions			
Satisfaction of program requirements	857,502	(857,502)	-
Total support and revenue	<u>1,207,068</u>	<u>19,209</u>	<u>1,226,277</u>
Expenses			
Program expenses	1,153,931	-	1,153,931
Management and general	97,734	-	97,734
Fundraising	26,048	-	26,048
Total expenses	<u>1,277,713</u>	<u>-</u>	<u>1,277,713</u>
Change in net assets	<u>(70,645)</u>	<u>19,209</u>	<u>(51,436)</u>
Net assets - beginning of year	<u>496,472</u>	<u>1,039,573</u>	<u>1,536,045</u>
Net assets - end of year	<u>\$ 425,827</u>	<u>\$ 1,058,782</u>	<u>\$ 1,484,609</u>

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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>School of Love</u>	<u>Lit City</u>	<u>Aces</u>	<u>Christmas for the City</u>	<u>Other Programs</u>	<u>Total Program</u>	<u>Management and general</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 139,907	\$ -	\$ -	\$ -	\$ 230,027	\$ 369,934	\$ 70,524	\$ 15,448	\$ 455,906
Employee benefits	-	-	-	-	7,339	7,339	2,795	690	10,824
Payroll taxes	11,347	-	-	-	16,383	27,730	-	-	27,730
Program	10,166	27,311	128,728	18,600	220,611	405,416	-	-	405,416
Advertising and marketing	523	-	-	4,334	17,674	22,531	16,046	9,910	48,487
Bank charges	251	193	-	-	2,503	2,947	-	-	2,947
Occupancy	2,923	600	-	18,770	24,463	46,756	-	-	46,756
Insurance	-	310	-	2,720	6,099	9,129	-	-	9,129
Workers compensation	-	-	-	-	5,927	5,927	-	-	5,927
Professional fees	-	-	-	-	-	-	8,369	-	8,369
Office supplies	2,190	-	-	1,693	11,613	15,496	-	-	15,496
Travel and mileage reimbursement	-	-	-	-	14,953	14,953	-	-	14,953
Contract labor	13,491	69,369	105,410	17,646	9,158	215,074	-	-	215,074
Miscellaneous	-	-	-	753	-	753	-	-	753
Depreciation	-	-	-	-	9,946	9,946	-	-	9,946
Total expenses	\$ 180,798	\$ 97,783	\$ 234,138	\$ 64,516	\$ 576,696	\$ 1,153,931	\$ 97,734	\$ 26,048	\$ 1,277,713

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022

Cash flows from operating activities	
Change in net assets	\$ (51,436)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	9,946
Realized (gain) on investments	(7,295)
(Increase) decrease in assets	
Accounts receivable	(778)
Contributions receivable	(424)
Increase (decrease) in liabilities	
Accounts payable	5,619
Accrued payroll taxes payable	(4,062)
Net cash provided by (used in) operating activities	<u>(48,430)</u>
Net increase (decrease) in cash and cash equivalents	(48,430)
Cash and cash equivalents, beginning of year	<u>481,430</u>
Cash and cash equivalents, end of year	<u><u>\$ 433,000</u></u>

Supplemental Schedule of Cash Flow Information

Interest paid	<u>\$ -</u>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Love Out Loud is a North Carolina nonprofit Organization organized in 2015. Love Out Loud, located in Winston-Salem, North Carolina, is the sole-member of Love Out Loud Yadkin, located in Yadkin, North Carolina (collectively the “Organization”). The Organization connects and mobilizes people and resources to transform cities with the love of Jesus. Love Out Loud is a network of churches, groups, and individuals living out Christ’s call to love their neighbors. The Organization partners with well over 300 faith groups, nonprofits, and other local community organizations, as well as several hundred businesses, for the flourishing of their community. In the process, Love Out Loud works to find alignment across all of these efforts in order to maximize community resources while mobilizing thousands of volunteers in their unique passions and skills.

Basis of consolidation

The accompanying consolidated financial statements include the accounts of Love Out Loud and Love Out Loud Yadkin.

Basis of presentation

These financial statements have been prepared to focus on the entity as a whole and to present transactions according to the existence or absence of donor-imposed restrictions in conformity with accounting principles generally accepted in the United States of America. This has been done by classification of fund transactions and balances into two categories of net assets:

Net assets without donor restrictions: These net assets generally result from revenues generated by receiving contributions that have no donor restrictions, providing services, and receiving interest from operating investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions: These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

Cash and cash equivalents

The Organization considers deposits on account and investments with maturity dates less than three months at the time of purchase to be cash and cash equivalents. As of December 31, 2022, there were no investments included in the cash balance. At various times throughout the year, the Organization has deposits in excess of amounts covered by federal depository insurance. Cash accounts at a financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. To date, there have been no losses on such accounts.

Investments

The Organization accounts for investments with readily determinable fair values in the statement of financial position at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date. Purchases and sales of investments are recorded on the trade date. Gains and losses on the sale of investments are determined using the specific identification method. Unrealized gains and losses are included in the statement of activities.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the financial statements.

Accounts receivable

Accounts receivable consist of contributions receivable. Delinquent receivables are written off and included in bad debt expense in the period the balances are deemed uncollectible by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debt; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property and equipment

Property and equipment are recorded at cost and depreciation is computed using the straight line method. Depreciation is computed over the estimated useful lives of each individual asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized as income or loss for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

The Organization is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standards Codification (ASC) 360-10. Impairment or Disposal of Long-Lived Assets has no retroactive impact on the Organization's financial statements. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying amount of the assets. In such cases, the carrying value of assets to be held and used are adjusted to their estimated fair value and assets held for sale are adjusted to their estimated fair value less selling expenses. No impairment losses were recognized during the year ended December 31, 2022.

Income taxes

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Organization has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Organization recognized no interest or penalties in the statements of activities for the year ended December 31, 2022. If the situation arose in which the Organization would have interest to recognize it, it would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under federal and state statutes of limitations and remain subject to review and change. The Organization is not currently under audit nor has the Organization been contacted by these jurisdictions.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (Continued)

Based on the evaluation of the Organization's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year ended December 31, 2022.

Functional expenses

The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Directly identifiable expenses are charged to the appropriate programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of estimates made by management.

Estimates

The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Total advertising expense for the year ended December 31, 2022 totaled \$48,487.

Management's review of subsequent events

Management has performed an analysis of the activities and transactions subsequent to December 31, 2022, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2022. Management has performed their analysis of subsequent events through October 10, 2023, the date the financial statements were available to be issued.

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NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2022, the Organization adopted the provisions of ASC Topic 842, Leases. The standard requires lessees to recognize most leases on their statement of financial position as a right-of-use ("ROU") asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis; however, the effect of using the discounted basis is not material to the financial statements for the year ended December 31, 2022. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the standard retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the income statement. The Organization adopted Topic 842, Leases, on January 1, 2022, using the optional transition method as provided by Accounting Standards Update ("ASU") No. 2018-11, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under ASC Topic 840, Leases.

The Organization elected the "package of practical expedients" under the transition guidance within Topic 842, in which the Organization does not reassess (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the "hindsight" practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease, or January 1, 2022, for existing leases upon the adoption of Topic 842. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. Absent an implicit rate to determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date, or remaining term for leases existing upon the adoption of Topic 842, or uses an incremental borrowing rate.

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

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NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The Organization has made an accounting policy election to account for lease and non-lease components in its contracts as a single lease component for its real estate and equipment asset classes. The non-lease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Adoption of Topic 842 did not result in the recording of additional ROU assets and lease liabilities.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

As part of its liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The following schedule explains the Organization’s financial assets to meet cash needs for general expenditures within one year. The financial assets were derived from the total assets on the statement of financial position.

Cash and cash equivalents	\$ 433,000
Investments, at fair value	609,912
Accounts receivable	56,475
Other receivable	<u>424</u>
Total financial assets	<u>\$ 1,102,149</u>
Less amounts not available to be used within one year:	
Donor – imposed restrictions	<u>(1,058,782)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 43,367</u>

NOTE 4 – INVESTMENTS

Investments are composed of the following:

Taxable bond funds \$ 609,912

Net return on investments is as follows:

Dividends \$ 7,295

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NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP defines fair value for financial instruments as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Organization’s principal or most advantageous market of the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs shall reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets measured at fair value as of December 31, 2022 are summarized as follows:

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Taxable bond funds	\$ <u>609,912</u>	\$ <u>609,912</u>	\$ _____ -	\$ _____ -

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2022 are available for the following purposes:

Purpose or time restricted:	
Atrium Health Wake Forest Baptist - FaithHealth	\$ 49,589
Kate B. Reynolds Charitable Trust	93,294
Lilly Endowment, Inc.	485,779
Shallow Ford Foundation	38,360
Other Individual Restricted Donations	<u>391,760</u>
Total net assets with donor restrictions	<u>\$1,058,782</u>

NOTE 7 – OPERATING LEASE

The Organization has a month to month operating lease agreement. Total operating lease payments were \$9,050 for the year ended December 31, 2022.

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NOTE 8 – EMPLOYEE BENEFIT PLANS

The Organization has established two employee benefit plans for its employees. The first plan is a SIMPLE-IRA plan available to all full time employees. The second plan is a 403(b) retirement plan for ministers. Employees can make pretax contributions in addition to any discretionary payments made by the Organization. The Organization made contributions totaling \$10,824 for the year ended December 31, 2022.