

THE TWELFTH STEP MINISTRY, INC.  
FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2016 and 2015

THE TWELFTH STEP MINISTRY, INC.

DECEMBER 31, 2016 and 2015

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**LORI K. ORTA, P.C.**  
Certified Public Accountant

Independent Auditor's Report

To the Board of Directors  
The Twelfth Step Ministry, Inc.

We have audited the accompanying financial statements of The Twelfth Step Ministry, Inc. (a nonprofit corporation) (the "Organization"), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in 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 The Twelfth Step Ministry, Inc. as of December 31, 2016 and 2015, 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.

*Lori K. Orta, P.C.*

Dallas, Texas  
April 1, 2017

The Twelfth Step Ministry, Inc.  
 STATEMENTS OF FINANCIAL POSITION  
 December 31,

ASSETS

	2016	2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 152,317	\$ 108,679
Cash and cash equivalents - temporarily restricted	12,000	545
Employee receivable	-	3,611
Prepaid expenses	24	94
Total current assets	164,341	112,929
<b>TOTAL ASSETS</b>	<b>\$ 164,341</b>	<b>\$ 112,929</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Due to Lovers Lane United Methodist Church	\$ 17,226	\$ 24,021
Total current liabilities	17,226	24,021
<b>NET ASSETS</b>		
Unrestricted net assets		
Undesignated	110,115	88,363
Board designated	25,000	-
Total unrestricted net assets	135,115	88,363
Temporarily restricted	12,000	545
	147,115	88,908
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 164,341</b>	<b>\$ 112,929</b>

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

The Twelfth Step Ministry, Inc.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 64,242	\$ 12,000	\$ 76,242
Rental fees	71,358	-	71,358
Special events	60,367	-	60,367
Less: direct expenses	<u>(12,679)</u>	<u>-</u>	<u>(12,679)</u>
Net special events	47,688	-	47,688
In-kind services	5,210	-	5,210
Other	17	-	17
Net assets released from restrictions	<u>545</u>	<u>(545)</u>	<u>-</u>
Total support and revenues	<u>189,060</u>	<u>11,455</u>	<u>200,515</u>
<b>EXPENSES</b>			
Program services	124,457	-	124,457
General and administrative	15,890	-	15,890
Fundraising	<u>1,961</u>	<u>-</u>	<u>1,961</u>
Total expenses	<u>142,308</u>	<u>-</u>	<u>142,308</u>
<b>INCREASE IN NET ASSETS</b>	46,752	11,455	58,207
<b>NET ASSETS at beginning of year</b>	<u>88,363</u>	<u>545</u>	<u>88,908</u>
<b>NET ASSETS at end of year</b>	<u>\$ 135,115</u>	<u>\$ 12,000</u>	<u>\$ 147,115</u>

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

The Twelfth Step Ministry, Inc.  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 74,617	\$ -	\$ 74,617
Rental fees	68,379	-	68,379
Special events	57,011	-	57,011
Less: direct expenses	(12,123)	-	(12,123)
Net special events	44,888	-	44,888
In-kind services	5,647	-	5,647
Other	258	-	258
Net assets released from restrictions	3,600	(3,600)	-
Total support and revenues	197,389	(3,600)	193,789
<b>EXPENSES</b>			
Program services	142,148	-	142,148
General and administrative	16,355	-	16,355
Fundraising	1,755	-	1,755
Total expenses	160,258	-	160,258
<b>INCREASE (DECREASE) IN NET ASSETS</b>	37,131	(3,600)	33,531
<b>NET ASSETS at beginning of year</b>	51,232	4,145	55,377
<b>NET ASSETS at end of year</b>	\$ 88,363	\$ 545	\$ 88,908

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

The Twelfth Step Ministry, Inc.  
 STATEMENTS OF CASH FLOWS  
 For the Years Ended December 31,

	2016	2015
Increase (decrease) in cash and cash equivalents		
Cash flows from operating activities		
Change in net assets	\$ 58,207	\$ 33,531
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Employee receivable	3,611	(3,611)
Prepaid expense	70	(94)
Accounts payable	-	(151)
Due to Lovers Lane United Methodist Church	(6,795)	23,998
Net cash provided by operating activities	55,093	53,673
Cash flows from investment activities		
Change in cash and cash equivalents - temporarily restricted	(11,455)	3,600
Net cash provided by (used in) investment activities	(11,455)	3,600
 INCREASE IN CASH AND CASH EQUIVALENTS	 43,638	 57,273
Cash and cash equivalents at beginning of year	108,679	51,406
Cash and cash equivalents at end of year	\$ 152,317	\$ 108,679

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

The Twelfth Step Ministry, Inc.  
 STATEMENT OF FUNCTIONAL EXPENSES  
 For the Year Ended December 31, 2016

	Program	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Salaries	\$ 56,964	\$ 2,450	\$ 1,838	\$ 4,288	\$ 61,252
Payroll taxes	3,811	164	123	287	4,098
Employee insurance	9,824	200	-	200	10,024
Rent and administrative services	36,900	5,210	-	5,210	42,110
Vehicle expense	41	-	-	-	41
Telephone	1,922	-	-	-	1,922
Office expense	3,078	-	-	-	3,078
Auditing and accounting	-	4,569	-	4,569	4,569
Conference and education	94	-	-	-	94
Repairs and maintenance	7,274	-	-	-	7,274
Technology	3,012	3,297	-	3,297	6,309
Other	1,537	-	-	-	1,537
	<u>\$ 124,457</u>	<u>\$ 15,890</u>	<u>\$ 1,961</u>	<u>\$ 17,851</u>	<u>\$ 142,308</u>

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

The Twelfth Step Ministry, Inc.  
 STATEMENT OF FUNCTIONAL EXPENSES  
 For the Year Ended December 31, 2015

	Program	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Salaries	\$ 68,046	\$ 3,105	\$ 1,755	\$ 4,860	\$ 72,906
Payroll taxes	4,993	102	-	102	5,095
Employee insurance	11,747	240	-	240	11,987
Rent and administrative services	39,600	5,647	-	5,647	45,247
Vehicle expense	111	-	-	-	111
Telephone	2,068	-	-	-	2,068
Office expense	3,459	900	-	900	4,359
Auditing and accounting	-	2,956	-	2,956	2,956
Conference and education	162	-	-	-	162
Repairs and maintenance	8,436	-	-	-	8,436
Technology	2,902	3,395	-	3,395	6,297
Other	624	10	-	10	634
	<u>\$ 142,148</u>	<u>\$ 16,355</u>	<u>\$ 1,755</u>	<u>\$ 18,110</u>	<u>\$ 160,258</u>

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

The Twelfth Step Ministry, Inc.  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Twelfth Step Ministry, Inc. (the “Organization”) was formed in 1991 and incorporated in 2005. The Organization is a Texas nonprofit corporation dedicated to establishing, developing and promoting an improved way of life for members of the recovery community. The Organization offers a safe environment at the Center for Spiritual Development where healing can lead to preparation for returning to family, friends, and professions. The Organization’s sole member is Lovers Lane United Methodist Church (the “Church”).

The Organization’s primary sources of revenue are contributions from donors who have a common desire to promote recovery and from rental fees collected from those who meet at the Organization’s Center for Spiritual Development.

Basis of Accounting

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

For reporting purposes, resources are classified into three net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. In April 2016, the Board of Directors designated \$25,000 for an operating reserve.

Temporarily restricted net assets - net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with donor imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. There were no permanently restricted net assets at December 31, 2016 and 2015.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with an initial maturity of three months or less. The FDIC deposit insurance insures deposits up to \$250,000 per deposit, per insured bank for each ownership category. There were no uninsured balances at December 31, 2016 and 2015.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, employee receivable, prepaid expenses, due to the Church and accounts payable approximate fair value due to the short-term maturities of these assets and liabilities.

The Twelfth Step Ministry, Inc.  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, if purchased or at estimated fair value at the date of donation. The Organization capitalizes expenditures for property, plant and equipment in excess of \$5,000 and with an estimated useful life greater than one year. Maintenance and repairs are charged to expense as incurred. Depreciation of property plant and equipment is computed on a straight-line basis over the estimated useful life.

Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are made.

Donated Goods and Services

The Organization records the estimated value of donated goods and services at the time of receipt when there is an objective basis available to measure their value. See Note 3. The Organization receives a substantial amount of services donated by individuals in carrying out the Organization's mission. In accordance with ASC 958-605 *Not-for-Profit Entities – Revenue Recognition*, the value of the contributed time is not reflected in the accompanying financial statements, because it is not susceptible to objective measurement or valuation.

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of activities for the years ended December 31, 2016 and 2015. Accordingly, certain costs have been allocated among the programs and services benefited.

Income Taxes

The Organization is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the accompanying financial statements.

The Organization has concluded that it does not have any unrecognized tax benefits resulting from the current or prior period tax positions. Accordingly, no additional disclosures have been made on the financial statements regarding ASC 740, *Income Taxes*. The Organization does not have any outstanding interest or penalties, and none have been recorded in the statement of activities and changes in net assets for the years ended December 31, 2016 and 2015. The Organization's informational returns filed are generally subject to examination for three years after the later of the due date or date of filing. As a result, the Organization is no longer subject to income tax examination by tax authorities for years prior to 2013.

Estimates

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. Actual results could differ from those estimates.

The Twelfth Step Ministry, Inc.  
NOTES TO FINANCIAL STATEMENTS

2. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of donations restricted for the following purposes at December 31,:

	2016	2015
Rent	\$ 12,000	\$ -
Creekside – Youth in Recovery	-	545
	\$ 12,000	\$ 545

3. RELATED PARTY

The Church provides administrative services, including but not limited to: financial reporting, human resources, information systems, facilities, insurance, communications services and legal support. For the year ended December 31, 2016, related party services were \$42,110 for the use of space and for administrative, including \$5,210 of in-kind shared services in accordance with ASC 958-720-25-9 Not-for-Profit Entities – Other Expenses. For the year ended December 31, 2015, related party services were \$45,247 for the use of space and for administrative, including \$5,647 of in-kind shared services in accordance with ASC 958-720-25-9 Not-for-Profit Entities – Other Expenses. The Organization recognizes shared services received from personnel of the Church as in-kind administrative services. Shared services generally refers to services provided by a central function of one or more individuals within an affiliate group that the Organization would otherwise need to purchase or have donated. The value of the contributed time is reflected in the financial statements.

The Organization also maintains cash balances which are comingled with the Church. The Church processes cash receipts and disbursement for the Organization. At December 31, 2016 and 2015, the Organization owed the Church \$17,226 and \$24,021, respectively for excess disbursements over receipts.

4. EMPLOYEE RETIREMENT PLAN

The Organization has adopted a defined contribution retirement plan, administered by the Wespath Benefits and Investments. This plan is for the benefit of all full time employees, including ordained ministerial staff. To participate, employees must contribute at least three percent of their eligible compensation. The Organization contributes six percent of eligible employee compensation. For the years ended December 31, 2016 and 2015, there were no employer contributions to the plan.

5. FINANCIAL CONDITION

The Organization depends heavily on contributions from donors, rental fees and net special events for its revenue. The ability of the donors to continue giving may be dependent, among other things, upon current and future overall economic conditions and the continued deductibility for income tax purposes of donations to the Organization. While management believes the Organization has the resources to continue its programs, its ability to do so and the extent to which it continues may be dependent on the above factors.

6. CONCENTRATIONS

At December 31, 2016, \$42,350 or 20% of the Organization's total support and revenues was from board members. At December 31, 2015, \$64,900 or 32% of the Organization's total support and revenues was from board members.

The Twelfth Step Ministry, Inc.  
NOTES TO FINANCIAL STATEMENTS

7. SUBSEQUENT EVENTS

In preparing financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 1, 2017, the date the financial statements were available to be issued and determined that there were no such events or transactions that require disclosure for the year ended December 31, 2016.