

THE TWELFTH STEP MINISTRY, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018

THE TWELFTH STEP MINISTRY, INC.

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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 statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Organization as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lori K. Orta, P.C.

Dallas, Texas
August 19, 2019

The Twelfth Step Ministry, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2018

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 187,184
Total current assets	<u>187,184</u>
PROPERTY, PLANT AND EQUIPMENT - NET	<u>2,277,569</u>
TOTAL ASSETS	<u><u>\$ 2,464,753</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 768
Due to Lovers Lane United Methodist Church	<u>2,733</u>
Total current liabilities	<u>3,501</u>
CAPITAL LEASE OBLIGATION - NET - RELATED PARTY	<u>1,288,647</u>
NET ASSETS	
Without donor restrictions	
Undesignated	1,147,605
Board designated	<u>25,000</u>
Total without donor restrictions	<u>1,172,605</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,464,753</u></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, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	\$ 40,616	\$ -	\$ 40,616
Rental fees	61,205	-	61,205
Special events	106,910	-	106,910
Less: direct expenses	<u>(25,122)</u>	<u>-</u>	<u>(25,122)</u>
Net special events	81,788	-	81,788
In-kind goods and services	17,098	-	17,098
Forgiveness of capital lease payable	1,000,000	-	1,000,000
Other	445	-	445
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,201,152</u>	<u>-</u>	<u>1,201,152</u>
EXPENSES			
Twelfth Step Program	146,142	-	146,142
Supporting services			
General and administrative	39,428	-	39,428
Fundraising	<u>9,553</u>	<u>-</u>	<u>9,553</u>
Total expenses	<u>195,123</u>	<u>-</u>	<u>195,123</u>
INCREASE IN NET ASSETS	1,006,029	-	1,006,029
NET ASSETS, at beginning of year	<u>166,576</u>	<u>-</u>	<u>166,576</u>
NET ASSETS, at end of year	<u>\$ 1,172,605</u>	<u>\$ -</u>	<u>\$ 1,172,605</u>

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

The Twelfth Step Ministry, Inc.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ 1,006,029
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation	11,084
Acquisition of property, plant and equipment via donated services	(2,344)
Forgiveness of capital lease obligation	(1,000,000)
Amortization of interest on capital lease obligation	20,506
Changes in operating assets and liabilities, net	
Contributions receivable	15,100
Accounts receivable	1,675
Accounts payable	68
Due to Lovers Lane United Methodist Church	(5,483)
Net cash used in operating activities	<u>46,635</u>
Cash flows from investment activities:	
Acquisition of property, plant and equipment	<u>(18,168)</u>
Net cash used in investment activities	<u>(18,168)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	28,467
Cash and cash equivalents, at beginning of year	<u>158,717</u>
Cash and cash equivalents, at end of year	<u>\$ 187,184</u>
Supplemental disclosure of investing and financing non-cash activities:	
Acquisition of property, plant and equipment via capital lease obligation	<u>\$ 2,268,141</u>
Acquisition of property, plant and equipment via donated services	<u>\$ 2,344</u>
Reduction on capital lease obligation via forgiveness of debt	<u>\$ 1,000,000</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, 2018

	Supporting Services				Total
	Twelfth Step Program	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 56,539	\$ 21,744	\$ 8,698	\$ 30,442	\$ 86,981
Rent and administrative services	48,762	10,061	30	10,091	58,853
Interest expense	19,071	1,230	205	1,435	20,506
Depreciation	10,308	665	111	776	11,084
Technology	3,975	257	43	300	4,275
Office expense	2,866	185	31	216	3,082
Professional services	-	2,462	-	2,462	2,462
Utilities	2,129	137	23	160	2,289
Conference and sponsorship	2,132	-	-	-	2,132
Other	360	973	-	973	1,333
Travel	-	968	-	968	968
Repairs and maintenance	-	746	-	-	746
Advertising	-	-	412	412	412
	\$ 146,142	\$ 39,428	\$ 9,553	\$ 48,235	\$ 195,123

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

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

1. CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2018, The Twelfth Step Ministry, Inc. (the “Organization”) adopted Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Organization’s net assets previously reported as temporarily restricted and permanently restricted are now reported as net assets with donor restrictions. Likewise, the Organization’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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 program is as follows:

Twelfth Step Program – is peer led support groups to help individuals continue to remain free of substance abuse and behavioral issues. A place where individuals can find sponsors, families and peer support.

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.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. See Note 7.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash. See Note 3.

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, 2018.

Fair Value of Financial Instruments

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

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.

	<u>Estimated Useful Lives</u>
Building	40 years
Parking lot	15 years

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.

In-kind Goods and Services

The Organization records the estimated value of in-kind goods and services at the time of receipt when there is an objective basis available to measure their value. See Note 6 and 8. 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. See Note 6.

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 and changes in net assets for the year ended December 31, 2018. Accordingly, certain costs have been allocated among the programs and services benefited. Such allocations are determined by management on an equitable basis

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses (Continued)

The expenses that are allocated include the following:

	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Rent expense	Square footage
Interest expense	Square footage
Depreciation	Square footage
Utilities	Square footage

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 year ended December 31, 2018. 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 2015.

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.

3. LIQUIDITY AND AVAILABILITY

The following reflects the organization's financial assets as of December 31, 2018, reduced by amounts not available for general use because of donor-imposed restrictions and board designations within one year of the statement of financial position date. Amounts available include donor restricted amounts that are available for general expenditure in the following year.

Financial assets	
Cash and cash equivalents	\$ 187,134
Total financial assets	187,134
Less amounts not available to be used within one year, due to	
Designated by Board for operating reserve	(25,000)
Financial assets available to meet general expenditures within one year	\$ 162,134

As a part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization receives contributions without donor restrictions and with donor restriction, which are ongoing and central to its annual operations to be available to meet cash needs for general expenditures. In addition the Board has set a designated operating reserve of \$25,000 to provide reasonable assurance that obligations will be discharged.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at December 31, 2018:

Building	\$ 1,637,491
Land	249,496
Parking lot	383,498
Construction in progress	<u>18,168</u>
	2,288,653
Accumulated depreciation	<u>(11,084)</u>
Total	<u>\$ 2,277,569</u>

Depreciation expense was \$11,084 for the year ended December 31, 2018.

The Organization leases certain property, plant and equipment under a capital lease obligation expiring on October 31, 2068. Property, plant and equipment includes the following for lease that have been capitalized at December 31, 2018:

Building and parking lot	\$ 2,268,141
Accumulated depreciation	<u>(11,074)</u>
Total	<u>\$ 2,257,067</u>

For the year ended December 31, 2018, depreciation on leased assets of \$11,074, is included in depreciation expense. Interest expense on leased equipment was \$20,560 for the year ended December 31, 2018. See Note 5.

5. CAPITAL LEASE OBLIGATION – RELATED PARTY

On November 1, 2018, the Organization entered into a 50 year lease agreement with the Church for the existing building located at 5324 West Northwest Highway in Dallas. The Organization recorded the asset and a related capital lease. The balance of the capital lease is \$1,288,647 at December 31, 2018. During 2018, the Church forgave \$1,000,000 of the capital lease obligation.

The following is a schedule by year of future minimum lease payments remaining on the capital leases obligation together with the present value of the future minimum lease payments as of December 31, 2018:

December 31, 2019	\$ -
December 31, 2020	-
December 31, 2021	<u>1,500,000</u>
Total minimum lease payments	1,500,000
Less: amounts representing interest	<u>(211,353)</u>
Net present value of future minimum lease payments	<u>\$ 1,288,647</u>

6. IN-KIND GOODS AND SERVICES

The value of in-kind goods and services is as follows for the year ended December 31, 2018:

Shared services from affiliate	\$ 6,421
Rent	8,333
Professional services	<u>2,344</u>
	<u>\$ 17,098</u>

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

7. BOARD DESIGNATED NET ASSETS

The Board has designated, from net assets without donor restrictions of \$1,172,605, an operating reserve of \$25,000. The operative reserve is to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization.

8. 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, 2018, related party services were \$58,853 for the use of space and for administrative services, including \$6,421 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.

During 2018, The Organization entered into capital lease with the Church. See Note 5.

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, 2018, the Organization owed the Church \$2,733 for excess disbursements over receipts.

9. 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 contributed at least three percent of their eligible compensation. The Organization contributes six percent of eligible employee compensation. For the year ended December 31, 2018, there were \$4,198 of employer contributions to the plan.

10. 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.

11. CONCENTRATIONS

At December 31, 2018, approximately \$93,000 or 63% of the Organization's contributions and special event revenue were from board members.

12. SUBSEQUENT EVENTS

In preparing financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 19, 2019, 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, 2018.