

THE TWELFTH STEP MINISTRY, INC.
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2023 AND 2022

THE TWELFTH STEP MINISTRY, INC.

DECEMBER 31, 2023 AND 2022

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Independent Auditors' Report

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

Opinion

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, 2023 and 2022, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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 the Organization as of December 31, 2023 and 2022, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 U.S. GAAP, 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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.

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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 the Organization'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 the Organization'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.

Orta & Choate, P.C.

McKinney, Texas
November 7, 2024

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

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	\$ 526,323	\$ 358,204
Contributions receivable	10,000	-
Due From Lovers Lane United Methodist Church	20,039	-
Total current assets	556,362	358,204
 CASH AND CASH EQUIVALENTS - RESTRICTED FOR CAPITAL EXPENDITURES	 454,961	 409,475
 INVESTMENT FUNDS HELD IN GUARDIANSHIP BY FOUNDATION - RESTRICTED FOR CAPITAL EXPENDITURES	 4,592,547	 1,635,171
 PROPERTY, PLANT AND EQUIPMENT - NET	 2,312,374	 2,340,663
 TOTAL ASSETS	 \$ 7,916,244	 \$ 4,743,513
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 4,200	\$ 1,555
Due to Lovers Lane United Methodist Church	-	42,541
Total current liabilities	4,200	44,096
 NET ASSETS		
Without donor restrictions		
Undesignated	2,351,361	2,342,595
Board designated	25,000	25,000
Total without donor restrictions	2,376,361	2,367,595
With donor restrictions	5,535,683	2,331,822
Total net assets	7,912,044	4,699,417
 TOTAL LIABILITIES AND NET ASSETS	 \$ 7,916,244	 \$ 4,743,513

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	\$ 141,249	\$ 3,178,406	\$ 3,319,655
Rental fees	53,753	-	53,753
Special events	98,105	-	98,105
Less: direct expenses	<u>(23,374)</u>	<u>-</u>	<u>(23,374)</u>
Net special events	74,731	-	74,731
Change in investment funds held in guardianship by Foundation	-	26,826	26,826
In-kind goods and services	6,886	-	6,886
Other	9,744	-	9,744
Net assets released from restrictions	<u>1,371</u>	<u>(1,371)</u>	<u>-</u>
Total support and revenues	<u>287,734</u>	<u>3,203,861</u>	<u>3,491,595</u>
EXPENSES			
Program services			
Twelfth Step Program	192,665	-	192,665
Supporting services			
General and administrative	43,114	-	43,114
Fundraising	<u>43,189</u>	<u>-</u>	<u>43,189</u>
Total supporting services	<u>86,303</u>	<u>-</u>	<u>86,303</u>
Total expenses	<u>278,968</u>	<u>-</u>	<u>278,968</u>
CHANGE IN NET ASSETS	8,766	3,203,861	3,212,627
NET ASSETS, at beginning of year	<u>2,367,595</u>	<u>2,331,822</u>	<u>4,699,417</u>
NET ASSETS, at end of year	<u>\$ 2,376,361</u>	<u>\$ 5,535,683</u>	<u>\$ 7,912,044</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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Contributions	\$ 79,888	\$ 1,945,069	\$ 2,024,957
Rental fees	54,626	-	54,626
Special events	75,978	-	75,978
Less: direct expenses (includes in-kind of \$5,000)	<u>(18,866)</u>	<u>-</u>	<u>(18,866)</u>
Net special events	57,112	-	57,112
Change in investment funds held in guardianship by Foundation	-	12,483	12,483
In-kind goods and services	11,886	-	11,886
Forgiveness of capital lease payable	529,193	-	529,193
Other	13,824	-	13,824
Net assets released from restrictions	<u>19,983</u>	<u>(19,983)</u>	<u>-</u>
Total support and revenues	<u>766,512</u>	<u>1,937,569</u>	<u>2,704,081</u>
EXPENSES			
Program services			
Twelfth Step Program	182,072	-	182,072
Supporting services			
General and administrative	33,144	-	33,144
Fundraising	<u>14,988</u>	<u>-</u>	<u>14,988</u>
Total supporting services	<u>48,132</u>	<u>-</u>	<u>48,132</u>
Total expenses	<u>230,204</u>	<u>-</u>	<u>230,204</u>
CHANGE IN NET ASSETS	536,308	1,937,569	2,473,877
NET ASSETS, at beginning of year	<u>1,831,287</u>	<u>394,253</u>	<u>2,225,540</u>
NET ASSETS, at end of year	<u>\$ 2,367,595</u>	<u>\$ 2,331,822</u>	<u>\$ 4,699,417</u>

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,

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 3,212,627	\$ 2,473,877
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	66,504	66,504
Forgiveness of capital lease obligation	-	(529,193)
Contributions restricted for investment in building and land	(3,168,406)	(1,945,069)
Net change in investment funds held in guardianship by Foundation	(26,826)	(12,483)
Changes in operating assets and liabilities, net		
Contributions receivable	-	10,000
Accounts payable and accrued expenses	2,645	(77,195)
Due (to)/from Lovers Lane United Methodist Church	(62,580)	24,798
Net cash provided by operating activities	23,964	11,239
Cash flows from investment activities:		
Acquisition of property, plant and equipment	(38,215)	(119,088)
Contribution received for investment funds held in guardianship by Foundation	(2,930,550)	(1,475,000)
Net cash used in investment activities	(2,968,765)	(1,594,088)
Cash flows from financing activities:		
Proceeds from contributions restricted for:		
Investment in building and land	3,158,406	1,945,069
Net cash provided by financing activities	3,158,406	1,945,069
INCREASE IN CASH AND CASH EQUIVALENTS	213,605	362,220
Cash and cash equivalents, at beginning of year	767,679	405,459
Cash and cash equivalents, at end of year	\$ 981,284	\$ 767,679
Supplemental disclosure of investing and financing non-cash activities:		
Donations of stock	\$ 1,505,550	\$ 765,054
Reduction on capital lease obligation via forgiveness of debt	\$ -	\$ 529,193
Reconciliation of cash and cash equivalents reported within the statements of financial position to the statements of cash flows:		
Cash and cash equivalents	\$ 526,323	\$ 358,204
Cash and cash equivalents - restricted for capital expenditures	454,961	409,475
Total cash and cash equivalents shown in the statements of cash flows	\$ 981,284	\$ 767,679

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, 2023

	Supporting Services				Total
	Twelfth Step Program	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 101,962	\$ 20,393	\$ 13,595	\$ 33,988	\$ 135,950
Rent and administrative services	639	6,240	7	6,247	6,886
Depreciation expense	61,849	3,990	665	4,655	66,504
Technology	5,637	362	61	423	6,060
Office expense	2,907	188	31	219	3,126
Professional services	-	3,909	21,000	24,909	24,909
Utilities	10,303	666	111	777	11,080
Conference and sponsorship	541	-	-	-	541
Other	-	5,388	-	5,388	5,388
Repairs and maintenance	8,827	573	94	667	9,494
Fees	-	1,405	-	1,405	1,405
Advertising	-	-	7,625	7,625	7,625
	\$ 192,665	\$ 43,114	\$ 43,189	\$ 86,303	\$ 278,968

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, 2022

	Supporting Services				Total
	Twelfth Step Program	Management and General	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 86,812	\$ 17,363	\$ 11,575	\$ 28,938	\$ 115,750
Rent and administrative services	639	6,240	7	6,247	6,886
Interest expense	-	-	-	-	-
Depreciation expense	61,849	3,990	665	4,655	66,504
Technology	8,716	561	94	655	9,371
Office expense	2,874	186	30	216	3,090
Professional services	-	2,434	-	2,434	2,434
Utilities	7,675	496	82	578	8,253
Conference and sponsorship	1,462	-	-	-	1,462
Other	-	843	-	843	843
Repairs and maintenance	12,045	782	128	910	12,955
Late fees and fines	-	249	-	249	249
Advertising	-	-	2,407	2,407	2,407
	\$ 182,072	\$ 33,144	\$ 14,988	\$ 48,132	\$ 230,204

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 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 – 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, capital campaign contributions, and from rental fees collected from those who meet at the Organization's Center for Spiritual Development ("CSD").

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 ("U.S. GAAP").

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 6.

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. See Note 7.

Gifts of long-lived assets with explicit restrictions and gifts of cash that must be used to acquire long-lived assets are reported as net assets with donor restrictions. The Organization reports expirations of such donor restrictions when the donated assets are placed in service, unless donor restrictions indicate otherwise.

Liquidity and Availability

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 2.

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 depositor, per insured bank, for each ownership category. At December 31, 2023 and 2022, there were approximately \$321,000 and \$513,000 of uninsured balances, respectively.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents – With Donor Restrictions

At December 31, 2023 and 2022, cash and cash equivalents – restricted for capital expenditures represents donor-restricted contributions for the CSD building fund.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, contributions receivables, amounts due to/from the Church, and accounts payable and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities.

Beneficial Interest in Assets Held by Foundation

The Organization is the specified beneficiary of a guardianship held by Lovers Lane United Methodist Church Foundation (the “Foundation”). For those assets to which the Organization has an unconditional right to receive all or a portion of the specified cash flows from the charitable trust or pooled assets, the Organization records the beneficial interest, measuring it at the net present value of the expected remainder at year end. The beneficial interest in assets held by other is subsequently re-measured at the present net value of the remainder at each year end, using current discount rates with the change in valuation reflected in the statements of activities and changes in net assets for the year. At December 31, 2023 and 2022, the Organization had \$4,592,547 and \$1,635,171, respectively in investments held in guardianship by the Foundation.

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

Impairment of Long-Lived Assets

Management of the Organization periodically reviews the carrying value of its long-lived assets, including property and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized to the extent fair value of a long-lived asset is less than the carrying amount. Fair value is determined based on the estimated future cash inflows attributable to the asset less estimated future cash outflows.

Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets or an unconditional promise to give is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Amounts received prior to the conditions being met are reported as refundable advances in the statements of financial position.

Special event revenue is recognized at the date the event occurs. Advanced payments for special events are reported as deferred revenue until the date of the event.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Rental fees are recognized in the period the classes occur and is included in the statements of activities and changes in net assets.

In-kind Goods and Services

In-kind goods are reflected as contributions in the accompanying financial statements at their estimated values on the dates of receipt. In-kind services are reflected in the financial statements at the fair value of the services received if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. In-kind goods and services are donated to the Organization by various individuals and other organizations. See Note 5.

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 does not meet the above criteria.

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 years ended December 31, 2023 and 2022. Accordingly, certain costs have been allocated among the programs and services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Rent expense, interest expense, depreciation, utilities, and repairs and maintenance	Square footage

CSD Building Fund

The Organization is in the planning phase of rebuilding its CSD building located at 5324 West Northwest Highway in Dallas and plans to break ground on the new center in 2024. The Organization is currently raising funds to cover the new center and received approximately \$200,000 and \$500,000 of intentions to give at December 31, 2023 and 2022, respectively. These donor intentions do not meet the criteria to record until received or unconditional promise to give is made.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code, except to the extent it has unrelated business income. For the years ended December 31, 2023 and 2022, the Organization had no material unrelated business income. 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 statements of activities and changes in net assets for the years ended December 31, 2023 and 2022. 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 2020.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Adoption of New Accounting Standards

The Organization adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology in 2023. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Management has determined no material impact on the financials.

2. LIQUIDITY AND AVAILABILITY

The following reflects the Organization's financial assets as of December 31, 2023 and 2022, 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.

	2023	2022
Financial assets		
Cash and cash equivalents	\$ 526,323	\$ 358,204
Total financial assets	526,323	358,204
Less amounts not available to be used within one year, due to		
Designated by Board for operating reserve	(25,000)	(25,000)
Financial assets available to meet general expenditures within one year	\$ 501,323	\$ 333,204

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 designates a portion of any operating surplus to its operating reserve, which was \$25,000 as of December 31, 2023 and 2022. See Note 6.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

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

	<u>2023</u>	<u>2022</u>
Building	\$ 1,637,491	\$ 1,637,491
Land	249,496	249,496
Parking lot	383,498	383,498
Construction in progress	<u>385,492</u>	<u>347,277</u>
	2,655,977	2,617,762
Accumulated depreciation	<u>(343,603)</u>	<u>(277,099)</u>
Total	<u>\$ 2,312,374</u>	<u>\$ 2,340,663</u>

Depreciation expense was \$66,504 for the years ended December 31, 2023 and 2022.

The Organization leases certain property, plant and equipment under a capital lease obligation expiring on October 31, 2068. See Note 4. Property, plant and equipment includes the following lease that has been capitalized at December 31,:

	<u>2023</u>	<u>2022</u>
Building and parking lot	\$ 2,268,141	\$ 2,268,141
Accumulated depreciation	<u>(343,300)</u>	<u>(276,855)</u>
Total	<u>\$ 1,924,841</u>	<u>\$ 1,991,286</u>

For the years ended December 31, 2023 and 2022, depreciation on leased assets of \$66,445 and \$66,445 is included in depreciation expense. See Note 4.

During 2020, the Organization entered into a contract with an architect related to the planning and design phase for the new CSD building in the aggregate amount of \$100,000. The contract is billed to the Organization as the work is completed. As of December 31, 2022, the contract was fully billed.

During 2021, the Organization entered into a contract with an civil engineering firm for land surveying and landscape architecture services the new CSD building in the aggregate amount of \$128,000. The contract is billed to the Organization as the work is completed. As of December 31, 2022, the contract was fully billed. See Note 13.

4. LEASE – 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. Payments on the lease will be made through December 31, 2022 at 5.5% interest. The Organization recorded the asset and a related lease obligation. Through December 31, 2022, all lease payments were forgiven by the Church and the Organization did not make any cash payments on the lease. Therefore, the lease does not meet the criteria for Accounting Standards Update 2016-02 Leases (Topic 842).

5. IN-KIND GOODS AND SERVICES

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

	<u>2023</u>	<u>2022</u>
Shared services from affiliate	\$ 6,886	\$ 6,886
Special events	-	5,000
	<u>\$ 6,886</u>	<u>\$ 11,886</u>

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

5. IN-KIND GOODS AND SERVICES (Continued)

Based on the current market rates, the Organization would have paid \$6,886 and \$11,886 for the non-cash contributions for the years ended December 31, 2023 and 2022, respectively. The Organization utilizes non-cash contributions from various donors to carry out the mission of the Organization. If a non-cash contribution is provided that does not allow the Organization to utilize it in its normal course of business, the non-cash contribution will be sold at its fair market value as determined by appraisal or specialist depending on the type of non-cash contribution.

All non-cash contributions received by the Organization for the years ended December 31, 2023 and 2022 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

6. BOARD DESIGNATED NET ASSETS

The Board has designated \$25,000 from net assets without donor restrictions as an operating reserve at December 31, 2023 and 2022. The operative reserve is to ensure the stability of the mission, programs, employment, and ongoing operations of the Organization.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purpose at December 31,:

	2023	2022
Subject to expenditures for specified purpose:		
CSD building fund	\$ 5,535,683	\$ 2,331,822

Released from net assets with donor restrictions consisted of the following for the years ended December 31,:

	2023	2022
Satisfaction of purpose restrictions:		
CSD building fund	\$ 1,371	\$ 19,983

8. RELATED PARTY

The Organization also maintains cash balances which are comingled with the Church. The Church processes cash receipts and disbursements for the Organization. At December 31, 2023, the Church owed the Organization \$20,039 for excess receipts over disbursements. At December 31, 2022, the Organization owed the Church \$42,541 for excess disbursements over receipts.

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, 2023, related party services were \$6,886 for the use of space and for administrative services, including \$6,886 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, 2022, related party services were \$6,886 for the use of space and for administrative services, including \$6,886 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 4.

The Twelfth Step Ministry, Inc.
NOTES TO FINANCIAL STATEMENTS

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 contribute at least three percent of their eligible compensation. The Organization contributes six percent of eligible employee compensation. For the years ended December 31, 2023 and 2022, there were \$5,266 and \$4,917, respectively of employer contributions to the plan.

10. ENDOWMENT FUND

In 2019, the Phillips Family Fund endowment was established with the Foundation to benefit the Organization. The Foundation is a Texas non-profit corporation formed to provide financial support to the Church and its ministries. The Foundation was granted variance power over these funds, and they are under the ultimate control of the Foundation's Board of Directors.

Pursuant to ASC 948, "*Transfer of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*" due to the Foundation being granted variance power, the funds are not reflected in the financial statements of the Organization. As of December 31, 2023, the total estimated value of the endowment fund held by the Foundation was approximately \$430,000, of which approximately \$125,000 is available upon request. As of December 31, 2022, the total estimated value of the endowment fund held by the Foundation was approximately \$385,000, of which approximately \$98,000 is available upon request.

11. 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.

12. CONCENTRATIONS

At December 31, 2023, approximately \$1,600,000 or 47% of the Organization's contributions and special event revenue were from board members. At December 31, 2022, approximately \$224,000 or 11% of the Organization's contributions and special event revenue were from board members.

13. SUBSEQUENT EVENTS

In January 2024, the Organization entered into a construction management services agreement with a project manager to oversee construction of the new CSD building. The Organization will pay the project manager \$6,000 per month.

In January 2024, the Church entered into a construction agreement on behalf of the Organization with a general contractor for construction of the new CSD building. The total amount of the contract is approximately \$6.9 million, and construction is expected to be completed in February 2025.

In May 2024, the Organization became aware of a fraud incident involving a phishing scheme. The fraud resulted in the misdirection of approximately \$485,000 intended for payment for a construction contractor. The Organization is actively pursuing all possible avenues to recover the funds, including working with financial institutions and law enforcement. Through the report date, the Organization has recovered approximately \$133,000.

In preparing financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 7, 2024, the date the financial statements were available to be issued and determined that there were no additional such events or transactions that require disclosure for the year ended December 31, 2023.