

TENNESSEE PRISON OUTREACH MINISTRY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Independent Auditors' Report Thereon)

TENNESSEE PRISON OUTREACH MINISTRY, INC.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Tennessee Prison Outreach Ministry, Inc.

We have audited the accompanying financial statements of Tennessee Prison Outreach Ministry, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 of material misstatement, whether due to fraud or error.

Auditors' 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 Tennessee Prison Outreach Ministry, Inc. as of December 31, 2016, 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.

Betts & Rubio, PLLC

Nashville, Tennessee
July 20, 2017

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Financial Position

December 31, 2016

ASSETS

Cash and cash equivalents	\$ 373,506
Property and equipment, net	<u>913,658</u>
Total assets	<u>\$ 1,287,164</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 50,523
Note payable, net of origination fees	<u>52,527</u>
Total liabilities	<u>103,050</u>
Unrestricted	945,402
Temporarily restricted	238,712
Permanently restricted	<u>-</u>
Total net assets	<u>1,184,114</u>
Total liabilities and net assets	<u>\$ 1,287,164</u>

See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and other support				
Contributions	\$ 510,969	\$ 166,717	\$ -	\$ 677,686
Grants	69,327	-	-	69,327
Special events	37,373	-	-	37,373
Other	(1,754)	-	-	(1,754)
Net assets released from restrictions	<u>318,837</u>	<u>(318,837)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	934,752	(152,120)	-	782,632
Expenses				
Program services	296,166	-	-	296,166
Management and general	118,735	-	-	118,735
Fundraising	<u>106,486</u>	<u>-</u>	<u>-</u>	<u>106,486</u>
Total expenses	<u>521,387</u>	<u>-</u>	<u>-</u>	<u>521,387</u>
Change in net assets	413,365	(152,120)	-	261,245
Net assets at beginning of year	<u>532,037</u>	<u>390,832</u>	<u>-</u>	<u>922,869</u>
Net assets at end of year	<u>\$ 945,402</u>	<u>\$ 238,712</u>	<u>\$ -</u>	<u>\$ 1,184,114</u>

See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Functional Expenses

Year Ended December 31, 2016

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Compensation and related expenses	\$ 188,804	\$ 60,621	\$ 74,158	\$ 323,583
Meals and entertainment	7,751	2,680	614	11,045
Travel	1,994	923	876	3,793
Depreciation and amortization (noncash)	10,734	4,418	3,161	18,313
Repairs and maintenance	10,285	-	-	10,285
Operations expense	14,809	16,500	421	31,730
Postage	384	3,716	78	4,178
Printing	7,960	189	1,020	9,169
Supplies	16,808	1,673	249	18,730
Utilities	8,991	3,705	2,651	15,347
Advertising	169	935	-	1,104
Bank fees	-	2,361	-	2,361
Fundraising event expenses	-	-	16,721	16,721
Dues and subscriptions	-	1,297	-	1,297
Miscellaneous expense	6,853	2,825	2,021	11,699
Interest	-	156	-	156
Facilities and equipment	15,313	6,311	4,516	26,140
Vehicle expense	4,565	2,001	-	6,566
Education	746	8,424	-	9,170
	<u>\$ 296,166</u>	<u>\$ 118,735</u>	<u>\$ 106,486</u>	<u>\$ 521,387</u>

See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Cash Flows

Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 261,245
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	18,313
Donated property and equipment included in contributions	(51,450)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	45,831
Loss on sale of property and equipment	<u>2,492</u>
Net cash provided by operating activities	<u>276,431</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(370,490)
Proceeds from sale of property and equipment	<u>250</u>
Net cash used by investing activities	<u>(370,240)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	58,371
Payment of debt issuance costs	<u>(5,844)</u>
Net cash provided by financing activities	<u>52,527</u>

Net change in cash and cash equivalents	(41,282)
Beginning cash and cash equivalents	<u>414,788</u>
Ending cash and cash equivalents	<u>\$ 373,506</u>

**SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION**

Interest paid	<u>\$ -</u>
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See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2016

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Tennessee Prison Outreach Ministry, Inc. (the Ministry) is a not-for-profit Tennessee Corporation chartered in 2013. Prior to November 5, 2015, the Ministry was a wholly-owned subsidiary of Harpeth Hills Church of Christ, as such, certain expenses were incurred by Harpeth Hills Church of Christ on behalf of Tennessee Prison Outreach Ministry, Inc. and were reimbursed during the same period. On November 5, 2015, Tennessee Prison Outreach Ministry, Inc. was incorporated independent of Harpeth Hills Church of Christ under the provisions of the Tennessee Non-Profit Corporation Act. The Ministry was organized to conduct preventative, rehabilitative and aftercare programming for offenders and their families. Tennessee Prison Outreach Ministry, Inc. accomplishes this function through operation of a halfway house, a re-entry facility, educational programs, and various programs conducted for offenders and their families. Support is primarily received through donor contributions, grants, and church contributions.

The Ministry 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 Tennessee Prison Outreach Ministry, Inc.'s Form 990, *Return of Organization Exempt from Income Tax*, for the years ending December 31, 2013 and following, is subject to examination by the IRS generally for three years after it was filed.

(b) Basis of Accounting

The financial statements of the Ministry have been prepared using the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

All financial transactions have been recorded and reported as unrestricted, temporarily restricted, or permanently restricted net assets.

- Unrestricted net assets consist of unrestricted amounts that are available for use in carrying out the operations of the Ministry. These include those expendable resources, which have been designated for special use by the board of directors.
- Temporarily restricted net assets represent those amounts that are not available until future periods and/or are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Temporarily restricted gifts that are received and expended in the same fiscal year may be classified as unrestricted revenue.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2016

- Permanently restricted net assets result from gifts from donors who place restrictions on the use of the funds, which mandate that the original principal be invested in perpetuity. Generally, gains and related investment income on these gifts are available for unrestricted purposes, unless the donor designates restrictions on the use of earnings for a specific purpose, in which case the earnings are then considered temporarily restricted.

(c) Liquidity

Assets are presented in the accompanying financial statements according to their nearness to cash and liabilities according to their maturity and resulting use of cash.

(d) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Ministry considers all cash or investments with original maturities of three months or less to be cash equivalents.

(e) Property and Equipment

Property and equipment are stated at cost, if purchased, or at estimated fair value at date of receipt if acquired by gift. Property and equipment are being depreciated using the straight-line method and asset lives are determined by federal income tax reporting requirements. Buildings and building improvements are being amortized using the straight-line method and asset lives as determined by federal income tax reporting requirements. The Ministry capitalizes property and equipment in excess of its capitalization policy and lesser amounts are expensed.

(f) Revenue Recognition

In the absence of donor restrictions, contributions are considered to be available for unrestricted use and related income is recognized in the period when the contribution, pledge, or unconditional promise to give is received.

Grants are recorded as unrestricted revenue as funds or reimbursements for expenditures are made of specific needs of the Ministry.

(g) Contributed Services

Contributed services are recognized as in-kind revenue at their estimated fair value when they create or enhance nonfinancial assets, or they require specialized skills, which would need to be purchased if they were not donated. Contributed services are included as a component of contributions in the statement of activities. No such contributions were received for 2016.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2016

(h) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

(i) Income Taxes

The Ministry follows FASB ASC guidance related to unrecognized tax benefits. The guidance clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Ministry has no tax penalties or interest reported in the accompanying financial statements.

(j) Subsequent Events

The Tennessee Prison Outreach Ministry, Inc. has evaluated subsequent events from the statement of financial position date through July 20, 2017, the date the financial statements were available to be issued. During this period there were no material recognizable subsequent events that required recognition in our disclosures to the financial statements.

(2) Property and Equipment, net

Property and equipment, net at December 31, 2016 are as follows:

Land	\$	173,965
Building and improvements		204,570
Furniture and equipment		71,199
Vehicle		22,438
Construction in process		472,232
		<hr/> 944,404
Less accumulated depreciation		(30,746)
	\$	<hr/> <hr/> 913,658

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2016

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