

TENNESSEE PRISON OUTREACH MINISTRY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

(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, 2017, 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, 2017, 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.

Beta E Rubio, PLLC

Nashville, Tennessee

June 29, 2018

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Financial Position

December 31, 2017

ASSETS

Cash and cash equivalents	\$ 326,277
Other assets	3,002
Property and equipment, net	<u>1,225,867</u>
Total assets	<u><u>\$ 1,555,146</u></u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 14,635
Note payable, net of origination fees	<u>265,224</u>
Total liabilities	<u>279,859</u>
Unrestricted	868,122
Temporarily restricted	407,165
Permanently restricted	<u>-</u>
Total net assets	<u><u>1,275,287</u></u>
Total liabilities and net assets	<u><u>\$ 1,555,146</u></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, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and other support				
Contributions	\$ 469,368	\$ 192,042	\$ -	\$ 661,410
Grants	70,979	-	-	70,979
Special events	-	-	-	-
Rent income	38,585	-	-	38,585
Other	1,720	-	-	1,720
Net assets released from restrictions	<u>23,589</u>	<u>(23,589)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	604,241	168,453	-	772,694
Expenses				
Program services	417,624	-	-	417,624
Management and general	158,335	-	-	158,335
Fundraising	<u>105,562</u>	<u>-</u>	<u>-</u>	<u>105,562</u>
Total expenses	<u>681,521</u>	<u>-</u>	<u>-</u>	<u>681,521</u>
Change in net assets	(77,280)	168,453	-	91,173
Net assets at beginning of year	<u>945,402</u>	<u>238,712</u>	<u>-</u>	<u>1,184,114</u>
Net assets at end of year	<u>\$ 868,122</u>	<u>\$ 407,165</u>	<u>\$ -</u>	<u>\$ 1,275,287</u>

See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Functional Expenses

Year Ended December 31, 2017

		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Compensation and related expenses	\$ 284,285	\$ 60,818	\$ 64,079	\$ 409,182
Meals and entertainment	-	11,496	-	11,496
Travel	3,612	2,463	1,638	7,713
Depreciation (noncash)	26,759	9,528	5,297	41,584
Repairs and maintenance	2,796	-	-	2,796
Operations expense	27,230	12,914	956	41,100
Postage	1,259	3,018	245	4,522
Printing	3,061	9,682	1,702	14,445
Supplies	1,041	23,604	54	24,699
Utilities	16,723	3,311	5,955	25,989
Advertising	4,372	3,351	-	7,723
Bank fees	-	1,560	-	1,560
Fundraising event expenses	-	-	18,413	18,413
Dues and subscriptions	-	2,966	-	2,966
Miscellaneous expense	11,009	3,920	2,179	17,108
Interest	-	1,236	-	1,236
Facilities and equipment	23,564	8,391	4,665	36,620
Vehicle expense	5,795	77	379	6,251
Education	6,118	-	-	6,118
	<u>\$ 417,624</u>	<u>\$ 158,335</u>	<u>\$ 105,562</u>	<u>\$ 681,521</u>

See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Statement of Cash Flows

Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 91,173
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	41,959
Donated property and equipment included in contributions	(11,000)
Increase in other assets	(3,002)
Decrease in accounts payable and accrued expenses	(35,888)
Net cash provided by operating activities	<u>83,242</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(342,793)
Proceeds from sale of property and equipment	<u>-</u>
Net cash used by investing activities	<u>(342,793)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from note payable	220,250
Repayments of principal on note payable	<u>(7,928)</u>
Net cash provided by financing activities	<u>212,322</u>

Net change in cash and cash equivalents	(47,229)
Beginning cash and cash equivalents	<u>373,506</u>
Ending cash and cash equivalents	<u>\$ 326,277</u>

**SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION**

Interest paid	<u>\$ 861</u>
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See accompanying notes to the financial statements.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2017

(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, 2014 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, 2017

- 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 2017.

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2017

(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 June 29, 2018, 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, 2017 are as follows:

Land	\$	221,966
Building and improvements		900,515
Furniture and equipment		130,396
Vehicle		33,438
Construction in process		11,883
		<u>1,298,198</u>
Less accumulated depreciation		<u>(72,331)</u>
	\$	<u>1,225,867</u>

TENNESSEE PRISON OUTREACH MINISTRY, INC.

Notes to the Financial Statements

December 31, 2017

(3) Note Payable

On June 22, 2016, the Ministry entered into a construction note agreement with the Bank of Tennessee. The note payable has a variable interest rate of Wall Street Journal Prime minus 4.0% (0.5% at December 31, 2017). The first twelve months represented the construction period with a maximum draw amount of \$300,000. During this period, interest was payable monthly on the 22nd of each month beginning July 22, 2016. After the initial construction period, the note converted to permanent financing with monthly principal and interest payments of \$1,381.64. The first payment was due July 22, 2017, and every month thereafter, and matures June 22, 2032. For each of the next five years, principal payments of \$16,580 will be made due to maturities of the note payable. This long-term debt is secured by real property. Note payable is reflected net of debt issuance costs for financial statement purposes. Outstanding note payable at December 31, 2017 was \$270,693 while debt issuance cost was \$5,469 resulting in a net outstanding balance of \$265,224.

(4) Restrictions and Limitations on Net Assets

Temporarily restricted net assets at December 31, 2017 represent funds raised through a Capital Campaign, a drive to raise funds to construct a halfway house. The Ministry intends to complete this facility during 2018. During 2017, the Ministry received \$192,042 in temporarily restricted contributions for this purpose. As of December 31, 2017, \$407,165 of temporarily restricted net assets remained unexpended.

There were no permanently restricted net assets as of December 31, 2017.

(5) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes of \$23,589 during the year ended December 31, 2017. The incurred expenses related to the construction of a halfway house as discussed in Note 4.

(6) Concentration of Credit Risk

The Ministry maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 at December 31, 2017. As of December 31, 2017, uninsured balances totaled \$40,615.