

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

Michael B. Burnett, CPA
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INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
Palmer Drug Abuse Program – San Antonio, Inc.
San Antonio, Texas

I have audited the accompanying statement of financial position of Palmer Drug Abuse Program-San Antonio, Inc. (a Texas nonprofit corporation) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flow for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of Palmer Drug Abuse Program-San Antonio, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11, the Organization made prior period adjustments to correct accounting errors related to the accounting for United Way support and to record income taxes due on an understatement of 2010 taxable income.



Michael D. Burnett, CPA

September 22, 2011

MEMBER
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

**PALMER DRUG ABUSE PROGRAM-
SAN ANTONIO, INC.**

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

Current assets:

Cash-unrestricted	\$ 192,459
Cash-temporarily restricted	<u>88,301</u>
Total cash	280,760
Contributions receivable	<u>25,000</u>
Total current assets	<u>305,760</u>

Property and equipment:

Building and improvements	65,530
Vehicles	38,828
Furniture and equipment	<u>45,258</u>
	149,616
Less accumulated depreciation	<u>(61,877)</u>
	<u>87,739</u>

Other assets:

Certificate of deposit-designated as contingency fund	<u>180,000</u>
	<u>\$ 573,499</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 11,367
Accrued expenses	16,007
Income tax payable	<u>23,156</u>
Total current liabilities	<u>50,530</u>

Net assets:

Unrestricted - operations	166,929
Unrestricted - property and equipment	<u>87,739</u>
	254,668
Designated as contingency fund	<u>180,000</u>
	434,668
Temporarily restricted	<u>88,301</u>
	<u>522,969</u>
	<u>\$ 573,499</u>

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

**PALMER DRUG ABUSE PROGRAM-
SAN ANTONIO, INC.**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

	<u>Unrestricted</u>			
	<u>Operations</u>	<u>Fixed Assets</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:				
Public support:				
Contributions and grants	\$ 230,199	\$ -	\$ 80,000	\$ 310,199
United Way support	280,247	-	-	280,247
In-kind contributions	65,259	-	-	65,259
Support from bingo operation	88,870	-	-	88,870
Special events-net	28,465	-	-	28,465
Interest income	1,275	-	-	1,275
Other income	7,884	-	-	7,884
Total public support	<u>702,199</u>	<u>-</u>	<u>80,000</u>	<u>782,199</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	<u>98,502</u>	<u>-</u>	<u>(98,502)</u>	<u>-</u>
Total public support and revenue	<u>800,701</u>	<u>-</u>	<u>(18,502)</u>	<u>782,199</u>
Expenses:				
Program services	543,248	19,679	-	562,927
Supporting services:				
Management and general	99,162	571	-	99,733
Fundraising	<u>22,073</u>	<u>58</u>	<u>-</u>	<u>22,131</u>
Total expenses	<u>664,483</u>	<u>20,308</u>	<u>-</u>	<u>684,791</u>
Change in net assets	136,218	(20,308)	(18,502)	97,408
Net assets at beginning of year	241,831	89,513	382,965	425,561
Prior period adjustments	(12,586)	-	(276,162)	(288,748)
Net interfund transfers in (out)	<u>(18,534)</u>	<u>18,534</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ 346,929</u>	<u>\$ 87,739</u>	<u>\$ 88,301</u>	<u>\$ 522,969</u>
Composition of unrestricted net assets:				
Operating	\$ 166,929			
Designated for contingency fund	<u>180,000</u>			
	<u>\$ 346,929</u>			

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

**PALMER DRUG ABUSE PROGRAM-
SAN ANTONIO, INC.**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2011

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 314,288	\$ 65,779	\$ 12,952	\$ 393,019
Payroll taxes	25,940	5,429	1,069	32,438
Employee benefits	<u>51,624</u>	<u>10,805</u>	<u>2,127</u>	<u>64,556</u>
Total salaries and related expenses	391,852	82,013	16,148	490,013
Auto and auto mileage	14,765	429	43	15,237
Bank service charges	1,866	390	77	2,333
Dues and subscriptions	2,105	61	6	2,172
Insurance	13,526	2,831	557	16,914
Occupancy costs	64,352	1,868	188	66,408
Office supplies	4,488	939	185	5,612
Other	250	3,041	1,594	4,885
Postage and printing	1,583	332	65	1,980
Professional services	-	6,350	3,117	9,467
Program activities and events	15,641	-	-	15,641
Repairs and maintenance	18,285	530	54	18,869
Telephone	13,035	378	39	13,452
Training	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total expenses before depreciation	543,248	99,162	22,073	664,483
Depreciation	<u>19,679</u>	<u>571</u>	<u>58</u>	<u>20,308</u>
Total expenses	<u>\$ 562,927</u>	<u>\$ 99,733</u>	<u>\$ 22,131</u>	<u>\$ 684,791</u>
Percent of total	82.2%	14.6%	3.2%	100.0%

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

**PALMER DRUG ABUSE PROGRAM-
SAN ANTONIO, INC.**

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

Cash flow from operating activities:	
Change in net assets	\$ 97,408
Noncash items included in operations:	
Depreciation expense	20,308
Effect of changes in operating working capital:	
Accounts and contributions receivable	32,086
Accounts payable and accrued expenses	(16,949)
Income tax payable	<u>10,453</u>
Net cash provided by operating activities	<u>143,306</u>
Cash flows from investing activities:	
Investment in certificate of deposit designated as contingency fund	(180,000)
Purchase of property and equipment	<u>(18,534)</u>
Net cash used by investing activities	<u>(198,534)</u>
Cash flow from financing activities:	
None	<u>-</u>
Net cash provided by financing activities	<u>-</u>
Net increase (decrease) in cash	(55,228)
Cash at beginning of year	<u>335,988</u>
Cash at end of year	<u>\$ 280,760</u>
Schedule of supplemental cash flow information:	
Income tax paid (related to bingo pull-tabs)	\$6,817

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

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – NATURE OF ORGANIZATION

Palmer Drug Abuse Program-San Antonio, Inc. (PDAPSA) is a 12-step, faith-based nonprofit organization that offers group meetings, individual and family counseling, and fun activities that focus on healthy relationships and building life skills. In addition to recovery services for substance abuse, alcohol and drug addiction, PDAPSA provides prevention and life skills education. PDAPSA also works with students in middle schools, high schools, and alternative schools in the greater San Antonio area to help promote prevention. PDAPSA was informally established in 1977 and legally incorporated in 1981. All services provided by PDAPSA are free. Support is provided by foundations, businesses, churches, individuals, and United Way of San Antonio and Bexar County. Government funding is not accepted.

Direct recovery services are available to teenagers between the ages of 10 and 17, adults, family members of chemically dependent teenagers and adults, and adolescent siblings (ages 9-14) of chemically dependent teenagers or the children of adult addicts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of PDAPSA have been prepared on the accrual basis of accounting. The financial statements accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board for the format of financial statements for not-for-profit organizations. PDAPSA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Donated Services

The value of the time of unpaid volunteers who have donated significant time performing certain administrative functions is not reflected in these financial statements because it does not meet the requirements of recording under United States generally accepted accounting principles (GAAP).

Allocated Expenses

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and support services based on management estimates.

Income Taxes

PDAPSA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code and qualifies for the 50% charitable contributions deduction for individual donors. The organization does pay income tax on unrelated business income. Part of bingo operations includes pull-tab bingo, which is considered to be unrelated business income.

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions.

Cash

Cash consists of monies on deposit in bank accounts and on hand. Certificates of deposit with original maturities in excess of three months are not classified as cash, but as certificates of deposit.

Property and Equipment

The Center capitalizes all expenditures for property and equipment in excess of \$750. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of the donation. Depreciation is computed using the straight-line method.

Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification defines fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurements, and expands disclosures about fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. PDAPSA's financial instruments and classification within the hierarchy are identified below.

Fair value of financial instruments standards require disclosure of fair value information about financial instruments, whether or not recognized in the statement for financial position. The following methods and assumptions were used by PDAPSA in estimating its fair value disclosures for financial instruments:

- Cash and certificates of deposit (level 1): The carrying amount reported in the statement of financial position approximates fair value because of the short-term maturities of those instruments.
- Contributions receivable (level 3): The carrying amount approximates fair value because the majority of the amount receivable is due within one year. A present value discount was calculated and determined to be insignificant; and therefore was not recorded in these financial statements.

Subsequent Events

PDAPSA has evaluated subsequent events through September 22, 2011, the date which the financial statements were available for issue.

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – CASH AND CREDIT RISK CONCENTRATION

Periodically, cash balances maintained at PDAPSA's primary depository bank exceeded federal deposit insurance limits during the year ended June 30, 2011. At June 30, 2011, cash balances did not exceed the insurance limits.

Contributions receivable consisted of \$25,000 of Foundation donations at June 30, 2011. Management analyzes aging of accounts receivable on a monthly basis. Accounts receivable are considered delinquent when they are over 30 days old. Payment trends by delinquent accounts are considered by management when estimating the allowance for doubtful accounts. At June 30, 2011, management determined that an allowance for doubtful accounts was not required. Accounts and pledges determined to be uncollectible by management are charged to the allowance for doubtful accounts.

NOTE 4 – CERTIFICATE OF DEPOSIT DESIGNATED AS CONTINGENCY FUND

The certificate of deposit of \$180,000 was invested on June 30, 2011 and is designated by the Board of Directors of PDAPSA as a contingency fund. This certificate of deposit may not be expended without the express approval of the Board of Directors.

NOTE 5 – REVENUE AND SUPPORT CONCENTRATIONS

A. PDAPSA received support from United Way of San Antonio and Bexar County totaling \$280,247 for the year ended June 30, 2011, which represents 36% of total support and revenue for the year. The announced United Way allocation for the year ending June 30, 2012 is \$277,502. Also see Note 11.

B. Net support from the operation of bingo games totaled \$88,770 for the year ended June 30, 2011, which represents 11% of total support and revenue.

NOTE 6 – SPECIAL EVENTS

For the year ended June 30, 2011, the only fundraising event was a breakfast event, and the results were as follows:

Total revenue	\$ 31,640
Less costs of event	<u>3,175</u>
	<u>\$ 28,465</u>

NOTE 7 – IN- KIND OCCUPANCY CONTRIBUTIONS

Space for PDAPSA's administrative offices is made available rent-free by the Baptist Health System. Space for the day centers and group meetings is made available rent-free by various churches in the San Antonio area. For the year ended June 30, 2011, the value of the donated space was estimated to be \$65,259.

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8 – RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2011, consisted of the following:

Youth leadership	\$ 31,382
Technology upgrades	15,976
Furniture	12,481
Eastside building	9,716
Westside building	13,585
Northside building renovations	1,000
Other	<u>4,161</u>
	<u>\$ 88,301</u>

NOTE 9 – BINGO OPERATIONS

PDAPSA conducts a bingo operation in San Antonio. Income from the bingo activities is generally not taxable except for “pull-tab” activities which are considered unrelated business income that is taxable. PDAPSA pays income tax on this revenue source. The operating results of the bingo activities are summarized as follows:

Net revenue after prizes paid	\$ 284,803
Operating expenses	(179,363)
Income tax on pull-tab profit	<u>(16,570)</u>
	<u>\$ 88,870</u>

The facility where bingo is conducted is leased on a month-to-month basis. Total rent paid for the year ended June 30, 2011 was \$84,975.

NOTE 10 – RETIREMENT PLAN

PDAPSA sponsors a SIMPLE retirement plan for all employees who qualify and elect to participate in. PDAPSA matches participant contributions up to 3% of compensation. The employer contribution totaled \$3,160 for the year ended June 30, 2011.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

In 2010 and prior years, PDAPSA accrued as a receivable the United Way allocation for the subsequent year. Based on guidance from United Way, the allocation for the subsequent year is not considered a binding commitment. Accordingly, PDAPSA has adjusted the temporarily restricted net asset balance as of June 30, 2010 for the impact of this change in accounting for the United Way contribution. The impact of this change decreased the temporarily restricted net assets by \$276,162 at June 30, 2010.

In addition, during the year, management determined that taxable income for the year ended June 30, 2010 had been underreported by \$48,802, resulting in an understatement of the 2010 income tax obligation by \$12,586. The change has been treated as a correction of an error in the accompanying financial statements, and beginning unrestricted net assets has been reduced by \$12,586.

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 12 – RELATED PARTY TRANSACTIONS

One of the employees of PDAPSA has a small construction business. During the year ended June 30, 2011, this business was paid \$7,864 for services to repair and improve PDAPSA's building. During the year ended June 30, 2011, PDAPSA purchased a computer for \$1,587 from a business owned by the chairman of the board of trustees.