

PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 and 2011

Michael D. 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 statements of financial position of Palmer Drug Abuse Program-San Antonio, Inc. (a Texas nonprofit corporation) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flow for the years 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 audits.

I conducted my audits 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 audits provide 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended 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 beginning net assets as of July 1, 2010 related to the accounting for United Way support and to record income taxes due on taxable income from the previous year.



Michael D. Burnett, CPA  
August 28, 2012

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

**PALMER DRUG ABUSE PROGRAM-  
SAN ANTONIO, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2012 and 2011**

**ASSETS**

	2012	2011
<b>Current assets:</b>		
Cash-unrestricted	\$ 196,046	\$ 192,459
Cash-temporarily restricted	41,684	88,301
Total cash	237,730	280,760
Accounts receivable	4,750	-
Prepaid income taxes	987	-
Contributions receivable	-	25,000
Total current assets	243,467	305,760
<b>Property and equipment:</b>		
Building and improvements	65,530	65,530
Vehicles	38,828	38,828
Furniture and equipment	53,234	45,258
	157,592	149,616
Less accumulated depreciation	(82,676)	(61,877)
	74,916	87,739
<b>Other assets:</b>		
Certificate of deposit-designated as contingency fund	180,632	180,000
	\$ 499,015	\$ 573,499

**LIABILITIES AND NET ASSETS**

<b>Current liabilities:</b>		
Accounts payable	\$ 1,639	\$ 11,367
Accrued expenses	20,977	16,007
Income tax payable	-	23,156
Total current liabilities	22,616	50,530
<b>Net assets:</b>		
Unrestricted - operations	179,167	166,929
Unrestricted - property and equipment	74,916	87,739
	254,083	254,668
Designated as contingency fund	180,632	180,000
	434,715	434,668
Temporarily restricted	41,684	88,301
	476,399	522,969
	\$ 499,015	\$ 573,499

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, 2012**

	Unrestricted			
	Operations	Fixed Assets	Temporarily Restricted	Total
<b>Public support and revenue:</b>				
Public support:				
Contributions and grants	\$ 158,583	\$ -	\$ 113,050	\$ 271,633
United Way support	280,805	-		280,805
In-kind contributions	65,259	-	-	65,259
Support from bingo operation	13,666	-	-	13,666
Special events-net	82,082	-	-	82,082
Interest income	1,384			1,384
Other income	6,389	-	-	6,389
Total public support	608,168	-	113,050	721,218
Net assets released from restrictions:				
Restrictions satisfied by payments	159,667	-	(159,667)	-
Total public support and revenue	767,835	-	(46,617)	721,218
<b>Expenses:</b>				
Program services	622,261	20,155	-	642,416
Supporting services:				
Management and general	103,521	585		104,106
Fundraising	21,207	59	-	21,266
Total expenses	746,989	20,799	-	767,788
Change in net assets	20,846	(20,799)	(46,617)	(46,570)
<b>Net assets at beginning of year</b>	346,929	87,739	88,301	522,969
Net interfund transfers in (out)	(7,976)	7,976	-	-
<b>Net assets at end of year</b>	<b>\$ 359,799</b>	<b>\$ 74,916</b>	<b>\$ 41,684</b>	<b>\$ 476,399</b>
Composition of unrestricted net assets:				
Operating	\$ 179,167			
Designated for contingency fund	180,632			
	<u>\$ 359,799</u>			

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of these financial statements.

**PALMER DRUG ABUSE PROGRAM-  
SAN ANTONIO, INC.  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2011**

	Unrestricted			
	Operations	Fixed Assets	Temporarily Restricted	Total
<b>Public support and revenue:</b>				
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	702,199	-	80,000	782,199
Net assets released from restrictions:				
Restrictions satisfied by payments	98,502	-	(98,502)	-
Total public support and revenue	800,701	-	(18,502)	782,199
<b>Expenses:</b>				
Program services	543,248	19,679	-	562,927
Supporting services:				
Management and general	99,162	571		99,733
Fundraising	22,073	58	-	22,131
Total expenses	664,483	20,308	-	684,791
Change in net assets	136,218	(20,308)	(18,502)	97,408
<b>Net assets at beginning of year</b>	241,831	89,513	382,965	425,561
Prior period adjustments	(12,586)	-	(276,162)	(288,748)
Net interfund transfers in (out)	(18,534)	18,534	-	-
<b>Net assets at end of year</b>	<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, 2012**

	Program	Management and General	Fundraising	Total
Salaries	\$ 372,492	\$ 66,775	\$ 12,600	\$ 451,867
Payroll taxes	29,278	5,249	990	35,517
Employee benefits	53,393	9,571	1,806	64,770
Total salaries and related expenses	455,163	81,595	15,396	552,154
Auto and auto mileage	11,386	331	33	11,750
Bank service charges	2,231	400	75	2,706
Dues and subscriptions	1,384	40	4	1,428
Insurance	13,879	2,488	469	16,836
Occupancy costs	64,643	1,877	189	66,709
Office supplies	7,196	1,290	244	8,730
Other	679	3,457	2,854	6,990
Postage and printing	2,402	430	82	2,914
Professional services	75	10,665	1,765	12,505
Program activities and events	27,535	-	-	27,535
Repairs and maintenance	19,451	564	57	20,072
Telephone	13,213	384	39	13,636
Training	3,024	-	-	3,024
Total expenses before depreciation	622,261	103,521	21,207	746,989
Depreciation	20,155	585	59	20,799
Total expenses	\$ 642,416	\$ 104,106	\$ 21,266	\$ 767,788
Percent of total	83.7%	13.6%	2.8%	100.0%

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**

	Program	Management and General	Fundraising	Total
Salaries	\$ 314,288	\$ 65,779	\$ 12,952	\$ 393,019
Payroll taxes	25,940	5,429	1,069	32,438
Employee benefits	51,624	10,805	2,127	64,556
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	1,500	-	-	1,500
Total expenses before depreciation	543,248	99,162	22,073	664,483
Depreciation	19,679	571	58	20,308
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.**

**STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2012 and 2011**

	2012	2011
<b>Cash flow from operating activities:</b>		
Change in net assets	\$ (46,570)	\$ 97,408
Noncash items included in operations:		
Depreciation expense	20,799	20,308
Effect of changes in operating working capital:		
Accounts and contributions receivable	20,250	32,086
Accounts payable and accrued expenses	(4,758)	(16,949)
Income tax payable	(24,143)	10,453
Net cash (used) provided by operating activities	(34,422)	143,306
<b>Cash flows from investing activities:</b>		
Investment in certificate of deposit designated as contingency fund	(632)	(180,000)
Purchase of property and equipment	(7,976)	(18,534)
Net cash used by investing activities	(8,608)	(198,534)
<b>Cash flow from financing activities:</b>		
None	-	-
Net cash provided by financing activities	-	-
Net decrease in cash	(43,030)	(55,228)
<b>Cash at beginning of year</b>	280,760	335,988
<b>Cash at end of year</b>	\$ 237,730	\$ 280,760
<b>Schedule of supplemental cash flow information:</b>		
Income tax paid (related to bingo pull-tabs)	\$ 29,956	\$ 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, 2012 and 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, 2012 and 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.

Subsequent Events

PDAPSA has evaluated subsequent events through August 28, 2012, the date which the financial statements were available for issue.

**PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 and 2011**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

**NOTE 3 – CASH AND CREDIT RISK CONCENTRATION**

Periodically, cash balances maintained at PDAPSA’s primary depository bank exceed federal deposit insurance limits. At June 30, 2012, 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.

**NOTE 4 – CERTIFICATE OF DEPOSIT DESIGNATED AS CONTINGENCY FUND**

The certificate of deposit 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. The underlying contract expires December 31, 2012.

**NOTE 5 – REVENUE AND SUPPORT CONCENTRATIONS**

A. PDAPSA received support from United Way of San Antonio and Bexar County totaling \$280,805 and \$280,247 for the years ended June 30, 2012 and 2011, which represents 39% and 35% of total support and revenue, respectively. The announced United Way allocation for the year ending June 30, 2013 is \$284,632.

B. Net support from the operation of bingo games totaled \$13,666 and \$88,870 for the years ended June 30, 2012 and 2011, which represents 2% and 11% of total support and revenue, respectively.

**NOTE 6 – SPECIAL EVENTS**

For the years ended June 30, 2012 and 2011, PDAP sponsored a breakfast event, and the results were as follows:

	2012	2011
Total revenue	\$ 92,278	\$ 31,640
Less costs of event	10,196	3,175
	\$ 82,082	\$ 28,465

**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 years ended June 30, 2012 and 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, 2012 and 2011**

**NOTE 8 – RESTRICTED NET ASSETS**

Temporarily restricted net assets as of June 30, 2012 and 2011, consisted of the following:

	<u>2012</u>	<u>2011</u>
Youth leadership	\$ 1,610	\$ 31,382
Technology upgrades	3,000	15,976
Furniture	7,619	12,481
Eastside building	9,716	9,716
Westside building	13,585	13,585
Capital improvement to buildings	1,993	1,000
Other	4,161	4,161
	<u>\$ 41,684</u>	<u>\$ 88,301</u>

**NOTE 9 – BINGO OPERATIONS**

Through March 31, 2012, PDAPSA conducted a bingo operation in San Antonio. Income from the bingo activities was generally not taxable except for “pull-tab” activities which were considered unrelated business income that was taxable. PDAPSA has provided for income tax on this revenue source.

Effective April 1, 2012, PDAPSA, along with four other charities (all registered charities with the Texas Charitable Bingo Operations Division of the Texas Lottery Commission) entered into a Unit Operating Agreement in which the charities agreed to operate a bingo unit and share proportionally in contributions and operating results generated by the bingo unit’s activity. Under this arrangement, the charities hired a unit manager to operate the bingo unit and a designated agent to handle the recordkeeping, reporting to the Texas Lottery Commission and other administrative aspects of the operation. The charities, including PDAPSA, remain responsible for compliance with the Texas Lottery Commission rules and regulations.

The operating results of the bingo activities for the years ended June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Net revenue after prizes paid	\$ 144,684	\$ 284,803
Operating expenses	(125,205)	(179,363)
Income tax on pull-tab profit	(5,813)	(16,570)
	<u>\$ 13,666</u>	<u>\$ 88,870</u>

**NOTE 10 – RETIREMENT PLAN**

PDAPSA sponsors a SIMPLE retirement plan for all employees who meet plan requirements. PDAPSA matches participant contributions up to 3% of compensation. The employer contribution totaled \$3,540 and \$3,160 for the years ended June 30, 2012 and 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

**PALMER DRUG ABUSE PROGRAM – SAN ANTONIO, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012 and 2011**

**NOTE 11 – PRIOR PERIOD ADJUSTMENTS (continued)**

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 2011, 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 as of July 1, 2010 has been reduced by \$12,586.

**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. Also, 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.