

PALMER DRUG ABUSE PROGRAM
HOUSTON, INC.

FINANCIAL REPORT

December 31, 2019 and 2018

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Certified Public Accountants

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Independent Auditors' Report

To the Board of Trustees
Palmer Drug Abuse Program Houston, Inc.
Houston, Texas

We have audited the accompanying financial statements of Palmer Drug Abuse Program Houston, Inc. (a Texas nonprofit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, 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 from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 2019 financial statements referred to above present fairly, in all material respects, the financial position of Palmer Drug Abuse Program Houston, Inc. as of December 31, 2019, 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.

Prior Period Financial Statements

The financial statements of Palmer Drug Abuse Program Houston, Inc. as of December 31, 2018, were audited by other auditors whose report dated March 27, 2019, expressed an unmodified opinion on those statements.

Kamp Co. & Co. LLP

Sugar Land, Texas
May 29, 2020

FINANCIAL STATEMENTS

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PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 501,207	\$ 342,514
Prepaid assets	4,869	4,092
Property and equipment, net	<u>523</u>	<u>180,007</u>
Total Assets	<u>\$ 506,599</u>	<u>\$ 526,613</u>
 <u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 6,156	\$ 6,653
Total Liabilities	<u>6,156</u>	<u>6,653</u>
 <u>Net Assets</u>		
Without donor restrictions	359,555	519,960
With donor restrictions	<u>140,888</u>	<u>519,960</u>
Total Net Assets	<u>500,443</u>	<u>519,960</u>
 Total Liabilities and Net Assets	 <u>\$ 506,599</u>	 <u>\$ 526,613</u>

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Changes in Net Assets without Donor Restrictions</u>		
Revenues		
Contributions	\$ 339,833	\$ 337,625
Special events income	83,217	116,930
Program income	11,700	22,944
Contributions - donations in-kind	26,928	18,835
Interest and other income	5,040	2,378
Total Revenues without Donor Restrictions	<u>466,718</u>	<u>498,712</u>
<u>Net Assets Released from Restrictions</u>		
Satisfaction of program restrictions	19,112	
Total Net Assets Released from Restrictions	<u>19,112</u>	
Total Revenues and Other Support without Donor Restrictions	485,830	498,712
<u>Expenses</u>		
Program services	214,717	361,724
General and administrative	303,927	154,008
Fundraising	127,591	100,897
Total Expenses	<u>646,235</u>	<u>616,629</u>
(Decrease) in Net Assets without Donor Restrictions	<u>(160,405)</u>	<u>(117,917)</u>
<u>Changes in Net Assets with Donor Restrictions</u>		
Private foundation support	160,000	
Restrictions satisfied by payments	(19,112)	
Increase (Decrease) in Net Assets with Donor Restrictions	<u>140,888</u>	
(Decrease) in Net Assets	(19,517)	(117,917)
Net assets, beginning	<u>519,960</u>	<u>637,877</u>
Net Assets, Ending	<u>\$ 500,443</u>	<u>\$ 519,960</u>

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2019 and 2018

	2019			
	Program Services	Management & General	Fundraising	Total
Compensation expense	\$ 141,145	\$ 71,907	\$ 85,976	\$ 299,028
Professional fees	4,226	24,063	19,889	48,178
Employee benefits and taxes	21,364	5,491	11,265	38,120
Office and facilities rentals	36,000	13,800		49,800
Operating expenses	4,678	14,629	10,461	29,768
Insurance and other		8,323		8,323
Depreciation and amortization		4,103		4,103
Program expenses	7,058			7,058
Travel and meetings	246	3,632		3,878
Loss on sale of asset		157,979		157,979
Totals	\$ 214,717	\$ 303,927	\$ 127,591	\$ 646,235

	2018			
	Program Services	Management & General	Fundraising	Total
Compensation expense	\$ 201,419	\$ 38,448	\$ 50,084	\$ 289,951
Professional fees	32,500	80,596	27,104	140,200
Employee benefits and taxes	56,466	10,778	14,041	81,285
Office and facilities rentals	36,033	15,139	7,518	58,690
Operating expenses	14,722	7,536		22,258
Insurance and other	9,508	1,057		10,565
Depreciation and amortization	5,796			5,796
Program expenses	5,280			5,280
Travel and meetings		454	454	908
Fundraising			1,696	1,696
Totals	\$ 361,724	\$ 154,008	\$ 100,897	\$ 616,629

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Cash Flows from Operating Activities</u>		
(Decrease) in Net Assets	\$ (19,517)	\$ (117,917)
Adjustments to reconcile (decrease) in net assets to net cash (used) by operating activities:		
Depreciation	4,103	5,796
Loss on sale of assets	157,979	
(Increase) decrease in prepaid expenses	(777)	(80)
Increase (decrease) in accounts payable and accrued liabilities	(497)	(4,683)
Net Cash Provided by (Used by) Operating Activities	<u>141,291</u>	<u>(116,884)</u>
<u>Cash Flows from Investing Activities</u>		
Proceeds from sale of property and equipment	18,100	
Purchase of property and equipment	(698)	
Net Cash Provided by (Used by) Investing Activities	<u>17,402</u>	
Net Increase (Decrease) in Cash and Cash Equivalents	158,693	(116,884)
Cash and cash equivalents, beginning of year	<u>342,514</u>	<u>459,398</u>
Cash and Cash Equivalents, End of Year	<u>\$ 501,207</u>	<u>\$ 342,514</u>

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Palmer Drug Abuse Program Houston, Inc. (the "Organization") was incorporated in The State of Texas on February 26, 1979. The mission of Palmer Drug Abuse Program is to be the most effective prevention and recovery program helping young people and families avoid or recover from the devastating effects of drug and alcohol abuse.

The Organization started in 1971 at Palmer Memorial Episcopal Church in Houston, Texas, as a fellowship of young people, adults and parents sharing their experience, love and understanding to solve their common problems and help others to recover from the effects of mind-changing chemicals. The Organization is non-sectarian and the primary requirement for membership is the desire to live a chemical-free life.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Palmer Drug Abuse Program Houston, Inc. have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which requires Palmer Drug Abuse Program Houston, Inc. to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. The Organization's cash and cash equivalent accounts have been placed with high credit quality financial institutions. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. The Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

Property and Equipment, Net

Acquisitions of property and equipment in excess of \$500 are capitalized. Lesser amounts are expensed. Purchased property and equipment are carried at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is calculated using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. The useful lives range from three to seven years. Any gain or loss on retirement, sale or other disposition of the equipment is recognized as revenue or expense.

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction.

Contributed Services

Various churches provide the use of facility for satellite meeting locations at no cost to the Organization. Further, Cabot Oil & Gas donated administrative office space during the year. The Organization recorded amounts of \$26,928 in 2019 and \$ 18,835 in 2018 for these services. Such amounts, which are based upon information provided by third-party service providers, are recorded at their estimated fair value determined on the date of contribution and are reported as contributions in-kind and support services in the accompanying statements of activities and statements of functional expenses.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. The Organization has allocated expenses on the basis of time and effort for 2019 and 2018.

Use of 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.

Federal Income Taxes

The Organization is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

Date of Management's Review

Subsequent events have been evaluated through May 29, 2020, which is the date the financial statements were available to be issued.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the Organization's financial assets at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 501,207	\$ 342,514
Total Financial Assets	<u>501,207</u>	<u>342,514</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	140,888	
Less net assets with purpose restriction to be met in less than a year	<u>73,370</u>	
	<u>67,518</u>	
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 433,689</u>	<u>\$ 342,514</u>

The Organization endeavors to match its operating activities and spending levels with expected cash inflows on an annual basis. The Organization's goal is generally to maintain a financial reserve of at least three months of operating expenses and manage the timing of cash inflows with the reserve. If the Organization is unable to maintain adequate reserves, operating activities and spending levels could be temporarily suspended or reduced.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Buildings	\$ 0	\$ 208,664
Furniture & fixtures	<u>698</u>	<u>7,592</u>
	698	216,256
Accumulated depreciation	<u>(175)</u>	<u>(36,249)</u>
	<u>\$ 523</u>	<u>\$ 180,007</u>

For the years ended December 31, 2019 and 2018, depreciation expense totaled \$4,103 and \$5,796, respectively.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LEASE COMMITMENTS

The Organization leases office space under various annual lease agreements. Rent expense for the years ended December 31, 2019 and 2018 was \$27,600 and \$32,800, respectively.

NOTE 6 - NET ASSETS

Net assets with donor restrictions were as follows for the years ended December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Specific purpose:		
Young adult program	\$ 93,239	\$
Education	47,649	
Total	<u>\$ 140,888</u>	<u>\$</u>

Net assets without donor restrictions for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 359,555	\$ 519,960
	<u>\$ 359,555</u>	<u>\$ 519,960</u>

Net assets released from net assets with donor restrictions for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Satisfaction of Purpose Restrictions		
Young adult program	\$ 16,761	\$
Education	2,351	
	<u>\$ 19,112</u>	<u>\$</u>

NOTE 7 - RETIREMENT PLAN

Effective November 1, 2009, the Organization adopted a retirement plan designed to comply with the requirements of Section 403(b)(1) of the Internal Revenue Code of 1986 (as amended). This plan is intended to be a non-ERISA 403(b) plan for tax-exempt, nongovernmental employers (other than churches). This plan allows employees to contribute up to statutory limits to the plan but the plan is not designed to provide for employer matching contributions or employer no-elective contributions.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - SUBSEQUENT EVENT

Subsequent to year-end, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the report date, the effects of the COVID-19 pandemic, including action taken by businesses and governments, have resulted in a significant impact on the U.S. economy. The effects have adversely affected multiple industries. The extent to which the pandemic will have on the Organization's donors or the Organization's future financial results is unknown.