

PALMER DRUG ABUSE PROGRAM
HOUSTON, INC.

FINANCIAL REPORT

December 31, 2022 and 2021

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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

Opinion

We have audited the accompanying financial statements of Palmer Drug Abuse Program Houston, Inc. (a Texas nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the 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, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Palmer Drug Abuse Program Houston, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmer Drug Abuse Program Houston, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

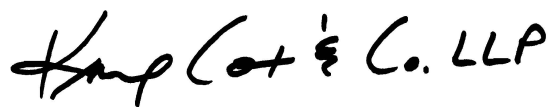
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Palmer Drug Abuse Program Houston, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Handwritten signature in black ink that reads "Karp Cot & Co. LLP". The signature is written in a cursive, flowing style.

Sugar Land, Texas
September 6, 2023

FINANCIAL STATEMENTS

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PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 426,535	\$ 460,261
Contributions receivable	12,500	57,500
Prepaid expenses and other assets	9,771	6,912
Property and equipment, net	<u>57</u>	<u>57</u>
Total Assets	<u>\$ 448,806</u>	<u>\$ 524,730</u>
 <u>Liabilities and Net Assets</u>		
<u>Liabilities</u>		
Accounts payable and accrued liabilities	\$ 2,444	\$ 5,184
Total Liabilities	<u>2,444</u>	<u>5,184</u>
 <u>Net Assets</u>		
Without donor restrictions	446,362	494,546
With donor restrictions	<u>25,000</u>	<u>25,000</u>
Total Net Assets	<u>446,362</u>	<u>519,546</u>
 Total Liabilities and Net Assets	 <u>\$ 448,806</u>	 <u>\$ 524,730</u>

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Changes in Net Assets without Donor Restrictions</u>		
Revenues		
Contributions	\$ 369,678	\$ 334,961
Special events income	98,283	83,717
Program income	1,513	5,391
Contributions - donations in-kind		12,220
PPP loan forgiveness		121,509
Interest and other income	1,622	155
Total Revenues without Donor Restrictions	<u>471,096</u>	<u>557,953</u>
<u>Net Assets Released from Restrictions</u>		
Satisfaction of program restrictions	25,000	51,061
Total Net Assets Released from Restrictions	<u>25,000</u>	<u>51,061</u>
Total Revenues and Other Support without Donor Restrictions	496,096	609,014
<u>Expenses</u>		
Program services	372,687	339,873
General and administrative	99,439	78,489
Fundraising	72,154	72,738
Total Expenses	<u>544,280</u>	<u>491,100</u>
Increase (Decrease) in Net Assets without Donor Restrictions	<u>(48,184)</u>	<u>117,914</u>
<u>Changes in Net Assets with Donor Restrictions</u>		
Private foundation support		25,000
Restrictions satisfied by payments	(25,000)	(51,061)
(Decrease) in Net Assets with Donor Restrictions	<u>(25,000)</u>	<u>(26,061)</u>
Increase (Decrease) in Net Assets	(73,184)	91,853
Net assets, beginning	<u>519,546</u>	<u>427,693</u>
Net Assets, Ending	<u>\$ 446,362</u>	<u>\$ 519,546</u>

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2022 and 2021

	2022			
	Program Services	Management & General	Fundraising	Total
Compensation expense	\$ 229,662	\$ 41,063	\$ 52,903	\$ 323,628
Professional fees	42,780	17,854	300	60,934
Employee benefits and taxes	50,063	11,325	6,905	68,293
Office and facilities rentals	27,600	24,232		51,832
Operating expenses	17,680	2,895	12,035	32,610
Insurance and other	1,400	1,801		3,201
Depreciation and amortization		57		57
Program expenses	2,522			2,522
Travel and meetings	980	212	11	1,203
Totals	\$ 372,687	\$ 99,439	\$ 72,154	\$ 544,280

	2021			
	Program Services	Management & General	Fundraising	Total
Compensation expense	\$ 240,388	\$ 25,473	\$ 28,012	\$ 293,873
Professional fees	19,662	18,505	30,000	68,167
Employee benefits and taxes	34,249	15,455	6,738	56,442
Office and facilities rentals	26,250	15,938		42,188
Operating expenses	10,678	1,659	7,988	20,325
Insurance and other	2,897			2,897
Depreciation and amortization		233		233
Program expenses	5,749			5,749
Travel and meetings		1,226		1,226
Totals	\$ 339,873	\$ 78,489	\$ 72,738	\$ 491,100

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>Cash Flows from Operating Activities</u>		
Increase (Decrease) in Net Assets	\$ (73,184)	\$ 91,853
Adjustments to reconcile increase (decrease) in net assets to net cash (used) by operating activities:		
Depreciation	57	233
PPP loan forgiveness		(121,800)
(Increase) decrease in accounts receivable	45,000	(37,500)
(Increase) decrease in prepaid expenses	(2,859)	(5,350)
Increase (decrease) in accounts payable and accrued liabilities	(2,740)	(87)
Net Cash (Used) by Operating Activities	<u>(33,726)</u>	<u>(72,651)</u>
<u>Cash Flows from Financing Activities</u>		
Proceeds from note		63,300
Net Cash Provided by Financing Activities		<u>63,300</u>
Net (Decrease) in Cash and Cash Equivalents	(33,726)	(9,351)
Cash and cash equivalents, beginning of year	<u>460,261</u>	<u>469,612</u>
Cash and Cash Equivalents, End of Year	<u>\$ 426,535</u>	<u>\$ 460,261</u>

Supplemental disclosure of non-cash financing activities:

- a) The Organization's PPP loan was forgiven in 2021 by the SBA in the amount of \$121,800.

See Accompanying Notes to Financial Statements.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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.

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.

Leases

The Organization has elected the short-term lease exemptions for all leases with a term of 12 months or less for both existing and ongoing leases to not recognize the assets and liabilities for these leases. Lease payments for short-term leases are recognized on straight line basis.

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

In 2021, various churches provided the use of facility for satellite meeting locations at no cost to the Organization. Further, Cabot Oil & Gas donated administrative office space during 2021. The Organization recorded \$12,220 in 2021 for these services. Such

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

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. In 2022, there was no donated use of facilities.

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 2022 and 2021.

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.

Income Tax Status

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.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following represents the Organization's financial assets at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial Assets at Year End:		
Cash and cash equivalents	\$ 426,535	\$ 460,261
Contributions receivable	12,500	57,500
Total Financial Assets	<u>439,035</u>	<u>517,761</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions		25,000
Less net assets with purpose restriction to be met in less than a year		<u>25,000</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 439,035</u>	<u>\$ 517,761</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 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Furniture & fixtures	\$ 698	\$ 698
	698	698
Accumulated depreciation	<u>(698)</u>	<u>(641)</u>
	<u>\$ 57</u>	<u>\$ 57</u>

For the years ended December 31, 2022 and 2021, depreciation expense totaled \$57 and \$233, respectively.

NOTE 4 - LEASE COMMITMENTS

The Organization leases office space under various annual lease agreements that are accounted for as short-term leases. Rent expense for the years ended December 31, 2022 and 2021 was \$51,832 and \$32,288, respectively.

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NET ASSETS

Net assets with donor restrictions were as follows for the years ended December 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Subject to the passage of time:		
Promises to give that are not restricted by donors, but which are available for expenditure in the future	\$ _____	\$ 25,000
Total	<u>\$ _____</u>	<u>\$ 25,000</u>

Net assets without donor restrictions for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 446,362	\$ 494,546
	<u>\$ 446,362</u>	<u>\$ 494,546</u>

Net assets released from net assets with donor restrictions for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Satisfaction of Purpose Restrictions		
Young adult program	\$ _____	\$ 51,061
	<u>\$ _____</u>	<u>\$ 51,061</u>

NOTE 6 - 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.

NOTE 7 - PAYCHECK PROTECTION PROGRAM LOANS AND FORGIVENESS

On April 28, 2020 and April 1, 2021, the Organization received loan proceeds in the amount of \$58,500 and \$63,009, respectively under the Paycheck Protection Program ("PPP"). Established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), the PPP provides for loans to qualifying businesses in amounts up to 2.5

PALMER DRUG ABUSE PROGRAM HOUSTON, INC.

NOTES TO FINANCIAL STATEMENTS

times the business's average monthly payroll expenses. PPP loans and accrued interest are forgivable after a "covered period" (8 to 24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities. Any unforgiven portion of a PPP loan is payable over two or five years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period.

The Organization applied for and received forgiveness for both PPP loans in 2021. Forgiveness income of \$121,800 has been recorded for the year ended December 31, 2021.

NOTE 8 - UNCERTAINTIES

In 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The effects of the COVID-19 pandemic, including actions taken by businesses and governments, have resulted in a significant impact on the U.S. economy. The extent to which the pandemic will have on the Organization's donors or the Organization's future financial results is unknown.

NOTE 9 - EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through September 6, 2023, the date which the financial statements were available to be issued.