DRUG PREVENTION RESOURCES, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2017

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SALMON SIMS THOMAS
Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Drug Prevention Resources, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Drug Prevention Resources, 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 from 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Drug Prevention Resources, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report September 25, 2018, on our consideration of Drug Prevention Resources, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Drug Prevention Resources, Inc.'s internal control over financial reporting and compliance.

Salmon Sims Thomas & Associates

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

September 25, 2018

Drug Prevention Resources, Inc.
Statement of Financial Position
December 31, 2017

ASSETS		
Current Assets		
Cash	$	2,293
Restricted cash		25,000
Accounts receivable		5,220
Grants receivable		225,807
Inventory		500
Investments		153,852
Total Current Assets		412,672
Fixed Assets		
Equipment		68,892
Furniture and fixtures		10,334
Less: accumulated depreciation		(57,959)
Net Property and Equipment		21,267
Other Assets		
Deposits		2,710
Total Other Assets		2,710
TOTAL ASSETS	$	436,649
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	$	26,378
Accrued payroll and benefits		30,123
Deferred rent		2,129
Total Current Liabilities		58,630
Total Liabilities		58,630
Net Assets		
Unrestricted		368,125
Temporarily restricted		9,894
Total Net Assets		378,019
TOTAL LIABILITIES AND NET ASSETS	$	436,649

The accompanying notes are an integral part of this financial statement.

Drug Prevention Resources, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2017

Revenues and Support	Unrestricted	Temporarily Restricted	Total
Grants and contributions			
Individuals and corporate	$ 41,860	$ -	$ 41,860
Donated services	244,652	-	244,652
Donated space	64,969	-	64,969
Grants	1,424,315	-	1,424,315
Revenue from sales, net of cost of goods sold of $14,809	7,853	-	7,853
Investment return	48,679	-	48,679
Other	21,146	-	21,146
	1,853,474	-	1,853,474
Net assets released from restrictions	5,790	(5,790)	-
Total revenues and support	1,859,264	(5,790)	1,853,474
Expenses			
Program services	2,123,238	-	2,123,238
Management and general	99,285	-	99,285
Fundraising	124,634	-	124,634
Total Expenses	2,347,157	-	2,347,157
Change in Net Assets	(487,893)	(5,790)	(493,683)
Net Assets, beginning of year	856,018	15,684	871,702
Net Assets, end of year	$ 368,125	$ 9,894	$ 378,019

The accompanying notes are an integral part of this financial statement.

Drug Prevention Resources, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and related	$ 1,140,505	$ 53,331	$ 66,948	$ 1,260,784
General and administrative	378,593	17,703	22,223	418,519
Travel and business	102,864	4,810	6,038	113,712
Postage	14,601	683	857	16,141
Professional fees	96,305	4,503	5,653	106,461
Marketing	7,930	371	465	8,766
Depreciation expense	4,804	225	282	5,311
Supplies	54,519	2,549	3,200	60,268
Rent	43,131	2,017	2,532	47,680
Office expenses	4,369	204	256	4,829
Donated services	275,617	12,889	16,180	304,686
	$ 2,123,238	$ 99,285	$ 124,634	$ 2,347,157

The accompanying notes are an integral part of this financial statement.

Drug Prevention Resources, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows From Operating Activities		
Change in Net Assets	$	(493,683)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation expense		5,311
Dividends and distributions reinvested		(3,784)
Realized and unrealized (gains) losses on investments		(44,895)
(Increase)/Decrease in assets:		
Accounts receivable		(1,825)
Grants receivable		(91,625)
Prepaid expense		26,504
Deposits		(2,460)
Increase/(Decrease) in liabilities:		
Accounts payable and accrued expenses		4,873
Accrued payroll and benefits		9,292
Deferred rent		(7,986)
Net Cash Used by Operating Activities		(600,278)
Cash Flows From Investing Activities		
Purchase of fixed assets		(3,001)
Sale of investments		493,882
Net Cash Provided by Investing Activities		490,881
Net change in cash and restricted cash		(109,397)
Cash and restricted cash, beginning of year		137,390
Cash and restricted cash, end of year	$	27,993

The accompanying notes are an integral part of this financial statement.

NOTE 1: NATURE OF ORGANIZATION

Drug Prevention Resources, Inc. (Organization) is the oldest drug prevention organization in Texas, celebrating 82 years of service in 2017. The Organization is a not-for-profit substance abuse prevention organization with a mission dedicated to preventing youth substance abuse through innovative delivery of evidence based strategies that empower youth, families and communities to flourish within their environments. The Organization accomplishes this by providing individual strategies for high risk youth and environmental strategies in high risk neighborhoods. The Organization is supported primarily through federal grants, state grants, and donor contributions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of the Organization is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the fairness and objectivity embodied in the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Financial Statement Presentation - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions of assets other than cash are recorded at their estimated fair value on the date of donation.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in recording depreciation, functional allocation of expenses, and the realizable value of grants receivable. It is at least reasonably possible that the significant estimates used will change within the next year. Actual results could vary from estimates.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - The Organization considers all short-term investments with an original maturity of ninety days or less to be cash equivalents. The Organization places its cash, which, at times, may exceed federally-insured limits, with high-credit quality institutions. The Organization has not experienced any losses on such accounts. Restricted cash consists of savings accounts which are used to secure credit lines on the Organization's secured credit cards.

Functional Allocation of Expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Grants Receivable - Grants receivable consists of amounts billed to the state for program expenditures incurred as of year-end for reimbursement. The Organization deems all receivables collectible hence there is no estimated allowance for doubtful accounts.

Property and Equipment - Property and equipment are stated at cost when purchased or fair market value on the date of donation, less accumulated depreciation. Major expenditures and those that substantially increase useful lives are capitalized. Maintenance, repairs, and replacements, which do not improve or extend the lives of the respective assets, are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation is removed, and any gain or loss is included in operations. Depreciation is calculated using the straight-line method based on estimated useful lives as follows:

Equipment	3 to 7 years
Furniture and fixtures	5 years

Donated Services, Materials and Facilities – Donations of noncash contributions are recorded at their estimated fair value on the date of donation. Donated services are recognized as contributions in accordance with GAAP, if the services (a) create or enhance nonfinancial assets or (b) require and are provided by individuals with specialized skills and if not provided by donation would typically need to be purchased.

Deferred Rent

The Organization has entered into an operating lease agreement containing provisions for future rent increases and periods of reduced rent payments. In accordance with GAAP, the Organization records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes – The Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (IRC) of 1986, as amended, as an organization described in Section 501(c)(3) of the IRC. The Organization has been classified as an organization that is not a private foundation under IRC Section 509(a)(2), and as such, contributions to the Organization qualify for deductions as charitable contributions. However, income generated from activities unrelated to the Organization's exempt purpose is subject to tax under IRC Section 511.

Accounting for Uncertainty in Income Taxes - Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) Topic 740-10, *Accounting for Income Taxes*, would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued in the statement of financial position. Information returns of the entity are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Inventory – Inventory, consisting of materials used for the assembly of drug education kits sold by the Organization, is stated at the lower of cost or fair market value, using the first-in, first-out (FIFO) valuation method.

Investments

Investments are carried at fair value; realized and unrealized gains and losses are reflected in the statement of activities. Gains and losses on sales transactions are based on the weighted average cost of the investments sold. The aggregate amount of unrealized fair value appreciation (depreciation) during the year is recorded as an unrealized gain (loss) applicable to the various net asset categories.

Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Following is a description of the valuation methodology used for assets measured at fair value. There has been no change in the methodology used at December 31, 2017.

Mutual funds: Valued at the closing price reported in an active market in which the fund is traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which will supersede the current lease requirements in Accounting Standards Codification (ASC) 840. The new standard requires lessees to recognize a right-of-use (ROU) asset and a related lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The new standard is effective for private entities for annual periods beginning after December 15, 2019. The Organization is currently assessing the impact that adoption of ASU 2016-02 will have on its results of operations, but expect that it will not result in a significant increase in the long-term assets given the Organization does not have a significant number of leases.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as an update to ASC 958, Not-for-Profit Entities. This update makes several improvements to current reporting requirements that address complexities in the use of the currently required three classes of net assets and enhance required disclosures related to donor restrictions of net assets. The updated guidance will result in a change in the classes of net assets reported on the face of the statement of financial position from three classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets without donor restrictions and net assets with donor restrictions.

The update also requires all not-for-profit entities to report expenses by function and by natural classification, either on the face of the financial statements or in the footnotes. Additional qualitative information about the methods used to allocate costs is also required to be disclosed. The update also requires all not-for-profit entities to disclose quantitative information that communicates the availability of the Organization's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year as well as qualitative information on how the Organization manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
Recent Accounting Pronouncements (Continued)
The updated guidance will be effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The new guidance should be applied on a retrospective basis. The Organization will be adopting this update in fiscal year 2018. No other material impact is expected.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, as an update to ASC 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The updated guidance will be effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Organization has elected early adoption. The new guidance has been applied on a retrospective basis. The updated guidance resulted in a change in the statement of cash flows to include restricted cash and restricted cash equivalents. No other material impact is expected.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, Revenue Recognition. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The statement is effective for annual periods beginning after December 15, 2018. The Organization is in the process of evaluating the potential impact of ASU 2014-09 on its financial statements and it has not yet determined the method by which the standard will be adopted in 2019.

Date of Management's Review - Subsequent events have been evaluated for potential recognition or disclosure through September 25, 2018, which is the date the financial statements were available to be issued.

NOTE 3: INVESTMENTS

Investments at December 31, 2017 consisted of the following:

Mutual Funds	$ 153,852

Investment return for the year ended December 31, 2017, is summarized as follows:

Realized and unrealized gains	$ 44,895
Dividends and distributions	3,784
	$ 48,679

NOTE 4: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017 as follows:

	Fair Value	Quoted Prices in Active markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 153,852	$ 153,852	$ -	$ -

NOTE 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2017:

Equipment	$ 68,892
Furniture and fixtures	10,334
	79,226
Less: accumulated depreciation	(57,959)
	$ 21,267

NOTE 6: RETIREMENT PLAN

The Organization makes contributions for its staff to a retirement plan. In general, an employee who has attained at least 18 years of age and completed one year of service is eligible for a matching contribution of 10% of the employee's compensation. Total contributions to the plan was $54,121 in 2017.

NOTE 7: LEASE COMMITMENTS

Operating Leases

The Organization leases office space and equipment under noncancelable operating lease agreements expiring on various dates through the year ending December 31, 2020. Rent expense under these operating leases was approximately $99,000 for the year ended December 31, 2017.

Required minimum lease payments under the lease agreements are approximately as follows for the years ending December 31,

2018	$ 53,790
2019	29.538
2020	10,040
2021 & thereafter	-
	$ 93,368

NOTE 8: CONCENTRATION OF RISK

At December 31, 2017, 100% of the Organization’s grants receivable were due from two grantors. For the year ended December 31, 2017, the Organization received approximately 70% of its total support and revenue from one grantor.

NOTE 9: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available to fund purchases of computers and related expenses. Net assets are released from donor restrictions by incurring expenditures relating to the donors’ original purpose. Temporarily restricted net assets are available for computer purchases and related expenses in the amount of $9,894 as of December 31, 2017.

Temporarily restricted net assets released from restriction for the year ended December 31, 2017 was $5,790.

SALMON SIMS THOMAS
Accountants and Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Drug Prevention Resources, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Drug Prevention Resources, 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, and have issued our report thereon dated September 25, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Drug Prevention Resources, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Drug Prevention Resources, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Drug Prevention Resources, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See finding 2017-001.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Drug Prevention Resources, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

September 25, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
of Drug Prevention Resources, Inc.

Report on Compliance for Each Major Federal Program

We have audited Drug Prevention Resources, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Drug Prevention Resources, Inc.'s major federal programs for the year ended December 31, 2017. Drug Prevention Resources, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Drug Prevention Resources, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Drug Prevention Resources, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Drug Prevention Resources, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Drug Prevention Resources, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Drug Prevention Resources, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Drug Prevention Resources, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Drug Prevention Resources, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

September 25, 2018

Drug Prevention Resources, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

Federal or State Grantor/Pass- Through Grantor/ Program Title		Federal CFDA Number	Name of Grant/ Grant ID #	Expenditures
Federal:				
Department of Health and Human Services				
Passed Through Texas Department of Health and Human Services				
Substance Abuse and Mental Health Services -				
Projects of Regional and National Significance		93.243	Strategic Prevention Framework - Partnership for Success/ 2016-048631-002	$ 111,913
Total Substance Abuse and Mental Health Services -				
Projects of Regional and National Significance				111,913
Medical Assistance Program		93.778	Community Coatlition Partnerships/ 2016-047892-005	5,043
Medical Assistance Program		93.778	Community Coatlition Partnerships/ 2016-047892-006	6,322
Medical Assistance Program		93.778	Community Coatlition Partnerships/ 2016-047892-007	7,480
Medical Assistance Program		93.778	Community Coatlition Partnerships/ 2016-047892-008	6,256
Medical Assistance Program		93.778	Strategic Prevention Framework - Partnership for Success/ 2016-048631-002	7,484
Total Medical Assistance Program				32,585
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-005	74,482
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-006	86,404
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-007	79,931
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-008	80,118
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-009	28,047
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-010	28,749
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-011	33,662
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Community Coalition Partnerships/ 2016-047892-012	32,440
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Youth Prevention - Indicated/ 2016-048108-002	157,455
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Youth Prevention - Indicated/ 2016-048108-003	51,378
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Youth Prevention - Selective/ 2016-048004-002	131,225
Block Grants for Prevention and Treatment of Substance Abuse	*	93.959	Youth Prevention - Selective/ 2016-048004-003	44,356
Total Block Grants for Prevention and Treatment of Substance Abuse				828,247
Total Passed Through Texas Department of Health and Human Services				972,745
Total Expenditures of Federal Awards				$ 972,745
State:				
General Revenue:				
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-005	$ 5,295
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-006	5,545
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-007	5,814
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-008	6,716
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-009	11,795
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-010	11,878
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-011	13,688
Texas Department of Health and Human Services		N/A	Community Coalition Partnerships/ 2016-047892-012	13,469
Texas Department of Health and Human Services		N/A	Youth Prevention - Indicated/ 2016-048108-002	4,441
Texas Department of Health and Human Services		N/A	Youth Prevention - Indicated/ 2016-048108-003	19,475
Texas Department of Health and Human Services		N/A	Youth Prevention - Selective/ 2016-048004-002	6,435
Texas Department of Health and Human Services		N/A	Youth Prevention - Selective/ 2016-048004-003	17,648
Texas Department of Health and Human Services		N/A	Tobacco Prevention and Control Coalitions/ 2016-003739-00	128,395
Texas Department of Health and Human Services		N/A	Tobacco Prevention and Control Coalitions/ 2016-003739A	43,884
Total Expenditures of State General Revenues				$ 294,478
Total Expenditures of State General Revenues and Federal Awards				$ 1,267,223

* Indicates major program.

See accompanying notes to schedule.

Drug Prevention Resources, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2017

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal regulation Part 200, *Uniform Administration Requirement, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

NOTE 2: INDIRECT COSTS

Expenditures on the schedule of expenditures of federal awards are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Drug Prevention Resources, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Drug Prevention Resources, Inc.
Schedule of Findings and Questioned Costs
December 31, 2017

SUMMARY OF AUDITORS' RESULTS

1. We have issued an unmodified opinion on the financial statements of Drug Prevention Resources, Inc. as of and for the year ended December 31, 2017.

2. No material weaknesses relating to the audit of the financial statements were found.

3. One significant deficiency relating to the audit of the financial statements was reported.

4. The results of the financial statement audit disclosed no instances of noncompliance which were considered material to the financial statements.

5. We issued an unmodified opinion in our report on compliance for major programs for the year ended December 31, 2017.

6. No significant deficiencies relating to the audit of internal control over major federal award programs were found.

7. There were no audit findings that are required to be reported in accordance with OMB Uniform Guidance 200.516(a).

8. The program tested as a major program for the year ended December 31, 2017 is as follows:

   Block Grant for Prevention of Substance Abuse 93.959

9. The threshold used for distinguishing between type A and B programs was $750,000.

10. Drug Prevention Resources, Inc. did qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001

Criteria: Pursuant to CFR 200.302(b)(1), the financial management system of the Organization must provide the identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. This identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.

Condition: The Organization's financial management system (QuickBooks) does not currently provide the required information.

Effect: Management is unable to track revenues and create, directly from its financial management system, a Schedule of Expenditures of Federal Awards with the required identification.

Recommendation: Management should begin tracking revenues and expenses with the required information utilizing the information available from the Texas Department of State Health Services' (DSHS) Clinical Management for Behavioral Health Services (CMBHS) electronic health record system.

Corrective Action: Management will use the CMBHS electronic health record system to differentiate and record the payments made by CFDA number, State and Federal portions within the contract year by recording in QuickBooks. Management will also keep a separate spreadsheet to track the individual payments.

FINDINGS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

Drug Prevention Resources, Inc.
Schedule of Prior Year Findings and Questioned Costs
December 31, 2017

Drug Prevention Resources, Inc. was audited for the year ended December 31, 2016 by Salmon Sims Thomas & Associates, PLLC. There were no audit findings requiring corrective action.