

SUBSTANCE FREE ENVIRONMENT, INC.

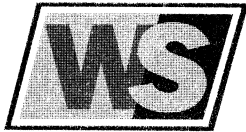
Financial Statements

For the Year Ended June 30, 2016

SUBSTANCE FREE ENVIRONMENT, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Managers
Substance Abuse Free Environment, Inc.
Richmond, Virginia

We have audited the accompanying financial statements of Substance Abuse Free Environment, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 the 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 audits. We conducted our audits 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 of 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 financial statements referred to above present fairly, in all material respects, the financial position of Substance Abuse Free Environment, Inc. as of June 30, 2016, 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.

September 22, 2016

William D. Satchell, CPA, PC

North Chesterfield, Virginia

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Statement of Financial Position
As of June 30, 2016

Assets

Current assets:	
Cash (note 3)	\$ 31,902
Grants receivable (note 2)	10,386
Prepaid expenses	<u>3,032</u>
Total current assets	<u>45,320</u>
Furniture and equipment	14,288
Less accumulated depreciation	<u>(10,826)</u>
Net furniture and equipment	<u>3,462</u>
	<u>\$ 48,782</u>

Liabilities and Net Assets

Current liabilities:	
Bank line-of-credit (note 2)	\$ 1,000
Accounts payable	7,699
Accrued salaries and wages	3,035
Accrued compensated absences	2,200
Payroll taxes payable	<u>1,678</u>
Total current liabilities	<u>15,612</u>
Net assets:	
Unrestricted	7,744
Temporarily restricted (note 3)	<u>25,426</u>
Total net assets	<u>33,170</u>
	<u>\$ 48,782</u>

See accompanying notes and independent auditor's report.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Statement of Activities
For the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Support and Revenue</u>			
Contributions (note 4):			
Adler Family Trust	\$ 1,000	-	1,000
Bon Secours Health System	-	25,000	25,000
Brandermill Rotary	1,000	-	1,000
Fraternal Order of Police	1,200	-	1,200
JHW Foundation	2,000	-	2,000
Substance Abuse and Mental Health Administration	500	-	500
The Observer	5,000	-	5,000
Other	3,236	-	3,236
Contributed use of facilities (note 5)	36,219	-	36,219
Contributed services (note 6)	-	34,815	34,815
Government grants:			
Virginia Department of Alcoholic Beverage Control	-	8,000	8,000
Virginia Department of Motor Vehicles	79,074	-	79,074
Chesterfield Community Services Board	12,180	-	12,180
Chesterfield County	-	15,000	15,000
Other	1,234	-	1,234
Program service revenue:			
Chesterfield County Public Schools	12,500	-	12,500
Goochland/Powhatan Community Services Board	1,200	-	1,200
Interest income	93	-	93
Net assets released from restriction	101,894	(101,894)	-
	<u>258,330</u>	<u>(19,079)</u>	<u>239,251</u>
<u>Expenses</u>			
Program services	183,780	-	183,780
Support services:			
Management and general	75,485	-	75,485
Fund-raising	18,485	-	18,485
	<u>277,750</u>	<u>-</u>	<u>277,750</u>
Change in net assets	(19,420)	(19,079)	(38,499)
Net assets, beginning of year	<u>27,164</u>	<u>44,505</u>	<u>71,669</u>
Net assets, end of year	<u>\$ 7,744</u>	<u>25,426</u>	<u>33,170</u>

See accompanying notes and independent auditor's report.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Statement of Functional Expenses
For the Year Ended June 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund-raising</u>	<u>Total</u>
Payroll and related expenses:				
Salaries and wages	\$ 53,208	37,658	9,728	100,594
Payroll tax expense	<u>3,664</u>	<u>2,594</u>	<u>670</u>	<u>6,928</u>
Total payroll and related expenses	56,872	40,252	10,398	107,522
Accounting	-	9,872	-	9,872
Bank charges	7	17	-	24
Business insurance	1,228	869	224	2,321
Charitable contributions	100	-	-	100
Conferences and meetings	4,067	767	2,803	7,637
Consultants	6,552	-	-	6,552
Depreciation	918	650	168	1,736
Dues and subscriptions	175	530	-	705
Equipment rent and maintenance	-	180	24	204
Interest expense	894	196	-	1,090
IT support	711	673	127	1,511
Media (note 6)	59,575	932	-	60,507
Office	442	566	20	1,028
Postage and shipping	-	98	-	98
Printing and publications	3,207	93	164	3,464
Professional (note 6)	8,950	3,150	-	12,100
Rent (note 5)	19,422	13,746	3,551	36,719
Supplies	10,211	243	177	10,631
Telephone	1,391	1,354	255	3,000
Travel	8,261	52	458	8,771
Utilities	<u>797</u>	<u>1,245</u>	<u>116</u>	<u>2,158</u>
	<u>\$ 183,780</u>	<u>75,485</u>	<u>18,485</u>	<u>277,750</u>

See accompanying notes and independent auditor's report.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities:	
Change in net assets	\$ (38,499)
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	1,761
Increase in grants receivable	(10,386)
Increase in prepaid expenses	(763)
Increase in accounts payable	7,699
Increase in accrued salaries and wages	3,035
Increase in accrued compensated absences	2,200
Increase in payroll taxes payable	<u>1,458</u>
Net cash used in operating activities	<u>(33,495)</u>
Cash flows from financing activities:	
Net borrowings on bank line-of-credit	<u>1,000</u>
Net cash provided by financing activities	<u>1,000</u>
Net decrease in cash	(32,495)
Cash, beginning of year	<u>64,397</u>
Cash, end of year	\$ <u><u>31,902</u></u>
Supplemental disclosure of cash flow information:	
Interest paid	\$ <u><u>1,090</u></u>

See accompanying notes and independent auditor's report.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Notes to Financial Statements
For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Substance Abuse Free Environment, Inc. (the "Organization" and "SAFE") is a Virginia not-for-profit corporation formed in 1999. The Organization's mission is to engage the Chesterfield County, Virginia community in working together to prevent substance abuse.

The Organization's primary initiatives include developing community partnerships to expand substance abuse prevention efforts to all sectors of the community, advocating for laws and policies that reduce substance abuse and for funding for substance abuse prevention efforts, increasing awareness of substance abuse issues, and involving youth in leadership roles to influence their peers, adults and community leaders about the value of substance abuse free living.

The Organization's primary sources of support and revenue are government grants and contributions from individuals, businesses and other organizations.

(b) Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, prepaid expenses, payables and other accrued expenses.

(c) Financial Statement Presentation

The financial statement presentation conforms to the requirements of the Financial Accounting Standards Board ("FASB") as defined in the FASB Accounting Standards Codification ("ASC") Topic 958, "*Not-for-Profit Entities*". Under FASB ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classifications are based on the existence or absence of donor-imposed restrictions.

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

The Organization reports gifts as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or unexpended restricted funds are returned to the donor, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Permanently restricted net assets include those assets which are subject to a non-expiring donor restriction, such as an endowment. The Organization had no permanently restricted net assets in 2016.

The Organization reports its expenses by their functional classification. Certain expenses have been allocated among the programs and supporting services benefited.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Notes to Financial Statements
For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(c) Financial Statement Presentation (continued)

Program services are the activities that result in goods and services being provided to beneficiaries and customers that fulfill the mission for which the Organization exists.

Management and general services include oversight, business management, general recordkeeping, budgeting, financing, and all management and administration except for direct conduct of program services or fund-raising activities.

Fund-raising activities include publicizing and conducting fund-raising campaigns, maintaining donor mailing lists, conducting special fund-raising events, and other activities involved with soliciting contributions.

(d) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Grants Receivable

Grants receivable consist of amounts expended under reimbursable government grants that were not yet reimbursed by the respective grantors as of June 30, 2016 and are reported at net realizable value. As of June 30, 2016, all outstanding grants receivable were expected to be collected within one year and were considered fully collectible, therefore no allowance for doubtful grants receivable has been established.

(f) Property and Equipment

Property and equipment are recorded at cost if purchased or fair value at the date of donation if contributed. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. 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 as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Depreciation is provided using the straight-line method over the estimated useful lives of assets of five to seven years.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Notes to Financial Statements
For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(g) Compensated absences

Regular full-time employees earn paid annual and sick leave based on their length-of-service. Up to ten days of annual leave may be carried forward from one calendar year to the next. Earned but unused annual leave is paid to terminating employees. There is no limit to the amount of sick leave carried over from one year to the next, however, terminating employees are not compensated for any unused sick leave.

Annual leave and sick leave benefits are accrued in the financial statements as they are earned.

(h) Government Grants

Certain grants from government agencies are conditioned upon the Organization incurring certain qualifying costs and are recognized as support as those costs are incurred.

(i) In-kind Contributions

Contributed supplies, and use of facilities are reported as support and expenses in the period received at estimated fair value when determinable.

Unskilled volunteer services neither create nor enhance nonfinancial assets nor do they require specialized skills, and thus are not recognized as support, assets or expense in the financial statements.

Contributions of services that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded as support and expenses at estimated fair value when determinable.

(j) Advertising

Advertising costs are expensed as incurred.

(k) Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 58.1-401.5 of the Code of Virginia, except for taxes on unrelated business income as defined under IRC Sections 511 through 515, and is classified by the Internal Revenue Service as an organization that is not a private foundation. There was no unrelated business income for 2016, accordingly, no provision for income taxes is made in the financial statements.

FASB ASC Topic 740, "*Income Taxes*", requires income tax benefits to be recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. As the Organization reports on the accrual basis of accounting, any adjustments made by tax authorities are recorded when assessed.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Notes to Financial Statements
For the Year Ended June 30, 2016

(1) Summary of Significant Accounting Policies (continued)

(k) Income Taxes (continued)

The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the Virginia Department of Taxation. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial statements.

The Organization's income tax returns are subject to examination by federal and Virginia tax authorities. With few exceptions, the Organization is no longer subject to U.S. federal tax examinations by tax authorities for years before 2010.

(2) Bank Line-of-Credit

The Organization has a \$100,000 revolving line-of-credit with a bank (the "Line"), of which, \$1,000 is outstanding at June 30, 2016. The Line bears interest, payable monthly, at the prime rate plus 2.5% per annum, subject to a minimum interest rate of 5.75% per annum. The applicable interest rate at June 30, 2016 is 6.0%.

The Line is secured by all accounts receivable of the Organization. The current maturity date of the Line is December 3, 2016. The Organization expects the bank to renew the Line for another year under substantially similar terms upon completion of the 2016 financial statement audit.

(3) Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of \$25,426 in cash restricted for future program expenditures.

(4) Related Party Transactions

Contributions in the accompanying statement of activities include donations from members of the Organization's board of directors of \$1,215 and a \$5,000 donation from a business owned by a member of the Organization's board of directors.

(5) Operating Lease

Office space used by the Organization is leased under an operating lease which expires in June 2017. Rent expense for the office space totaled \$36,219 in 2016, of which, the Organization paid \$1 and the remainder was provided in-kind by the landlord. The minimum lease payment for 2017 is \$1.

SUBSTANCE ABUSE FREE ENVIRONMENT, INC.

Notes to Financial Statements
For the Year Ended June 30, 2016

(6) Contributed Services

Contributed services reported in the accompanying 2016 financial statements consist of media production services and airtime used for the Latino Coalition Program valued at \$22,015, and in-kind contributions of medical, legal and financial professional services valued at \$12,800.

In addition, a substantial number of volunteers have donated considerable amounts of their time to SAFE's programs and supporting services, however, none of these contributed services met the requirements for recognition in the financial statements. The Organization estimates the value of these in-kind contributions at \$6,700.

(7) Concentrations

A business contributed 10% of the Organization's total support and revenue in 2016.

In-kind contributions of facilities use made by another business generated an additional 15% of SAFE's 2016 total support and revenue.

The Virginia Department of Motor Vehicles made a grant totaling 33% of the Organization's 2016 support and revenue.

(8) Subsequent Events

The Organization has evaluated all subsequent events through September 22, 2016, the date the financial statements were available to be issued.

The maturity date of the Line discussed in note 2 was extended by the bank through December 3, 2016.