

METRO DRUG COALITION, INC.
FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2018
and
INDEPENDENT AUDITOR'S REPORT

METRO DRUG COALITION, INC.
FINANCIAL STATEMENTS
WITH REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2018

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METRO DRUG COALITION, INC.

LIST OF PRINCIPAL OFFICIALS

September 30, 2018

Executive Committee Members

General Charme Allen, President
Jeffrey Maples, Vice President
Dr. Suzanne Bailey, Psy.D., Secretary
Jim Lapinska, Treasurer
Webster Bailey, Immediate Past President

Executive Committee – At Large

Randall E. Nichols
Donald B. Wake, CPCU

Board At Large Members

Erik Ainge
Susan Bacon
Dr. Martha Buchanan
Mayor Glenn Jacobs
Jenny Bushkell
Commissioner Michele Carringer
Maurice L. Clark, Sr.
Dr. Sharon K. Davis
Dr. Elise Denny
Angela Ferrie
Honorable Timothy Irwin
Sheriff Tom Spangler
Chuck Morris
Dr. Michael O'Neil
Hilde Phipps
Chief Eve Thomas
Ernie Roberts
Mayor Madeline Rogero
Rev. Steve Sexton
Elizabeth L. Sherrod
Barbara Shipley
Charles W. Swanson
Bob Thomas
Bob Thomas
Councilman George C. Wallace

Advisory Board Members

John W. Gill, Jr.
Otto T. Wright

BROWN JAKE & McDANIEL, PC

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JAMES E. BOOHER, CPA, CGMA

MEMBERS
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Independent Auditor's Report

Board of Directors
Metro Drug Coalition, Inc.
Knoxville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Metro Drug Coalition, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, 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 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 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 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 the Metro Drug Coalition, Inc. as of September 30, 2018, and the changes in its net position 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* Part 200, *Uniform Administrative Requirements, Costs 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 dated June 6, 2019, on our consideration of Metro Drug Coalition, Inc. 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 solely 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 the effectiveness of Metro Drug Coalition, Inc.'s 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 Metro Drug Coalition, Inc.'s internal control over financial reporting and compliance.

Brown Lake & McDaniel, PC

Knoxville, Tennessee
June 6, 2019

METRO DRUG COALITION, INC.
STATEMENT OF FINANCIAL POSITION

September 30, 2018

<u>ASSETS</u>	<u>Unrestricted</u>
Current assets:	
Cash and cash equivalents	\$ 20,419
Accounts receivable	291,561
Prepaid expense	5,543
Investments	<u>281,490</u>
Total current assets	<u>599,013</u>
Property and equipment:	
Leasehold improvements	70,430
Office furniture and equipment	<u>16,682</u>
	87,112
Less accumulated depreciation	<u>51,289</u>
Net property and equipment	<u>35,823</u>
Total assets	<u><u>\$ 634,836</u></u>
 <u>LIABILITIES AND NET POSITION</u>	
Current liabilities:	
Accounts payable	\$ 25,044
Accrued liabilities	<u>18,014</u>
Total current liabilities	<u>43,058</u>
Net position:	
Unrestricted	<u>591,778</u>
Total net position	<u>591,778</u>
Total liabilities and net position	<u><u>\$ 634,836</u></u>

The accompanying notes are an integral
part of these financial statements.

METRO DRUG COALITION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	<u>Unrestricted</u>
Support and revenue:	
Revenues, gains and other support:	
Federal and state grants	\$ 871,835
Local government grants	46,100
Contributions and support	145,540
Gifts in kind	39,193
Special events	11,888
Interest income	56
Investment income	8,771
Realized gains (losses) on investments	18,111
Unrealized gains (losses) on investments	(7,588)
Other income	6,545
	<u>1,140,451</u>
Total revenues, gains and other support	
Expenses:	
Program services	1,019,175
Support services:	
Management and general	74,877
Fundraising	25,209
	<u>1,119,261</u>
Total expenses	
Change in net position	21,190
Net position, beginning of year	<u>570,588</u>
Net position, end of year	<u>\$ 591,778</u>

The accompanying notes are an integral part of these financial statements.

METRO DRUG COALITION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2018

	Support Services			Total
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 311,616	\$ 51,174	\$ 15,613	\$ 378,403
Contractual expenses	114,180	-	4,205	118,385
Professional services	24,644	4,578	-	29,222
Community awareness	429,655	13	-	429,668
Insurance	8,247	-	-	8,247
Supplies	15,690	1,228	199	17,117
Telephone	7,672	1,256	-	8,928
Printing and postage	11,755	2,472	74	14,301
Membership dues and professional development	2,853	1,433	-	4,286
Rent	33,766	2,825	-	36,591
Utilities	4,741	376	-	5,117
Travel	16,637	-	45	16,682
Special event expense	-	-	4,614	4,614
Meeting/training expenses	19,622	2,111	-	21,733
Equipment rental and maintenance	4,660	386	-	5,046
Building maintenance	3,187	274	-	3,461
Depreciation	-	3,248	-	3,248
Miscellaneous	10,250	3,503	459	14,212
	<u>\$ 1,019,175</u>	<u>\$ 74,877</u>	<u>\$ 25,209</u>	<u>\$ 1,119,261</u>

The accompanying notes are an integral
part of these financial statements.

METRO DRUG COALITION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2018

	<u>Unrestricted</u>
Cash flows from operating activities:	
Change in net position	\$ 21,190
Adjustments to reconcile change in net position to net cash used by operating activities:	
Net realized and unrealized gains and losses on investments	(10,523)
Depreciation	3,248
(Increase) decrease in assets:	
Receivables	(149,545)
Prepaid expense	16
Increase (decrease) in liabilities:	
Accounts payable	(64,467)
Accrued liabilities	7,382
	<u>(192,699)</u>
Net cash used by operating activities	
Cash flows from investing activities:	
Proceeds of investments	220,845
Purchases of investments	<u>(203,647)</u>
	<u>17,198</u>
Net cash provided by investing activities	
Decrease in cash and cash equivalents	(175,501)
Cash and cash equivalents, beginning	<u>195,920</u>
Cash and cash equivalents, ending	<u>\$ 20,419</u>

The accompanying notes are an integral
part of these financial statements.

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS

September 30, 2018

1. Organization and Mission

The Metro Drug Coalition, Inc. ("MDC" or the "Coalition") legally changed its name on January 26, 2016, from Metropolitan Drug Commission, Inc. MDC was chartered in 1986 as a corporation formed by a joint resolution by the City of Knoxville (the "City") and Knox County. The mission of the Coalition is to mobilize all segments of the local community to individually reject and reduce youth use and adult abuse of alcohol and other drugs.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Coalition are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Coalition considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Receivables and Revenue Recognition

For grant awards that are on a cost reimbursement basis, revenue is recognized to the extent grant expenses have been incurred. Revenue from contributions and other grant awards is recorded when cash is received or an unconditional promise to give is made.

Investments and Fair Value Measurements

The Coalition follows FASB ASC 820 which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires enhanced disclosures about fair value measurements. Fair value is the amount that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (i.e. the exit price).

Certificates of deposit are reported at fair market value based on the account balance at the financial institution on the last business day of the year.

Investments for which observable market prices in active markets do not exist are reported at fair value, as determined in good faith by management.

Realized gains and losses are determined by comparison of asset average cost, or fair market value at the date of donation or market value at the beginning of the year, to net proceeds received at the time of disposal. Unrealized gains and losses are determined by the difference between market values at the beginning and end of the year. These amounts are reflected in the financial statements as net realized and unrealized gains (losses) on investments.

See Note 5, Investments and Fair Value Measurements and Endowments, for further discussion relating to ASC 820-10 and the Coalition's investments.

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Investments and Fair Value Measurements (Continued)

The Coalition's policy regarding investment income and realized and unrealized gains and losses for temporarily and permanently restricted assets is to record such revenues as unrestricted support to the extent that restrictions are met in the same reporting period.

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets which range between 5 and 20 years. Maintenance and repairs are expensed as incurred, betterments are capitalized and gains and losses from disposition are included in revenues and expenses. The Coalition's capitalization threshold is \$5,000.

Temporarily Restricted Net Position

The Coalition reports grants and gifts of cash and other assets as restricted support if they are received with grantor stipulations that limit the use of the donated assets and the restriction is not met within the same fiscal year. When the restriction expires in a subsequent fiscal year, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net position is reclassified to unrestricted net position and reported in the statement of activities as net position released from restrictions. Grants and donor restricted gifts are classified as unrestricted if the restriction expires in the same fiscal year. There were no temporarily restricted assets at September 30, 2018.

The Coalition reports gifts of long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Coalition reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

Certain expenses of the Coalition have been allocated between program and supporting services. These allocations are determined by the Coalition's management either by specific identification, percentage proration of personnel, or other specific costs.

Income Taxes

The Coalition is classified as an organization exempt from income tax under Internal Revenue Code Section 501(c)(3) as other than a private foundation and, accordingly, no provision for income taxes has been included in the accompanying financial statements.

METRO DRUG COALITION, INC.
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

2. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The Coalition follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10-25. The Coalition does not believe there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended September 30, 2018, there were no interest or penalties recorded or included in its financial statements.

The Coalition's Form 990, *Return of Organization Exempt from Income Tax*, for the years ended 2015 through 2018 are subject to examination by the IRS, generally for three years after they were filed.

Gifts in Kind

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by the donation. There were \$2,601 in donated services in 2018.

The Coalition leases its facilities from the City of Knoxville for \$1 per year pursuant to a lease agreement expiring in 2027 which may be terminated by the Coalition or the City upon sixty days notice. The Coalition recorded \$36,592 in 2018 in contributions and related rent expense in the Statement of Activities for the estimated fair value of the use of its facility.

Subsequent Events

In preparation of the accompanying financial statements, management has evaluated subsequent events that have occurred since the statement of financial position date through June 6, 2019, the date the financial statements were available for issuance.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Endowment, Investments and Spending Policies

East Tennessee Foundation Endowment

MDC has adopted the investment and spending policies of the East Tennessee Foundation "The Foundation" for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. To achieve the investment goal, the Foundation's Investment Committee establishes investment objectives and strategies of equity, fixed income, cash, and non-traditional investments within prudent risk parameters.

The objective is to achieve a total annual return, measured on a five-year moving average basis equal to the spending rate as determined by the Foundation plus the inflation rate. The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Summary of Significant Accounting Policies (Continued)

Endowment, Investments and Spending Policies (Continued)

East Tennessee Foundation Endowment (Continued)

The spending policy calculates the amount of money annually distributed from the Foundations' various endowed funds for grant making. The Foundation adopted a 4½% annual spending level for grant distributions to be calculated on a rolling average of twelve quarters of ending market values. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

The principal of the endowment is permanent and irrevocable and cannot be spent. At the discretion of the board, up to 100% of the yearly total return may be used for program and agency expenses unless restricted for a specific purpose by the donors.

Other Investment Funds

The Coalition has also adopted investment policies for short-term and long-term reserve funds.

The purpose of the short-term reserve fund is to meet unanticipated expenses of the Coalition and to improve returns on the funds held for expenditure for up to five years. The objectives are preservation of capital, liquidity, and to optimize investment return.

The allowable investments for the short-term reserve funds are interest bearing savings or checking accounts, certificate of deposits, money market funds, mutual funds that invest in direct obligations of the U.S. Government, and direct obligations of the U.S. Government. All of these will have a weighted average maturity of three years or less. The maximum maturity will be five years.

The purpose of the long-term reserve fund is to provide secure long-term funding for the mission of MDC. Expenditure of the principal is board designated unless otherwise designated by the donors in part or in whole. Also, at the discretion of the board, up to 100% of the yearly total return may be utilized for program and agency expenses unless restricted for specific purposes by the donors.

The objectives of the long-term reserve fund are to emphasize the long-term growth of principal while avoiding excessive risk and to achieve returns in excess of the rate of inflation plus spending over the investment time horizon in order to preserve purchase power of agency and trust assets.

MDC has adopted the asset allocation guidelines as equities at 30% up to 70%, fixed income at 30% up to 70%, and cash equivalent at 0% up to 20%. The allowable investments for cash equivalents are treasury bills, money market funds, certificates of deposits, etc. Allowable fixed income securities will be U.S. Government and Agency securities, corporate notes and bonds with an investment grade of at least BBB, mortgage backed bonds, and preferred stock. Allowable equity securities are common stocks, convertible notes and bonds, convertible preferred stocks, and American Depository Receipts of non-US companies. Allowable long-term investments also include mutual funds that invest in the allowable securities of the investment policy.

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Employee Benefit Plan

The Coalition has a contributory retirement plan for all employees working over 30 hours per week. Participants are required to contribute a minimum of 6% of their compensation, as defined, to the Plan. The Coalition matches participant contributions up to 6% of the participants' compensation to the Plan. The Coalition contributed \$16,697 in 2018 to the Plan.

4. Concentration of Credit Risk

As of September 30, 2018, MDC's cash on deposit with financial institutions did not exceed the Federal Deposit Insurance Corporation ("FDIC") insurance coverage.

5. Investments, Fair Value Measurements and Endowment

FASB ASC 820 establishes a framework for measuring fair value and a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data based on the best information available in the circumstances.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Inputs are quoted prices in active markets for identical investments as of the reporting date. Investments in this category include certificates of deposit, equity securities and mutual funds.

Level 2 – Inputs are observable for the investments, directly or indirectly, as of the reporting date. Fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, and certain over-the counter derivatives.

Level 3 – Inputs are unobservable and reflect assumptions on the part of the reporting entity. The investment that is included in this category is a limited partnership interest in real estate.

The table that follows sets forth information about the levels within the fair value hierarchy at which MDC's investments are measured at September 30, 2018:

	Level 1	Level 2	Level 3	Total
Investments	\$ 281,490	\$ -	\$ -	\$ 281,490

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

5. Investments, Fair Value Measurements and Endowment (Continued)

At September 30, 2018, investments consisted of the following:

Unrestricted Investments

MDC Reserve Funds

The investments of The Trust Company Reserve Funds are held in trust by The Trust Company and can be cash or non-cash items with a current total value:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 4,076
Domestic equity	89,187
International equity	63,431
Accrued income	368
Fixed income	50,606
REITs	<u>16,988</u>
Total	<u>\$ 224,656</u>

East Tennessee Foundation Endowment Fund

The investments of the East Tennessee Foundation Endowment Fund are held in trust by East Tennessee Foundation and can be cash or non-cash items with a current total value:

	<u>Fair Value</u>
Cash and cash equivalents	\$ -
Long-term commingled fund	<u>56,834</u>
Total	<u>\$ 56,834</u>

6. Endowment Fund

Endowment net asset composition as of June 30, 2018 is as follows:

	<u>Fair Value</u>
Cash and cash equivalents	\$ -
Long-term commingled fund	<u>56,834</u>
Total	<u>\$ 56,834</u>

METRO DRUG COALITION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

6. Endowment Fund (Continued)

Changes in endowment net assets for the year ended September 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Total Net Assets</u>
Endowment net assets at September 30, 2017	\$ 57,025	\$ 57,025
Contributions	-	-
Investment income	400	400
Net realized and unrealized gains (losses) on investments	(60)	(60)
Administrative and investment fees	<u>(531)</u>	<u>(531)</u>
Endowment net assets at September 30, 2018	<u>\$ 56,834</u>	<u>\$ 56,834</u>

REQUIRED SUPPLEMENTARY INFORMATION

METRO DRUG COALITION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 For the Year Ended September 30, 2018

Federal Grantor/Pass-through Grantor/State Grantor	Program/ Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
Federal Awards:					
Direct Funding:					
Executive Office of the President	Appalachia High Intensity Drug Trafficking Areas	95.001	G16AP0001A	N/A	\$ 22,365
Total Program 95.001					22,365
Pass-through Funding:					
Tennessee Department of Health and Substance Abuse Services	CDFI Cluster Enforcement Grant	20.616	Z18THS208	N/A	30,903
Total Program 20.616					30,903
Tennessee Department of Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	52629	N/A	8,051
Tennessee Department of Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	53539	N/A	23,468
Tennessee Department of Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	54643	N/A	57,356
Tennessee Department of Health and Substance Abuse Services	Block Grants for Prevention and Treatment of Substance Abuse	93.959	59124	N/A	18,908
Total Program 93.959					107,783
Tennessee Department of Health and Substance Abuse Services	Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	56308	N/A	387,108
Total Program 93.243					387,108
Tennessee Department of Health and Substance Abuse Services	Opioid Media Campaign Services	N/A	Z18178513	N/A	95,000
Total Program					95,000
Total Federal Awards					643,159

(Continued)

METRO DRUG COALITION, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
 (Continued)
 For the Year Ended September 30, 2018

Federal Grantor/Pass-through Grantor/State Grantor	Program/ Cluster Name	CFDA Number	Contract Number	Passed Through to Subrecipients	Expenditures
State Awards:					
Tennessee Department of Health and Substance Abuse Services	Life Line Grant	N/A	54624	N/A	\$ 45,509
Tennessee Department of Health and Substance Abuse Services	Life Line Grant	N/A	59107	N/A	17,015
Tennessee Department of Health and Substance Abuse Services	Faith Based Regional Coordinators	N/A	59912	N/A	2,227
Tennessee Department of Health and Substance Abuse Services	Regional Training	N/A	54602	N/A	140,000
Tennessee Department of Health and Substance Abuse Services	Regional Training	N/A	58911	N/A	23,925
Total State Awards					<u>228,676</u>
Total Federal and State Awards					<u>\$ 871,835</u>

See independent auditor's report.

METRO DRUG COALITION, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Year Ended September 30, 2018

Note A – Basis of Presentation

The accompanying schedule of federal and state awards (the Schedule) includes federal and state award activity of the Metro Drug Coalition, Inc. under programs of the federal and state governments for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the 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).

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Metro Drug Coalition, Inc. has not elected to use the 10 percent *de minimus* indirect cost rate as allowed under the Uniform Guidance.

BROWN JAKE & McDANIEL, PC

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MEMBERS
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**INDEPENDENT AUDITOR'S 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**

Board of Directors
Metro Drug Coalition, Inc.
Knoxville, Tennessee

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 Metro Drug Coalition, Inc., which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 6, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Metro Drug Coalition, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metro Drug Coalition, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Metro Drug Coalition, 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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro Drug Coalition, Inc.'s financial statements are free of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Lake + McDaniel, PC

Knoxville, Tennessee

June 6, 2019

METROPOLITAN DRUG COALITION, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

There were no audit findings reported in the September 30, 2017 auditor's report.