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**NASHVILLE DRUG COURT SUPPORT
FOUNDATION, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2013

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Nashville Drug Court Support Foundation, Inc.
Nashville, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of Nashville Drug Court Support Foundation, Inc. which comprise the statement of financial position as of December 31, 2013 and the related statements of changes in net assets, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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, I 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 consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nashville Drug Court Support Foundation, Inc. as of December 31, 2013 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.

Farmer & Associates, PLLC
Franklin, Tennessee
July 24, 2014

NASHVILLE DRUG COURT SUPPORT FOUNDATION, INC
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 279,803
Accounts receivable	<u>115,963</u>
Total Current Assets	<u>395,766</u>

PROPERTY AND EQUIPMENT

Building	179,703
Machinery and equipment	58,785
Vehicles	25,400
Less accumulated depreciation	<u>99,135</u>
Total Property and Equipment	<u>164,752</u>

Total Assets	<u><u>\$ 560,519</u></u>
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LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 16,264
Accrued expense	9,049
Deferred revenue	76,275
Current portion of mortgage payable	<u>5,930</u>
Total current liabilities	107,518
Long term liabilities - mortgage payable	<u>40,292</u>
Total Liabilities	147,810

NET ASSETS

Unrestricted net assets	<u>412,709</u>
Total Net Assets	<u>412,709</u>
Total Liabilities and Net Assets	<u><u>\$ 560,519</u></u>

See notes to financial statements.

NASHVILLE DRUG COURT SUPPORT FOUNDATION, INC.
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2013

CHANGES IN UNRESTRICTED NET ASSETS

Support and revenue	
Grants and contracts	\$ 777,497
Contributions	44,951
Special events	10,785
Other income	602
Total Support and Revenue	<u>833,834</u>

FUNCTIONAL EXPENSE

Program Expense	
Payroll	240,827
Payroll tax	18,305
Contract labor and professional fees	144,048
Depreciation	6,667
Education	3,351
Medical	9,071
Drug testing	3,258
Vocational rehabilitation	10,083
Morgan County startup	15,529
Rent	9,000
Utilities	7,915
Food for residents	20,382
Resident incentive	12,580
Miscellaneous	4,471
Total Program Expense	<u>505,488</u>
Management and general expense	
Bank Service charge	318
Licenses and permits	1,445
Dues and subscriptions	201
Postage and delivery	805
Office supplies	26,211
Repairs and maintenance	16,991
Interest	4,109
Employee benefits	14,369
Insurance	17,214
Printing and reproduction	356
Payroll	60,207
Payroll tax	4,576
Professional fees	9,360
Telephone	10,093
Travel	9,738
Total management and general expense	<u>175,994</u>
Fundraising expense	10,922
Total expense	<u>692,404</u>
Increase (decrease) in unrestricted net assets	141,430
Net assets at beginning of year	271,279
Net assets at end of year	<u>\$ 412,709</u>

See notes to financial statements.

NASHVILLE DRUG COURT SUPPORT FOUNDATION, INC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

Cash Flows From Operating Activities	
Increase (decrease) in net assets	\$ 141,430
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:	
Depreciation	6,667
(Increase) decrease in accounts receivable	(105,689)
Increase (decrease) in deferred revenue	76,275
Increase (decrease) in accounts payable	13,807
Increase (decrease) in accrued liabilities	<u>918</u>
Total adjustments	<u>(8,022)</u>
Net Cash Provided (Used) by Operating Activities	<u>133,408</u>
Cash Flows From Investing Activities	
Acquisition of plant, property, and equipment	<u>(25,400)</u>
Net Cash Used by Investing Activities	<u>(25,400)</u>
Cash Flows From Financing Activities	
Borrowings	47,652
Payments	<u>(50,563)</u>
Net Cash Provided by Financing Activities	<u>(2,911)</u>
Increase (decrease) in cash	105,097
Cash, beginning of year	<u>174,706</u>
Cash, end of year	\$ <u><u>279,803</u></u>
Supplemental disclosures:	
Cash paid for interest	\$ <u><u>4,109</u></u>

See notes to the Financial Statements

Nashville Drug Court Support Foundation, Inc.
Notes to Financial Statements

1. ORGANIZATION AND NATURE OF BUSINESS

Nashville Drug Court Support Foundation, Inc. a Tennessee not-for-profit corporation (the "Organization"), was organized as a drug treatment program implemented through the Metro Nashville Davidson County Government to provide counseling and medical services to its participants in Metro Government's DC4 program and the Davidson County Mental Health Court

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Change in Accounting Principles

The Organization adopted the accrual method of accounting effective January 1, 2013. The change increased the Organization's 2013 loss by amounts not accrued as unpaid liability and the 2013 revenue by amounts earned in 2012 but not accrued yet received in 2013. The change to accrual accounting was made to more clearly match current costs with current revenues. The Organization determined that it is impracticable to determine the cumulative effect of applying this change retrospectively because records are no longer readily available for all prior years and it would be cost prohibitive. However, the Organization has all of the information necessary to apply the accrual method of accounting on a prospective basis beginning in 2013.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles and the modified cash basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all short-term, highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are reported at cost. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Property and equipment are depreciated principally using accelerated methods over their estimated useful lives.

Reclassifications

Certain amounts for the prior year presentation have been reclassified to conform to the current year's presentation.

Long-lived Assets

The Organization periodically reviews the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the accompanying statement of assets, liabilities, and net assets are appropriately valued.

Revenue and Support Nashville Drug Court Support Foundation receives most of its income, approximately 70%, from contract services and grants paid by the State of Tennessee Department of Finance and Administration. The Organization records income due from the State in the period that the applicable expenditures were incurred by the Organization.

Nashville Drug Court Support Foundation, Inc.
Notes to Financial Statements

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor stipulations that limit the use of the donated assets either on a temporary or permanent basis. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

3. DUE FROM THE STATE OF TENNESSEE:

Nashville Drug Court Support Foundation, Inc. is due monies from the State of Tennessee Department of Finance and Administration for contract services performed. These receivables total \$115,963 for the year ended December 31, 2013. Due to the timing and nature of receivables it was deemed more effective to test them by verifying subsequent receipts than requesting balance confirmations.

4. MORTGAGE PAYABLE

The Organization has a mortgage payable to Bank as of December 31, 2013 of \$46,223 payable in monthly installments of \$675 including interest at 5%. The final payment is due September 2020. The property at 4010 Red Rose Court Nashville, TN collateralizes the mortgage.

Aggregate mortgage payable maturities are as follows for the next five years:

2014	40,292
2015	34,064
2016	27,517
2017	20,636
2018 and thereafter	19,201

5. COMMITMENTS

The Organization leased office space for the year ended December 31, 2012 with total lease payments of \$9,000. Minimum monthly lease payments for the office were \$750 and the lease is renewable yearly thereafter.

6. QUESTIONED COSTS / CONTINGENCIES

Questioned costs are those amounts charged to a funded program that may not be in compliance with requirements set forth in contracts, statutes, and regulations governing allowability or eligibility. A questioned cost may not be reimbursed by the State or the State agency may require that the funds already expended be refunded back to the State. These amounts can be "questioned" by the State for the specific grant to which they apply.

Nashville Drug Court Support Foundation, Inc.
Notes to Financial Statements

6. QUESTIONED COSTS / CONTINGENCIES, continued

The final determination as to whether such costs will be allowed or disallowed under the grants will be made by the individual grantor agencies at a later date.

7. SUBSEQUENT EVENT

For the originally issued financial statements, the Organization evaluated subsequent events through July 24, 2014, the date which the financial statements were issued.

8. UNCERTAIN TAX POSITIONS

The Organization follows the accounting guidance for uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The adoption of FASB ASC 740 did not have a material impact on the Corporation's financial statements. Corporation management has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits. The Corporation's evaluation was performed for tax years that remain subject to examination by major tax jurisdictions as of December 31, 2013.

9. TAX STATUS

The Organization, obtained its determination letter dated June 13, 2008 in which the Internal Revenue Service stated that the Corporation was in compliance with the applicable requirements of Internal Revenue Code Section 501 (c) 3. The Corporation has had no significant modifications of its programs since receiving the determination letter. Management believes that the Corporation is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code and is exempt from federal income tax under IRC Section 501 (a).