

**21st DISTRICT RECOVERY COURT, INC.
(formerly 21st Drug Court, Inc.)**

DECEMBER 31, 2019 AND 2018

Draft

**Report
of
Examination**

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INDEPENDENT AUDITOR'S REPORT

August 5, 2020

To the Board of Directors
21st District Recovery Court, Inc.
Franklin, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of 21st District Recovery Court, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2019 and 2018, and the related statement of support, revenue, and expenses – modified cash basis and cash flow for the years 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 cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 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 and 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 assets, liabilities, and net assets of 21st District Recovery Court, Inc., as of December 31, 2019 and 2018, and its support, revenue, and expenses for the years then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Parsons and Associates

Parsons and Associates

**21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Statement of Assets, Liabilities and
Net Assets – Modified Cash Basis
December 31**

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash – checking	\$ 11,098	\$ 22,506
Cash – interest bearing	237,349	282,615
Grants receivable	19,295	21,739
Security deposits	3,400	4,500
Prepaid expenses	5,255	3,884
<u>Total Current Assets</u>	<u>276,397</u>	<u>335,244</u>
<u>Furniture and Equipment</u> – net of accumulated depreciation	<u>5,491</u>	<u>6,874</u>
<u>Total</u>	<u>\$ 281,888</u>	<u>\$ 342,118</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 5,443	\$ 3,628
Payroll taxes payable	0	4,448
<u>Total Current Liabilities</u>	<u>5,443</u>	<u>8,076</u>
<u>NET ASSET</u>		
<u>Without donor restrictions</u>	<u>276,445</u>	<u>334,042</u>
<u>Total</u>	<u>\$ 281,888</u>	<u>\$ 342,118</u>

See accompanying notes and auditor's report.

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Statement of Unrestricted Revenues, Expenses and
Other Changes in Net Assets – Modified Cash Basis
Year Ended December 31

	<u>2019</u>	<u>2018</u>
<u>Support and Revenue</u>		
Grants	\$ 174,106	\$ 175,742
Program/housing fees	67,453	52,183
Contributions	5,384	5,333
Court case income	108,174	98,538
Fund raising events	58,656	43,161
Interest income	3,564	1,618
<u>Total Support and Revenue</u>	<u>417,337</u>	<u>376,575</u>
<u>Expenses</u>		
Consulting	56,900	62,307
Salaries and wages	192,401	161,077
Payroll taxes	10,955	12,281
Rent – grant	160,044	127,938
Supplies – drug tests	18,082	15,457
Monitoring	2,932	1,346
Supplies – office	1,048	4,255
Training	581	763
Travel and entertaining	2,865	1,904
Participants emergency expenses	1,783	2,714
Participant's recreational expenses	2,104	2,088
Graduation	231	207
Fundraising expenses	5,748	6,831
Dues and subscriptions	1,917	1,550
Insurance	5,510	5,938
Licenses and permits	0	395
Postage and delivery	463	555
Telephone, internet and website	2,279	3,286
Professional fees	3,775	3,580
Bank charges	152	0
Printing	3,573	1,906
Other	211	224
Janitorial	0	1,000
Depreciation	1,383	1,396
<u>Total Expenses</u>	<u>474,934</u>	<u>418,998</u>
<u>Change in Net Assets</u>	<u>(57,597)</u>	<u>(42,423)</u>
Net Assets – January 1	334,042	376,465
Net Assets – December 31	<u>\$ 276,445</u>	<u>\$ 334,042</u>

See accompanying notes and auditor's report.

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Statement of Cash Flows – Modified Cash Basis
Year Ended December 31

	<u>2019</u>	<u>2018</u>
<u>Cash Flows from Operating Activities</u>		
Grants	\$ 176,550	\$ 162,389
Program fees	67,453	52,183
Court case income	108,174	98,538
Contributions	5,384	5,333
Fund raising events	58,656	43,161
Interest and other	3,564	1,618
	<u>419,781</u>	<u>363,222</u>
Salaries and wages	203,356	173,358
Other operating expenses	273,099	227,081
	<u>476,455</u>	<u>400,439</u>
Cash provided (used) by operating activities	(56,674)	(37,217)
Cash – January 1	305,121	342,338
Cash – December 31	<u>\$ 248,447</u>	<u>\$ 305,121</u>

See accompanying notes and auditor's report.

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

21st District Recovery Court, Inc. was incorporated under the laws of the State of Tennessee on September 21, 2001. It is a not-for-profit corporation and is a public benefit corporation. The purposes for which the Corporation was organized are to integrate in the four counties of Williamson, Hickman, Lewis and Perry public support into governmental efforts directed at persons (1) convicted of non-violent crimes, and (2) assessed as chemically dependent (drugs and/or alcohol) and to provide support for governmental efforts, such as: program operating costs and emergency expenses for participants.

General purposes for the Corporation are to operate for educational, charitable and other purposes as will qualify it as an organization exempt from federal income tax.

Basis of Accounting

The financial statements of the Corporation have been prepared on the modified cash basis method, which is a comprehensive basis of accounting other than generally accepted accounting principles. Modifications to the cash basis of accounting include recording depreciation on equipment, grants receivable, and accounts payable.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not-for-Profit Organizations. Under SFAS No. 117, net assets and revenues, and expenses, gains and losses are classified based on the existence or absence of imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets

Net assets that are not subject to imposed stipulations.

Temporarily Restricted Net Assets

Net assets subject to imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Corporation had no temporarily restricted net assets at December 31, 2019 and 2018.

Permanently Restricted Net Assets

Net assets subject to imposed stipulations that they be maintained permanently by the Organization. Generally, these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Corporation had no permanently restricted net assets at December 31, 2019 and 2018.

Concentration of Revenue

The following is a summary of revenue presented as a percentage of total revenue:

	<u>2019</u>	<u>2018</u>
Grants	42	47
Program fees	16	14
Contributions	1	1
Court case fees	26	26
Fund raising events	14	11
Interest income	<u>1</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Notes to Financial Statements
December 31, 2019 and 2018

Income Tax Status

21st District Recovery Court, Inc. qualifies as a tax exempt organization under Internal Revenue Code Section 501(c)(3) and, therefore, has no provision for federal income taxes. In addition, the Organization has been classified as an organization other than a private foundation under Section 509(a)(1).

NOTE 2 GRANTS RECEIVABLE

Grants receivable consists of amounts due from various grants at year end but not received.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, when purchased, or if received as in-kind contributions, at fair market value at the date of the donation. The policy is to capitalize items costing in excess of \$500.

Depreciation of plant assets is calculated on the straight-line method over the estimated useful lives of the assets. Estimated useful lives of office equipment are 5 years.

A summary of property and equipment at December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Office equipment	\$ 28,823	\$ 28,823
Less accumulated depreciation	<u>23,332</u>	<u>21,949</u>
	<u>\$ 5,491</u>	<u>\$ 6,874</u>

NOTE 4 DONATED SERVICES

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contribution Made, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Corporation. Volunteers also provide services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

NOTE 5 ESTIMATES

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities and reported revenue and expenses. Actual results could differ from these reported amounts.

NOTE 6 OPERATING LEASE.

In August 2016, the Corporation signed a ten year lease for an office building which commenced October 1, 2017 with one renewal option for five years. Base rent for three years is \$45,000 annually to be paid in monthly installments of \$3,750. Rent for years 4 through 10 shall be increased annually based on a Consumer Price index formula. Additional rent consists of real estate taxes, utilities, and operating expenses related to maintenance, permits, licenses, and insurance premium coverage up to \$2,500 per year.

Effective July 4, 2019, a one year lease with Shuff Family Partnership was entered into at \$800 per month payable in advance, located at 4108 Columbia Avenue, Apartment #201, Franklin, Tennessee. At expiration of lease, the lease converts to a month to month lease and each party shall have the right to terminate the lease by giving at least one month's written notice to the other party

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December 31, 2019 and 2018**

Effective January 1, 2019 a one year lease with Landlord Eva Leach was approved at \$1,100 per month located at 106 Davidson Dr. Franklin, TN. A security deposit of \$1,100 was required at inception. A 30 day written notice is required to extend the term of the lease.

The Corporation leases various apartments to provide certain participants lodging from the Community Housing Partnership of Williamson County. The leases have been entered into over a period of years for one year renewal dates. Effective October 1, 2019 all leases were changed to a one year term of October 1 through September 30 of each year. A late fee of 10% of the rent amount will be assessed on the 5th business day if not paid. The tenant rent is to be paid monthly and water and sewer fees will be included in the rental fees.

Tenants are required to report major property issues within 48 hours or the renter may be held financially responsible.

The apartments leased at December 31, 2019 are:

	<u>Term of Lease</u>	<u>Rent</u>
248 Chestnut	10-1-2019/9-30-2020	\$950
262 Chestnut	10-1-2019/9-30-2020	\$950
264 Chestnut	10-1-2019/9-30-2020	\$950
522 A 11 th Avenue	10-1-2019/9-30-2020	\$950
759 #201 Mt Hope	10-1-2019/9-30-2020	\$950
548 A Edgewood	10-1-2019/9-30-2020	\$950

NOTE 7 INCOME TAXES

The accounting standard of accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Corporation may recognize the tax benefits from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax position include the tax-exempt status of the Corporation and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2019 and 2018.

The Corporation files its forms 990 in the U. S. federal jurisdiction. The Corporation is generally no longer subject to examination by the Internal Revenue Service for years before 2016.

NOTE 8 SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 5, 2020, the date on which the financial statements were to be issued. No material events were noted.

Schedule of Federal and State Awards Year Ended December 31

<u>Federal/State Agency</u>	<u>Program Tracking Code</u>	<u>Expenditures</u>
Tennessee Certified Recovery Court Program	33901	\$167,826
Alcohol & Drug Addiction Treatment	320275	\$ 6,000
Tennessee Department of Safety and Homeland Security	33901	\$ 60,000