

**21<sup>st</sup> DRUG COURT, INC.**

**DECEMBER 31, 2015 AND 2014**

**Report  
of  
Examination**

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## INDEPENDENT AUDITOR'S REPORT

July 9, 2016

To the Board of Directors  
21<sup>st</sup> Drug Court, Inc.  
Franklin, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of 21<sup>st</sup> Drug Court, Inc. (a nonprofit organization), which comprise the statement of assets, liabilities, and net assets – modified cash basis as of December 31, 2015 and 2014, and the related statement of support, revenue, and expenses – modified cash basis 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 21<sup>st</sup> Drug Court, Inc., as of December 31, 2015 and 2014, 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

**21<sup>st</sup> Drug Court, Inc.**  
**Statement of Assets, Liabilities and**  
**Net Assets – Modified Cash Basis**  
**December 31**

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash – checking	\$ 17,422	\$157,796
Cash – interest bearing	360,153	201,294
Security deposits	4,500	4,300
Prepaid expenses	1,994	1,034
<u>Total Current Assets</u>	<u>384,069</u>	<u>364,424</u>
<u>Furniture and Equipment</u> – net of accumulated depreciation	<u>3,238</u>	<u>3,784</u>
<u>Total</u>	<u>\$387,307</u>	<u>\$368,208</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 8,772	\$ 7,503
Payroll taxes payable	3,402	2,659
<u>Total Current Liabilities</u>	<u>12,174</u>	<u>10,162</u>
<u>NET ASSETS</u>		
<u>Unrestricted Net Assets</u>	<u>375,133</u>	<u>358,046</u>
<u>Total</u>	<u>\$387,307</u>	<u>\$368,208</u>

See accompanying notes and auditor's report.

**21<sup>st</sup> Drug Court, Inc.**  
**Statement of Unrestricted Revenues, Expenses and**  
**Other Changes in Net Assets – Modified Cash Basis**  
**Year Ended December 31**

	<u>2015</u>	<u>2014</u>
<u>Support and Revenue</u>		
Grants	\$175,796	\$159,079
Program fees	81,808	34,294
Contributions	1,035	36,262
Court case income	102,393	97,880
Fund raising events	33,515	36,805
Interest income	1,846	1,217
<u>Total Support and Revenue</u>	<u>396,393</u>	<u>365,537</u>
<u>Expenses</u>		
Consulting	89,422	62,580
Salaries and wages	111,285	122,617
Payroll taxes	8,273	9,878
Residential treatment	0	2,650
Rent – grant	89,718	81,071
Supplies – drug tests	36,185	34,598
Supplies – office	9,084	9,998
Training	1,615	3,261
Travel and entertaining	4,604	2,450
Participants emergency expenses	2,026	1,144
Participant's recreational expenses	1,870	1,316
Graduation	70	420
Fundraising expenses	8,312	3,292
Dues and subscriptions	961	480
Insurance	1,891	3,963
Licenses and permits	200	240
Postage and delivery	288	343
Telephone and internet	6,142	4,135
Professional fees	3,200	4,768
Bank charges	6	144
Printing	924	445
Other	415	440
Janitorial	1,345	0
Depreciation	1,470	3,184
<u>Total Expenses</u>	<u>379,306</u>	<u>353,417</u>
<u>Increase in Net Assets</u>	17,087	12,120
Net Assets – January 1	358,046	345,926
Net Assets – December 31	<u>\$375,133</u>	<u>\$358,046</u>

See accompanying notes and auditor's report.

**21<sup>st</sup> Drug Court, Inc.**  
**Statement of Cash Flows – Modified Cash Basis**  
**Year Ended December 31**

	<u>2015</u>	<u>2014</u>
<u>Cash Flows from Operating Activities</u>		
Grants	\$175,796	\$159,079
Program fees	81,808	34,294
Court case income	102,393	97,880
Contributions	1,035	36,262
Fund raising events	33,515	36,805
Interest and other	1,846	1,217
	<u>396,393</u>	<u>365,537</u>
Salaries and wages	(111,285)	(122,617)
Other operating expenses	<u>(266,623)</u>	<u>(225,014)</u>
	<u>(377,908)</u>	<u>(347,631)</u>
Cash provided (used) by operating activities	<u>18,485</u>	<u>17,906</u>
Cash – January 1	359,090	341,184
Cash – December 31	<u>\$377,575</u>	<u>\$359,090</u>

See accompanying notes and auditor's report.



**21<sup>st</sup> Drug Court, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

21<sup>st</sup> Drug 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 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, 2015 and 2014.

**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, 2015 and 2014.

**Concentration of Revenue**

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

	<u>2015</u>	<u>2014</u>
Grants	44%	44%
Program fees	21	9
Contributions	0	10
Court case fees	26	27
Fund raising events	8	10
Interest income	<u>1</u>	<u>0</u>
<u>Total</u>	<u>100%</u>	<u>100%</u>

**21<sup>st</sup> Drug Court, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**Income Tax Status**

21<sup>st</sup> Drug 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 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>2015</u>	<u>2014</u>
Office equipment	\$21,808	\$20,884
Less accumulated depreciation	<u>(18,570)</u>	<u>(17,100)</u>
	<u>\$ 3,238</u>	<u>\$ 3,784</u>

**NOTE 3 DONATED SERVICES**

Donated services are recognized as contributions in accordance with SFAS No. 116, Accounting for Contributions Received and Contributions 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 4 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 5 OPERATING LEASE**

The Corporation leased office space located at 100-A Beta Drive, Franklin, Tennessee, effective September 1, 2013 for a three year period ending August 31, 2016. A security deposit of \$1,600 was required with monthly rental payments of \$1,600. Annual lease payments are:

Annual lease payments:	2014	19,200
	2015	19,200
	2016	12,800

A one year lease for the period of February 4, 2012 through February 3, 2013 will convert to a month to month lease with the right to terminate on a thirty day written notice after February 2013. The premises are located at 4108 Columbia Avenue, Franklin, Tennessee for \$750.00 per month.

Effective May 16, 2012, an eleven months 16 day lease with Community Housing Partnership of Williamson County, Tennessee was approved at \$822.00 per month; located at 248 Chestnut Lane, Franklin, Tennessee. On July 1, 2015, the lease was extended for one year to June 30, 2016 at \$842 per month.



**21<sup>st</sup> Drug Court, Inc.**  
**Notes to Financial Statements**  
**December 31, 2015 and 2014**

Effective October 1, 2012, a one year lease with Community Housing Partnership of Williamson County, Tennessee, was entered into at \$805.00 per month; located at 262 Chestnut Lane, Franklin, Tennessee. On October 1, 2015, the lease was extended for one year to September 30, 2016 at \$842 per month.

Effective October 1, 2012, a one year lease with Community Housing Partnership of Williamson County, Tennessee, was entered into at \$822.00 per month; located at 264 Chestnut Lane, Franklin, Tennessee. On October 1, 2015, the lease was extended for one year to September 30, 2016 at \$842 per month.

Effective October 1, 2014, a one year lease with Community Housing Partnership of Williamson County, Tennessee was approved at \$640.00 per month, located at 548 Edgewood, Franklin, Tennessee.

Effective April 15, 2015, a one year lease with Community Housing Partnership of Williamson County, Tennessee was approved at \$558 per month located at 522B 11<sup>th</sup> Avenue, North, Franklin, Tennessee.

**NOTE 6 – 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 2015 and 2014.

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 2011.

**Schedule of Federal and State Awards**

<u>Federal/State Agency</u>	<u>State Grant No.</u>	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Expenditures</u>
Tennessee Department of Transportation Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	Z15GHS001	20.601	M5CS-15-01	\$50,000
Substance Abuse and Mental Health Services Administration		93.243		\$78,846
(Edison) Program – Recovery Court	310202		42071	\$106,950