

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

DECEMBER 31, 2017 AND 2016

**Report
of
Examination**

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1
Statement of Assets, Liabilities and Net Assets - Modified Cash Basis	2
Statement of Unrestricted Revenues, Expenses and Other Changes in Net Assets – Modified Cash Basis	3
Statement of Cash Flows – Modified Cash Basis	4
Notes to Financial Statements	5 – 8
Schedule of Federal and State Awards	8

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INDEPENDENT AUDITOR'S REPORT

July 10, 2018

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, 2017 and 2016, 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 21st District Recovery Court, Inc., as of December 31, 2017 and 2016, 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>2017</u>	<u>2016</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash – checking	\$ 20,091	\$ 17,438
Cash – interest bearing	322,247	391,154
Grants receivable	39,083	
Security deposits	4,500	4,500
Prepaid expenses	3,417	2,004
<u>Total Current Assets</u>	<u>389,338</u>	<u>415,096</u>
<u>Furniture and Equipment</u> – net of accumulated depreciation	<u>7,460</u>	<u>2,198</u>
<u>Total</u>	<u>\$396,798</u>	<u>\$417,294</u>
<u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 16,363	\$ 4,227
Payroll taxes payable	3,970	3,856
<u>Total Current Liabilities</u>	<u>20,333</u>	<u>8,083</u>
<u>NET ASSETS</u>		
<u>Unrestricted Net Assets</u>	<u>376,465</u>	<u>409,211</u>
<u>Total</u>	<u>\$396,798</u>	<u>\$417,294</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>2017</u>	<u>2016</u>
<u>Support and Revenue</u>		
Grants	\$170,466	\$188,310
Program/housing fees	69,618	73,261
Contributions	5,480	3,973
Court case income	105,290	120,274
Fund raising events	31,945	26,321
Interest income	1,614	1,030
<u>Total Support and Revenue</u>	<u>384,413</u>	<u>413,169</u>
<u>Expenses</u>		
Consulting	71,086	70,352
Salaries and wages	146,184	136,319
Payroll taxes	11,140	10,320
Advertising	275	275
Rent – grant	112,887	95,649
Supplies – drug tests	29,781	24,136
Monitoring	15,694	0
Supplies – office	2,585	8,103
Training	938	2,680
Travel and entertaining	2,457	3,478
Participants emergency expenses	1,058	1,687
Participant's recreational expenses	1,774	798
Graduation	401	63
Fundraising expenses	7,293	5,558
Dues and subscriptions	1,970	1,548
Insurance	2,668	2,560
Licenses and permits	0	182
Postage and delivery	197	545
Telephone and internet	1,156	6,800
Professional fees	3,430	3,360
Bank charges	5	4
Printing	1,689	1,164
Other	767	571
Janitorial	780	1,900
Depreciation	944	1,039
<u>Total Expenses</u>	<u>417,159</u>	<u>379,091</u>
<u>Increase (decrease) in Net Assets</u>	<u>(32,746)</u>	<u>34,078</u>
Net Assets – January 1	409,211	375,133
Net Assets – December 31	<u>\$376,465</u>	<u>\$409,211</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>2017</u>	<u>2016</u>
<u>Cash Flows from Operating Activities</u>		
Grants	\$131,383	\$188,310
Program fees	69,618	73,261
Court case income	105,290	120,274
Contributions	5,480	3,973
Fund raising events	31,945	26,321
Interest and other	1,614	1,030
	<u>345,330</u>	<u>413,169</u>
Salaries and wages	(157,209)	(146,639)
Other operating expenses	(254,375)	(235,513)
	<u>(411,584)</u>	<u>(382,152)</u>
Cash provided (used) by operating activities	<u>(66,254)</u>	<u>31,017</u>
Cash -- January 1	408,592	377,575
Cash -- December 31	<u>\$342,338</u>	<u>\$408,592</u>

See accompanying notes and auditor's report.

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Notes to Financial Statements
December 31, 2017 and 2016

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, 2017 and 2016.

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, 2017 and 2016.

Concentration of Revenue

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

	<u>2017</u>	<u>2016</u>
Grants	38%	46%
Program fees	20	18
Contributions	1	1
Court case fees	31	29
Fund raising events	10	6
Interest income	<u>0</u>	<u>0</u>
<u>Total</u>	<u>100%</u>	<u>100%</u>

21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Notes to Financial Statements
December 31, 2017 and 2016

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>2017</u>	<u>2016</u>
Office equipment	\$28,013	\$21,808
Less accumulated depreciation	<u>(20,553)</u>	<u>(19,610)</u>
	<u>\$ 7,460</u>	<u>\$ 2,198</u>

NOTE 4 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 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

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. Rent paid through October 1, 2017, on a month to month lease was \$22,500.

In August 2016, the Corporation signed a ten year lease for an office building which will commence 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.

21st District Recovery Court, Inc.
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Notes to Financial Statements
December 31, 2017 and 2016

Effective June 4, 2017, 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.

Effective May 16, 2012, an eleven months 16 day lease with Community Housing Partnership of Williamson County, Tennessee was approved at \$822 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. Effective January 1, 2016, the lease was renewed for the calendar year 2016 at \$855 per month. Effective January 1, 2017, the lease was renewed for the calendar year 2017 at \$900 per month.

Effective October 1, 2012, a one year lease with Community Housing Partnership of Williamson County, Tennessee, was entered into at \$805 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 January 1, 2016, the lease was renewed for the calendar year 2016 at \$855 per month. Effective January 1, 2017, the lease was renewed for the calendar year 2017 at \$900 per month.

Effective October 1, 2012, a one year lease with Community Housing Partnership of Williamson County, Tennessee, was entered into at \$822 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 January 1, 2016, the lease was renewed for the calendar year 2016 at \$855 per month. Effective January 1, 2017, the lease was renewed for the calendar year 2017 at \$900 per month.

Effective October 1, 2014, a one year lease with Community Housing Partnership of Williamson County, Tennessee was approved at \$640 per month, located at 548A Edgewood, Franklin, Tennessee. Effective January 1, 2016, the lease was renewed for the calendar year 2016 at \$659 per month. Effective January 1, 2017, the lease was renewed for the calendar year 2017 at \$675 per month.

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 11th Avenue, North, Franklin, Tennessee. The lease was renewed for one year effective April 1, 2016 at \$568 per month and a security deposit of \$200. Effective January 1, 2017, the lease was renewed for the calendar year 2017 at \$689 per month.

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 2017 and 2016.

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 2013.

**21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Notes to Financial Statements
December 31, 2017 and 2016**

NOTE 8 SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 10, 2018, the date on which the financial statements were to be issued. No material events were noted.

**21st District Recovery Court, Inc.
(formerly 21st Drug Court, Inc.)
Schedule of Federal and State Awards
Year Ended December 31**

<u>Federal/State Agency</u>	<u>State Grant No.</u>	<u>CFDA No.</u>	<u>Contract No.</u>	<u>Expenditures</u>
Tennessee Felony Court Program for The Transition for Recovery Grant Program		93.243	DGA56388 2017 2018 001	\$7,896
Tennessee Certified Recovery Court Program	33901	N/A		\$107,500
Tennessee Department of Safety and Homeland Security	Z18THS002	20.616		\$60,000