

**CENTER FOR ALTERNATIVE SENTENCING
AND EMPLOYMENT SERVICES, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

CENTER FOR ALTERNATIVE SENTENCING
AND EMPLOYMENT SERVICES, INC.

CONTENTS

| | <u>Page</u> |
|---|-------------|
| <u>Independent Auditors' Report</u> | 1-2 |
| <u>Financial Statements</u> | |
| Statements of Financial Position at June 30, 2015 and 2014 | 3 |
| Statements of Activities for the Years Ended June 30, 2015 and 2014 | 4 |
| Statement of Functional Expenses for the Year Ended June 30, 2015 | 5 |
| Statement of Functional Expenses for the Year Ended June 30, 2014 | 6 |
| Statements of Cash Flows for the Years Ended June 30, 2015 and 2014 | 7 |
| Notes to Financial Statements | 8-14 |



INDEPENDENT AUDITORS' REPORT

To The Board of Trustees
Center for Alternative Sentencing and
Employment Services, Inc.
Brooklyn, New York

We have audited the accompanying financial statements of Center for Alternative Sentencing and Employment Services, Inc. ("CASES"), which comprise the statement of financial position at June 30, 2015, 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.

Auditors' 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 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 financial position of Center for Alternative Sentencing and Employment Services, Inc. at June 30, 2015, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Financial Statements

The 2014 financial statements of Center for Alternative Sentencing and Employment Services, Inc., have been audited by other auditors whose report dated December 15, 2014 expressed an unmodified opinion on those audited financial statements.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
December 23, 2015

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|--------------|--------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 121,770 | \$ 139,602 |
| Grants and contracts receivable, net | 4,764,197 | 3,412,624 |
| Contributions receivable - due within one year, net | 253,116 | 107,908 |
| Medicaid receivable, net | 379,797 | 247,616 |
| Other receivables | 290,245 | 292,633 |
| Prepaid expenses | 141,573 | 255,297 |
| TOTAL CURRENT ASSETS | 5,950,698 | 4,455,680 |
| Fixed assets, net | 2,033,986 | 412,317 |
| Security deposits and other | 244,412 | 420,692 |
| TOTAL ASSETS | \$ 8,229,096 | \$ 5,288,689 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 769,287 | \$ 275,255 |
| Accrued expenses and other liabilities | 836,489 | 722,395 |
| Grants and contract advances | 130,468 | 95,957 |
| Loans and notes payable | 2,065,335 | 1,489,817 |
| TOTAL CURRENT LIABILITIES | 3,801,579 | 2,583,424 |
| Deferred rent | 467,899 | 167,430 |
| TOTAL LIABILITIES | 4,269,478 | 2,750,854 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS: | | |
| Unrestricted: | | |
| Operating | 2,122,313 | 1,112,028 |
| Board-designated program funds | 1,200,000 | 1,200,000 |
| Total unrestricted | 3,322,313 | 2,312,028 |
| Temporarily restricted | 637,305 | 225,807 |
| TOTAL NET ASSETS | 3,959,618 | 2,537,835 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 8,229,096 | \$ 5,288,689 |

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | 2015 | | | 2014 | | |
|---------------------------------------|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| REVENUE AND SUPPORT: | | | | | | |
| Government grants and contracts | \$ 13,219,165 | \$ - | \$ 13,219,165 | \$ 9,753,934 | \$ - | \$ 9,753,934 |
| Medicaid income | 1,916,580 | - | 1,916,580 | 1,762,446 | - | 1,762,446 |
| Contributions | 149,348 | 1,578,379 | 1,727,727 | 126,115 | 669,800 | 795,915 |
| Donated facilities | 378,458 | - | 378,458 | 900,040 | - | 900,040 |
| Miscellaneous income | 63,775 | - | 63,775 | 65,364 | - | 65,364 |
| Net assets released from restrictions | 1,166,881 | (1,166,881) | - | 1,263,360 | (1,263,360) | - |
| Total revenue and support | 16,894,207 | 411,498 | 17,305,705 | 13,871,259 | (593,560) | 13,277,699 |
| EXPENSES: | | | | | | |
| Program services | 13,469,704 | - | 13,469,704 | 11,235,675 | - | 11,235,675 |
| Management and general | 2,253,714 | - | 2,253,714 | 1,815,761 | - | 1,815,761 |
| Fundraising | 160,504 | - | 160,504 | 160,083 | - | 160,083 |
| Total expenses | 15,883,922 | - | 15,883,922 | 13,211,519 | - | 13,211,519 |
| CHANGES IN NET ASSETS | 1,010,285 | 411,498 | 1,421,783 | 659,740 | (593,560) | 66,180 |
| NET ASSETS, BEGINNING OF YEAR | 2,312,028 | 225,807 | 2,537,835 | 1,652,288 | 819,367 | 2,471,655 |
| NET ASSETS, END OF YEAR | \$ 3,322,313 | \$ 637,305 | \$ 3,959,618 | \$ 2,312,028 | \$ 225,807 | \$ 2,537,835 |

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

| | Program Services | | | | Supporting Services | | |
|--------------------------------------|------------------|-------------------------|------------------|---------------|------------------------|-------------|---------------|
| | Youth Programs | Adult Behavioral Health | Nathaniel Clinic | Total | Management and General | Fundraising | Total |
| Salaries and related expenses: | | | | | | | |
| Personnel services | \$ 3,608,050 | \$ 3,513,600 | \$ 393,415 | \$ 7,515,065 | \$ 975,120 | \$ 106,019 | \$ 8,596,204 |
| Fringe benefits | 974,584 | 935,761 | 96,957 | 2,007,302 | 252,743 | 24,218 | 2,284,263 |
| Totals | 4,582,634 | 4,449,361 | 490,372 | 9,522,367 | 1,227,863 | 130,237 | 10,880,467 |
| Other than personnel services: | | | | | | | |
| Participant subsistence and stipends | 288,757 | 267,828 | 1,435 | 558,020 | - | - | 558,020 |
| Occupancy and renovation expenses | 606,520 | 567,185 | 217,367 | 1,391,072 | 253,374 | 13,061 | 1,657,507 |
| Consultants | 326,203 | 14,864 | 71,449 | 412,516 | 36,083 | 2,692 | 451,291 |
| Participant travel | 174,417 | 38,592 | 3,693 | 216,702 | - | - | 216,702 |
| Office supplies | 92,616 | 102,064 | 20,996 | 215,676 | 25,361 | 3,108 | 244,145 |
| Equipment purchases and rental | 117,386 | 108,402 | 26,214 | 252,002 | 72,404 | 2,979 | 327,385 |
| Office expenses | 10,732 | 8,350 | 663 | 19,745 | 175,617 | 146 | 195,508 |
| Telephone | 48,166 | 62,851 | 3,351 | 114,368 | 7,890 | 629 | 122,887 |
| Insurance | 1,290 | 3,190 | 1,378 | 5,858 | 130,225 | - | 136,083 |
| Participant other | 105,827 | 6,074 | - | 111,901 | - | - | 111,901 |
| Professional fees | 2,268 | 163 | 3,311 | 5,742 | 87,337 | - | 93,079 |
| Staff training and conferences | 32,452 | 19,322 | 1,148 | 52,922 | 18,167 | 114 | 71,203 |
| Interest and bank charges | - | - | - | - | 69,474 | - | 69,474 |
| Participant supplies | 15,316 | 5,714 | 816 | 21,846 | - | - | 21,846 |
| Recruiting | - | - | - | - | 51,453 | - | 51,453 |
| Vehicle, fuel and maintenance | 10,713 | 17,757 | 5 | 28,475 | 59 | - | 28,534 |
| Total other than personnel services | 1,832,663 | 1,222,356 | 351,826 | 3,406,845 | 927,444 | 22,729 | 4,357,018 |
| Donated facilities | 159,331 | 140,786 | 20,815 | 320,932 | 53,741 | 3,785 | 378,458 |
| Depreciation and amortization | 120,650 | 62,061 | 36,849 | 219,560 | 44,666 | 3,753 | 267,979 |
| Totals | \$ 6,695,278 | \$ 5,874,564 | \$ 899,862 | \$ 13,469,704 | \$ 2,253,714 | \$ 160,504 | \$ 15,883,922 |

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | Program Services | | | Supporting Services | | |
|--------------------------------------|------------------|-------------------------|---------------|------------------------|-------------|---------------|
| | Youth Programs | Adult Behavioral Health | Total | Management and General | Fundraising | Total |
| Salaries and related expenses: | | | | | | |
| Personnel services | \$ 3,143,660 | \$ 3,030,121 | \$ 6,173,781 | \$ 897,008 | \$ 105,378 | \$ 7,176,167 |
| Fringe benefits | 863,490 | 813,457 | 1,676,947 | 287,015 | 35,035 | 1,998,997 |
| Totals | 4,007,150 | 3,843,578 | 7,850,728 | 1,184,023 | 140,413 | 9,175,164 |
| Other than personnel services: | | | | | | |
| Participant subsistence and stipends | 317,919 | 225,603 | 543,522 | - | - | 543,522 |
| Occupancy and renovation expenses | 165,351 | 345,602 | 510,953 | 7,521 | 560 | 519,034 |
| Consultants | 333,487 | 46,262 | 379,749 | 62,273 | 101 | 442,123 |
| Participant travel | 213,392 | 26,544 | 239,936 | - | - | 239,936 |
| Office supplies | 55,253 | 144,044 | 199,297 | 12,553 | 3,583 | 215,433 |
| Equipment purchases and rental | 63,131 | 122,520 | 185,651 | 22,921 | 2,579 | 211,151 |
| Office expenses | 8,273 | 27,829 | 36,102 | 135,876 | 308 | 172,286 |
| Telephone | 48,448 | 54,903 | 103,351 | 7,859 | 663 | 111,873 |
| Insurance | 1,180 | 3,229 | 4,409 | 97,485 | - | 101,894 |
| Participant other | 84,129 | 11,833 | 95,962 | - | - | 95,962 |
| Professional fees | - | 3,633 | 3,633 | 59,707 | - | 63,340 |
| Staff training and conferences | 13,193 | 29,064 | 42,257 | 13,014 | 628 | 55,899 |
| Interest and bank charges | - | - | - | 47,954 | - | 47,954 |
| Participant supplies | 35,887 | 7,212 | 43,099 | - | - | 43,099 |
| Recruiting | - | - | - | 38,024 | - | 38,024 |
| Vehicle, fuel and maintenance | 13,229 | 22,998 | 36,227 | - | - | 36,227 |
| Total other than personnel services | 1,352,872 | 1,071,276 | 2,424,148 | 505,187 | 8,422 | 2,937,757 |
| Donated facilities | 400,518 | 367,217 | 767,735 | 121,505 | 10,800 | 900,040 |
| Depreciation and amortization | 156,104 | 36,960 | 193,064 | 5,046 | 448 | 198,558 |
| Totals | \$ 5,916,644 | \$ 5,319,031 | \$ 11,235,675 | \$ 1,815,761 | \$ 160,083 | \$ 13,211,519 |

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|--|--------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 1,421,783 | \$ 66,180 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 267,979 | 198,558 |
| Allowance for contributions receivable | - | 62,500 |
| Deferred rent | 300,469 | 159,734 |
| Changes in assets (increase) decrease: | | |
| Grants and contracts receivable | (1,351,573) | (1,043,908) |
| Contributions receivable | (145,208) | 165,366 |
| Medicaid receivable | (132,181) | 87,922 |
| Other receivables | 2,388 | 4,633 |
| Prepaid expenses | 113,724 | (97,390) |
| Security deposits and other | 176,280 | (383,315) |
| Changes in liabilities increase (decrease): | | |
| Accounts payable | 494,032 | (30,430) |
| Accrued expenses and other liabilities | 114,094 | 112,246 |
| Grants and contract advances | 34,511 | 47,829 |
| | <u>1,296,298</u> | <u>(650,075)</u> |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisition of fixed assets | <u>(1,889,648)</u> | <u>(301,757)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of loans | (7,679,699) | (4,401,278) |
| Proceeds from borrowings on loans | <u>8,255,217</u> | <u>5,418,000</u> |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | | |
| | <u>575,518</u> | <u>1,016,722</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | |
| | (17,832) | 64,890 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | |
| | <u>139,602</u> | <u>74,712</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | | |
| | <u>\$ 121,770</u> | <u>\$ 139,602</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid | <u>\$ 56,192</u> | <u>\$ 31,717</u> |

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 1 - Nature of Operations

Center for Alternative Sentencing and Employment Services, Inc. (“CASES”), is a not-for-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is therefore exempt from federal income taxes under Section 501(a) of the Code.

CASES’ mission is to increase public safety through innovative services that reduce crime and incarceration, improve behavioral health, promote recovery and rehabilitation, and create opportunities for success in the community. CASES operates one of New York City’s oldest alternatives to incarceration programs, the Court Employment Project (“CEP”). It also provides services to juveniles pending Family Court adjudication and young adults who have current or past involvement in the criminal justice system including parole or probation supervision. CASES also runs programs for individuals with behavioral health issues, including two NYS-licensed Assertive Community Treatment (“ACT”) teams, a NYS-licensed Article 31 mental health clinic, and Court-based Intervention Resource teams. In addition, it has programs for adult misdemeanants and a community service program in Staten Island. With its long history and extensive experience and expertise running alternative-to-incarceration, criminal justice and behavioral health programs, CASES provides operational support, including training and technical assistance to other groups working with clients involved in those systems. CASES receives most of its support from New York City, New York State and federal government sources, through government grants and Medicaid. Grants receivable are due principally from these sources.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect that reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

Fair value is defined as the price 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. To increase the comparability of fair value measurements, a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Fair Value of Financial Instruments (cont'd.)

Level 2 - Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting CASES' own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

At June 30, 2015 and 2014, the fair value of CASES' financial instruments including cash and cash equivalents, grants and contracts receivable, contributions receivable, Medicaid and other receivables, accounts payable, accrued expenses and other liabilities, grants and contract advances and loans and notes payable, approximated book value due to the short maturity of these instruments.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with initial maturities when acquired of three months or less.

Fixed Assets

Fixed assets are recorded at cost. Items with a cost of \$5,000 or more and an estimated useful life of more than one year are capitalized. Depreciation of fixed assets is provided over the estimated useful lives of the assets utilizing the straight-line method. Leasehold improvements are amortized over the lesser of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

Internal Use Computer Software Database

CASES capitalizes certain costs associated with the development of internal use computer software. Costs that are capitalized consist of external direct costs of materials and services consumed in developing or obtaining the internal use software of the project. Amortization commences when development is complete and the assets are placed in service.

Deferred Rent

CASES has leases with unrelated third parties with certain escalation clauses that require normalization of the rent expense over the life of the leases. Resulting deferred rent is reflected in the accompanying statements of financial position.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Unrestricted Net Assets

Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. Board designated program funds are unrestricted net assets in which the Board of Trustees has designated certain funds for limited purposes. These funds are not available for current operations without the prior approval of the Board of Trustees.

Temporarily Restricted Net Assets

Temporarily restricted net assets include net assets subject to donor-imposed stipulations that may or will be met, either by actions of CASES 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.

Program Revenues and Receivables

Cost recovery grants - the terms under which these grants are awarded provide for reimbursements of budgeted expenditures within the grant period. These funds are received in either predetermined installments or increments based upon expenses incurred. Accordingly, grant income is recognized in amounts equal to expenditures incurred.

Any excess or deficiency of cash receipts over expenditures incurred is reported as "Grants and contract advances" or "Grants and contracts receivable." Upon termination of operations under each grant, the unexpended funds received under the terms of the grant revert to the grantor.

Performance-based grants - the terms under which these grants are awarded provide for payment based on unit costs for agreed upon milestones achieved within the award period up to the maximum amount allowable under a given milestone, if any, and/or the total grant amount. Accordingly, income is recognized in amounts equal to the amount earned based on performance. Any excess of cash receipts over expenditures incurred remains with the grantee.

Medicaid income - Medicaid income is reported at the estimated net realizable amounts based on the number of visits or services rendered in accordance with program provisions and state regulations.

Donated services - No amounts are reflected in the financial statements for donated services as CASES pays for services which require specific expertise. Board members volunteer their time and perform a variety of tasks that include contribution solicitations and serving on various Board committees. No expense is reflected in these financial statements since the services performed do not meet the criteria for revenue recognition under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 605.

Donated facilities - Donated space is reflected as contributions and reported as expenses in the accompanying statements of activities at estimated fair values.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 2 - Summary of Significant Accounting Policies (cont'd.)

Contributions Receivable

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and government contract revenues received and expended in the same fiscal year are reflected as unrestricted revenues.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are received. Amortization of the discounts has been included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for Doubtful Accounts

CASES determines whether an allowance for doubtful accounts should be provided for grants and contracts, Medicaid, contributions and other receivables. Such estimates are based on management's assessment of the aged basis of the receivables, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Interest is not charged on outstanding receivables. Bad debt expense is charged if the receivable is determined to be uncollectible based on periodic review by management. CASES has established an allowance for doubtful accounts of \$62,500 and \$7,874 for contributions receivables and its grants and contracts, respectively, for each year.

Accounting for Uncertainty in Income Taxes

CASES has adopted the provisions pertaining to uncertain tax provisions (FASB ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. CASES is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. CASES believes it is no longer subject to income tax examinations prior to 2012.

Functional Expenses

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

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 3 - Concentration of Credit Risk

Substantially all of CASES' cash balances are maintained in one financial institution which balances are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$250,000 per institution. From time to time, CASES' balances may exceed these limits.

Note 4 - Fixed Assets

Fixed assets, net, consist of the following:

| | <u>2015</u> | <u>2014</u> | <u>Estimated Useful Lives</u> |
|---|---------------------|-------------------|-----------------------------------|
| Furniture and equipment | \$ 1,688,715 | \$ 682,536 | 3 to 7 years |
| Vehicles | 45,633 | 45,633 | 5 years |
| Leasehold improvements | 1,537,838 | 654,369 | 5 years |
| Software database | 305,885 | 305,885 | 3 years |
| | <u>3,578,071</u> | <u>1,688,423</u> | |
| Less: Accumulated depreciation and amortization | <u>1,544,085</u> | <u>1,276,106</u> | |
| | <u>\$ 2,033,986</u> | <u>\$ 412,317</u> | |

Note 5 - Loans and Notes Payable

CASES has entered into a \$2,200,000 line of credit agreement, which is secured by grants and contracts receivable, bears interest at the 0.75% plus the CB Floating Rate (the prime rate: provided that the CB Floating Rate shall on any day not be less than adjusted one-month LIBOR rate (4.00% at June 30, 2015)) and expires on December 31, 2015. The amount due at June 30, 2015 and 2014 is \$1,651,314 and \$1,489,817, respectively.

CASES has borrowings from the New York City Returnable Grant Fund ("RGF"), which helps not-for-profit organizations cover operating expenses while waiting for NYC contracts to be registered. These loans are interest-free. The amount due at June 30, 2015 is \$414,021.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 6 - Temporarily Restricted Net Assets

The following is a summary of the net assets that were added and released from donor restrictions during the years ended June 30, 2015 and 2014:

| | 2015 | | | |
|----------------------------------|----------------------|--------------|----------------|-------------------|
| | Beginning Balance | Additions | Releases | Ending Balance |
| Youth Programs | \$ 199,595 | \$ 692,150 | \$ (694,607) | \$ 197,138 |
| Adult Behavioral Health Programs | - | 112,200 | (2,200) | 110,000 |
| Nathaniel Clinic Programs | 26,212 | 774,029 | (470,074) | 330,167 |
| | \$ 225,807 | \$ 1,578,379 | \$ (1,166,881) | \$ 637,305 |
| | 2014 | | | |
| | Beginning Balance | Additions | Releases | Ending Balance |
| Youth Programs | \$ 314,216 | \$ 639,750 | \$ (754,371) | \$ 199,595 |
| Adult Behavioral Health Programs | 255,229 | 20,050 | (275,279) | - |
| Nathaniel Clinic Programs | 237,922 | 10,000 | (221,710) | 26,212 |
| Time Restriction | 12,000 | - | (12,000) | - |
| | \$ 819,367 | \$ 669,800 | \$ (1,263,360) | \$ 225,807 |

Net assets released from donor restrictions for the years ended June 30, 2015 and 2014 were released by incurring expenses satisfying the program restrictions and the expiration of any time restriction specified by the donors.

Note 7 - Pension Plans

CASES maintains a defined contribution group pension plan and a 403(b) plan. Contributions to the plans are based on the employees' voluntary contributions to the 403(b) plan. Contributions to the plans amounted to \$238,555 and \$231,383 for the years ended June 30, 2015 and 2014, respectively.

Note 8 - Donated Space

CASES receives a contribution of office facilities from the City of New York. In January 2015, CASES was required to vacate most of its donated space as the building they had been operating out of was sold. The estimated fair market value of donated space included as revenue and expense was \$378,458 and \$900,040 for the years ended June 30, 2015 and 2014, respectively.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015 AND 2014

Note 9 - Contingencies

In most instances, grants are subject to audit by state, city and federal auditors and costs charged by grantors may be adjusted. CASES does not believe that any amounts are due back; therefore, no amounts have been estimated and recorded in these financial statements.

Note 10 - Lease Commitments

CASES has various operating lease agreements for office and program facilities, including storage facilities expiring through December 31, 2029. In June 2014, CASES entered into two leases, renting 15,000 and 13,871 square feet of office space for ten and fifteen years, respectively. Some of the leases are subject to real estate tax and operating expense escalations. Related rent expense for the years ended June 30, 2015 and 2014 was \$1,417,905 and \$451,182, respectively.

In addition, at June 30, 2015, CASES is obligated under various operating leases for office and program equipment expiring through February 24, 2019. Related lease expense for the years ended June 30, 2015 and 2014, was \$193,934 and \$123,772, respectively.

On October 22, 2014, CASES entered into a lease for office equipment for the new office locations. The leases expire on November 11, 2029.

Minimum annual future rental payments under the leases in each of the five years subsequent to June 30, 2015 and thereafter are as follows:

| <u>Years Ending June 30:</u> | |
|------------------------------|----------------------|
| 2016 | \$ 1,417,004 |
| 2017 | 1,430,591 |
| 2018 | 1,385,857 |
| 2019 | 1,460,347 |
| 2020 | 1,507,988 |
| Thereafter | <u>11,672,367</u> |
| | <u>\$ 18,874,154</u> |

Note 11 - Subsequent Events

CASES has evaluated all events or transactions that occurred after June 30, 2015 through the date of these financial statements, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.