

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

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

CENTER FOR ALTERNATIVE SENTENCING
AND EMPLOYMENT SERVICES, INC.

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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 statements of financial position at June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows 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 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 audits. We conducted our audits 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, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York

December 15, 2017

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 278,414	\$ 80,568
Grants and contracts receivable, net	4,749,723	4,526,516
Contributions receivable - due within one year	152,825	72,042
Medicaid/Managed Medicaid receivable, net	701,376	1,192,254
Other receivables	19,087	1,975
Prepaid expenses	147,218	152,866
TOTAL CURRENT ASSETS	6,048,643	6,026,221
Fixed assets, net	2,562,027	2,054,483
Security deposits	268,684	249,956
TOTAL ASSETS	\$ 8,879,354	\$ 8,330,660
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 495,248	\$ 639,388
Accrued expenses and other liabilities	1,347,342	1,140,441
Grants and contract advances	70,692	86,708
Loans and notes payable	3,593,240	2,266,227
TOTAL CURRENT LIABILITIES	5,506,522	4,132,764
Deferred rent	936,187	719,527
TOTAL LIABILITIES	6,442,709	4,852,291
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	1,109,059	1,953,125
Board-designated program funds	1,200,000	1,200,000
Total unrestricted	2,309,059	3,153,125
Temporarily restricted	127,586	325,244
TOTAL NET ASSETS	2,436,645	3,478,369
TOTAL LIABILITIES AND NET ASSETS	\$ 8,879,354	\$ 8,330,660

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, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:						
Government grants and contracts	\$ 16,691,134	\$ -	\$ 16,691,134	\$ 14,778,416	\$ -	\$ 14,778,416
Medicaid income	2,836,195	-	2,836,195	2,070,936	-	2,070,936
Contributions	155,964	335,020	490,984	143,085	575,000	718,085
Donated facilities	126,172	-	126,172	89,587	-	89,587
Miscellaneous income	115,829	-	115,829	55,520	-	55,520
Net assets released from restrictions	532,678	(532,678)	-	887,061	(887,061)	-
Total revenue and support	20,457,972	(197,658)	20,260,314	18,024,605	(312,061)	17,712,544
EXPENSES:						
Program services	17,954,488	-	17,954,488	14,720,520	-	14,720,520
Management and general	3,151,367	-	3,151,367	3,050,740	-	3,050,740
Fundraising	196,183	-	196,183	176,333	-	176,333
Total expenses	21,302,038	-	21,302,038	17,947,593	-	17,947,593
CHANGES IN NET ASSETS	(844,066)	(197,658)	(1,041,724)	77,012	(312,061)	(235,049)
NET ASSETS, BEGINNING OF YEAR	3,153,125	325,244	3,478,369	3,076,113	637,305	3,713,418
NET ASSETS, END OF YEAR	\$ 2,309,059	\$ 127,586	\$ 2,436,645	\$ 3,153,125	\$ 325,244	\$ 3,478,369

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, 2017

	Program Services				Supporting Services		
	Youth Programs	Adult Behavioral Health	Nathaniel Clinic	Total	Management and General	Fundraising	Total
Salaries and related expenses:							
Personnel services	\$ 3,347,089	\$ 6,424,859	\$ 1,088,749	\$ 10,860,697	\$ 1,710,023	\$ 132,233	\$ 12,702,953
Fringe benefits	777,288	1,617,126	253,472	2,647,886	411,291	36,026	3,095,203
Totals	<u>4,124,377</u>	<u>8,041,985</u>	<u>1,342,221</u>	<u>13,508,583</u>	<u>2,121,314</u>	<u>168,259</u>	<u>15,798,156</u>
Other than personnel services:							
Participant subsistence and stipends	280,017	70,404	6,038	356,459	-	-	356,459
Occupancy and renovation expenses	890,592	832,310	283,164	2,006,066	235,682	21,024	2,262,772
Consultants	41,259	120,133	100,623	262,015	77,148	109	339,272
Participant travel	178,928	77,046	33,399	289,373	-	-	289,373
Office supplies	76,884	156,009	65,497	298,390	34,923	1,782	335,095
Equipment purchases and rental	53,750	59,687	8,130	121,567	9,625	789	131,981
Office expenses	26,505	55,671	6,409	88,585	227,167	156	315,908
Telephone	82,036	150,424	21,878	254,338	7,629	630	262,597
Insurance	-	-	-	-	120,691	-	120,691
Participant other	45,942	6,608	-	52,550	-	-	52,550
Professional fees	-	41,776	-	41,776	81,158	-	122,934
Staff training and conferences	32,267	46,022	7,412	85,701	14,634	27	100,362
Interest and bank charges	-	-	-	-	110,997	-	110,997
Participant supplies	31,613	13,447	2,341	47,401	-	-	47,401
Recruiting	570	23,125	-	23,695	53,297	-	76,992
Vehicle, fuel and maintenance	7,329	22,626	758	30,713	3,746	94	34,553
Total other than personnel services	<u>1,747,692</u>	<u>1,675,288</u>	<u>535,649</u>	<u>3,958,629</u>	<u>976,697</u>	<u>24,611</u>	<u>4,959,937</u>
Donated facilities	35,328	59,301	11,355	105,984	18,926	1,262	126,172
Depreciation and amortization	<u>104,851</u>	<u>241,712</u>	<u>34,729</u>	<u>381,292</u>	<u>34,430</u>	<u>2,051</u>	<u>417,773</u>
Totals	<u>\$ 6,012,248</u>	<u>\$ 10,018,286</u>	<u>\$ 1,923,954</u>	<u>\$ 17,954,488</u>	<u>\$ 3,151,367</u>	<u>\$ 196,183</u>	<u>\$ 21,302,038</u>

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, 2016

	Program Services				Supporting Services		
	Youth Programs	Adult Behavioral Health	Nathaniel Clinic	Total	Management and General	Fundraising	Total
Salaries and related expenses:							
Personnel services	\$ 3,508,899	\$ 4,037,218	\$ 940,258	\$ 8,486,375	\$ 1,424,028	\$ 116,377	\$ 10,026,780
Fringe benefits	887,200	974,616	224,074	2,085,890	381,002	29,848	2,496,740
Totals	<u>4,396,099</u>	<u>5,011,834</u>	<u>1,164,332</u>	<u>10,572,265</u>	<u>1,805,030</u>	<u>146,225</u>	<u>12,523,520</u>
Other than personnel services:							
Participant subsistence and stipends	226,002	98,970	1,817	326,789	-	-	326,789
Occupancy and renovation expenses	833,093	766,878	207,242	1,807,213	440,501	19,052	2,266,766
Consultants	268,833	87,265	86,786	442,884	37,992	5,376	486,252
Participant travel	179,507	41,023	15,766	236,296	-	-	236,296
Office supplies	79,922	120,002	51,967	251,891	39,273	663	291,827
Equipment purchases and rental	39,290	98,073	26,257	163,620	23,129	944	187,693
Office expenses	14,455	45,906	2,653	63,014	201,016	73	264,103
Telephone	81,532	126,950	20,868	229,350	7,590	608	237,548
Insurance	1,400	4,260	4,260	9,920	115,727	-	125,647
Participant other	64,783	13,361	73	78,217	-	-	78,217
Professional fees	8,750	4,048	26,311	39,109	138,317	-	177,426
Staff training and conferences	29,685	38,702	4,053	72,440	22,613	333	95,386
Interest and bank charges	-	-	-	-	79,765	-	79,765
Participant supplies	10,714	6,894	897	18,505	-	-	18,505
Recruiting	-	-	-	-	86,941	-	86,941
Vehicle, fuel and maintenance	11,859	22,249	150	34,258	839	18	35,115
Total other than personnel services	<u>1,849,825</u>	<u>1,474,581</u>	<u>449,100</u>	<u>3,773,506</u>	<u>1,193,703</u>	<u>27,067</u>	<u>4,994,276</u>
Donated facilities	31,983	33,147	8,242	73,372	15,319	896	89,587
Depreciation and amortization	140,701	106,633	54,043	301,377	36,688	2,145	340,210
Totals	<u>\$ 6,418,608</u>	<u>\$ 6,626,195</u>	<u>\$ 1,675,717</u>	<u>\$ 14,720,520</u>	<u>\$ 3,050,740</u>	<u>\$ 176,333</u>	<u>\$ 17,947,593</u>

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (1,041,724)	\$ (235,049)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	417,773	340,210
Deferred rent	216,660	251,628
Changes in assets (increase) decrease:		
Grants and contracts receivable	(223,207)	237,681
Contributions receivable	(80,783)	181,074
Medicaid receivable	490,878	(812,457)
Other receivables	(17,112)	42,070
Prepaid expenses	5,648	(11,293)
Security deposits and other	(18,728)	(5,544)
Changes in liabilities increase (decrease):		
Accounts payable	(144,140)	(129,899)
Accrued expenses and other liabilities	206,901	303,952
Grants and contract advances	(16,016)	(43,760)
	(203,850)	118,613
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of fixed assets	55,699	-
Acquisition of fixed assets	(981,016)	(360,706)
	(925,317)	(360,706)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans	(2,219,699)	(5,303,824)
Proceeds from borrowings on loans	3,546,712	5,504,715
	1,327,013	200,891
NET CHANGE IN CASH AND CASH EQUIVALENTS	197,846	(41,202)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	80,568	121,770
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 278,414	\$ 80,568
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 95,477	\$ 53,575

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, 2017 AND 2016

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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 AND 2016

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, 2017 AND 2016

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 for Medicaid receivable for the years ended June 30, 2017 and 2016, and \$7,441 for its grants and contracts receivable, for the years ended June 30, 2017 and 2016, respectively.

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 2014.

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, 2017 AND 2016

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

New Accounting Pronouncements

ASU No. 2016-14

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. This ASU is a result of the recommendations developed by FASB’s Not-for-Profit Advisory Committee and FASB’s ongoing review of Generally Accepted Accounting Principles (GAAP) standards to improve existing standards to meet the evolving needs of a dynamic financial reporting environment.

The ASU provides for changes in financial statement presentation that effect classification of net assets, presentation of expenses, investment returns and presentation of operating cash flows. It also calls for enhanced disclosures of board designated funds, underwater endowment funds, methods used to allocate costs among functions, and liquidity and availability of resources. The ASU affects all not-for-profit organizations including charities, foundations, colleges and universities, health care providers, religious organizations, trade associations, and cultural institutions, among others.

The amendments of ASU No. 2016-14 are effective for annual financial statements issued for periods beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted.

ASU No. 2016-02

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU is the result of a joint project of the FASB and the International Accounting Standards Board (“IASB”) to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements for U.S. GAAP and International Financial Reporting Standards (“IFRS”). The guidance in this ASU affects any entity that enters into a lease (as that term is defined in this ASU), with some specified scope exemptions. The guidance in this ASU will supersede Topic 840, *Leases*.

The ASU provides that lessees should recognize lease assets and lease liabilities on the balance sheet for leases previously classified as operating leases that exceed 12 months, including leases existing prior to the effective date of this ASU. It also calls for enhanced leasing arrangement disclosures.

For nonpublic entities, the amendments of ASU No. 2016-02 are effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2020. Early application is permitted for all entities.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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

New Accounting Pronouncement (cont'd.)

ASU No. 2014-09

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU is the result of a joint project of the FASB and the IASB to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards.

The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should apply the following five-step process to recognize revenue:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

For nonpublic entities, the amendments of ASU No. 2014-09 are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early application is permitted under certain circumstances.

CASES has not yet determined if these ASU will have a material effect on its financial statements.

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. From time to time, CASES' balances may exceed this limit.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Note 4 - Fixed Assets

Fixed assets, net, consist of the following:

	<u>2017</u>	<u>2016</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	\$ 2,171,220	\$ 1,903,464	3 to 7 years
Vehicles	120,337	120,337	5 years
Leasehold improvements	1,685,272	989,842	5 years
Software database	305,885	305,885	3 years
Work in progress	23,201	61,070	
	4,305,915	3,380,598	
Less: Accumulated depreciation and amortization	1,743,888	1,326,115	
	\$ 2,562,027	\$ 2,054,483	

Note 5 - Loans and Notes Payable

During 2016, CASES entered into a \$2,750,000 line of credit agreement, which is secured by grants and contracts receivable, and bears interest at 0.5% above the bank's prime rate (totaling 4.75% and 4.00% at June 30, 2017 and 2016, respectively) per annum. This agreement was renewed during the year and matures on February 1, 2018. The line is collateralized by all assets. The amount drawn down on the line of credit at June 30, 2017 and 2016 is \$2,732,977 and \$1,707,977, 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 due within 45-90 days. The amount due at June 30, 2017 and 2016 is \$860,263 and \$558,250, respectively.

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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, 2017 and 2016:

	2017			
	Beginning Balance	Additions	Releases	Ending Balance
Youth Programs	\$ 48,000	\$ 333,520	\$ (285,673)	\$ 95,847
Adult Behavioral Health Programs	85,000	1,500	(54,761)	31,739
Nathaniel Clinic Programs	177,244	-	(177,244)	-
Time Restriction	15,000	-	(15,000)	-
	\$ 325,244	\$ 335,020	\$ (532,678)	\$ 127,586
	2016			
	Beginning Balance	Additions	Releases	Ending Balance
Youth Programs	\$ 197,138	\$ 254,000	\$ (403,138)	\$ 48,000
Adult Behavioral Health Programs	110,000	-	(25,000)	85,000
Nathaniel Clinic Programs	330,167	306,000	(458,923)	177,244
Time Restriction	-	15,000	-	15,000
	\$ 637,305	\$ 575,000	\$ (887,061)	\$ 325,244

Net assets released from donor restrictions for the years ended June 30, 2017 and 2016 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 \$275,404 and \$253,270 for the years ended June 30, 2017 and 2016, respectively.

Note 8 - Donated Space

CASES receives a contribution of various court space from the City of New York. The estimated fair market value of donated space included as revenue and expense was \$126,172 and \$89,587 for the years ended June 30, 2017 and 2016, respectively.

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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.

CASES is involved in various legal proceedings and litigation arising in the ordinary course of business. CASES is vigorously defending these matters. Potential damages, if successful, are undeterminable at June 30, 2017.

Note 10 - Lease Commitments

CASES has various operating lease agreements for office and program facilities, including storage facilities expiring through 2029. Some of the leases are subject to real estate tax and operating expense escalations. Related rent expense for the years ended June 30, 2017 and 2016 was \$1,957,734 and \$2,011,374, respectively.

In addition, at June 30, 2017, CASES is obligated under various operating leases for office and program equipment expiring through 2019. Related lease expense for the years ended June 30, 2017 and 2016, was \$69,069 and \$70,839, respectively.

Minimum annual future rental payments under the leases in each of the five years subsequent to June 30, 2017 and thereafter are as follows:

<u>Years Ending June 30:</u>	
2018	\$ 1,916,880
2019	1,877,621
2020	1,940,189
2021	2,046,900
2022	1,908,040
Thereafter	<u>10,767,259</u>
	<u>\$ 20,456,889</u>

Note 11 - Subsequent Events

CASES has evaluated all events or transactions that occurred after June 30, 2017 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.