

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

**FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

JUNE 30, 2018 AND 2017

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, 2018 and 2017	3
Statements of Activities for the Years Ended June 30, 2018 and 2017	4
Statement of Functional Expenses for the Year Ended June 30, 2018	5
Statement of Functional Expenses for the Year Ended June 30, 2017	6
Statements of Cash Flows for the Years Ended June 30, 2018 and 2017	7
Notes to Financial Statements	8-16
<u>Supplementary Information</u>	
Independent Auditors' Report on Schedule of Expenditures of Federal Awards	17
Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20-21
Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	22-23
Schedule of Findings and Questioned Costs	24-25



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, 2018 and 2017, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, 2018 and 2017, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of CASES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on CASES' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CASES' internal control over financial reporting and compliance.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
December 21, 2018

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 288,879	\$ 278,414
Grants and contracts receivable, net	5,389,205	4,749,723
Contributions receivable - due within one year	143,547	152,825
Medicaid/Managed Medicaid receivable, net	549,237	701,376
Other receivables	8,856	19,087
Prepaid expenses	137,579	147,218
TOTAL CURRENT ASSETS	6,517,303	6,048,643
Fixed assets, net	2,177,729	2,562,027
Security deposits	311,036	268,684
TOTAL ASSETS	\$ 9,006,068	\$ 8,879,354
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 336,422	\$ 495,248
Accrued expenses and other liabilities	1,967,631	1,347,342
Grants and contract advances	1,538,763	70,692
Loans payable	2,234,394	3,593,240
TOTAL CURRENT LIABILITIES	6,077,210	5,506,522
Deferred rent	1,227,375	936,187
TOTAL LIABILITIES	7,304,585	6,442,709
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted:		
Operating	408,422	1,109,059
Board-designated program funds	1,200,000	1,200,000
Total unrestricted	1,608,422	2,309,059
Temporarily restricted	93,061	127,586
TOTAL NET ASSETS	1,701,483	2,436,645
TOTAL LIABILITIES AND NET ASSETS	\$ 9,006,068	\$ 8,879,354

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, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT:						
Government grants and contracts	\$ 19,227,382	\$ -	\$ 19,227,382	\$ 16,691,134	\$ -	\$ 16,691,134
Medicaid/Managed Medicaid income	4,240,906	-	4,240,906	2,836,195	-	2,836,195
Contributions	205,611	489,000	694,611	155,964	335,020	490,984
Donated facilities	120,817	-	120,817	126,172	-	126,172
Miscellaneous income	118,391	-	118,391	115,829	-	115,829
Net assets released from restrictions	523,525	(523,525)	-	532,678	(532,678)	-
Total revenue and support	24,436,632	(34,525)	24,402,107	20,457,972	(197,658)	20,260,314
EXPENSES:						
Program services	21,433,735	-	21,433,735	17,954,488	-	17,954,488
Management and general	3,496,496	-	3,496,496	3,151,367	-	3,151,367
Fundraising	207,038	-	207,038	196,183	-	196,183
Total expenses	25,137,269	-	25,137,269	21,302,038	-	21,302,038
CHANGES IN NET ASSETS	(700,637)	(34,525)	(735,162)	(844,066)	(197,658)	(1,041,724)
NET ASSETS, BEGINNING OF YEAR	2,309,059	127,586	2,436,645	3,153,125	325,244	3,478,369
NET ASSETS, END OF YEAR	\$ 1,608,422	\$ 93,061	\$ 1,701,483	\$ 2,309,059	\$ 127,586	\$ 2,436,645

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, 2018

	Program Services					Supporting Services		
	Education, Civic Justice and Employment	Court Programs	Adult Behavioral Health	Nathaniel Clinic	Total	Management and General	Fundraising	Total
Salaries and related expenses:								
Personnel services	\$ 2,190,534	\$ 4,212,550	\$ 4,259,284	\$ 1,197,511	\$ 11,859,879	\$ 1,883,387	\$ 123,221	\$ 13,866,487
Fringe benefits	541,351	1,301,736	1,007,865	330,722	3,181,674	543,413	36,323	3,761,410
Totals	<u>2,731,885</u>	<u>5,514,286</u>	<u>5,267,149</u>	<u>1,528,233</u>	<u>15,041,553</u>	<u>2,426,800</u>	<u>159,544</u>	<u>17,627,897</u>
Other than personnel services:								
Participant subsistence and stipends	265,454	78,635	128,465	7,298	479,852	-	-	479,852
Occupancy and renovation expenses	466,316	828,114	700,931	286,267	2,281,628	261,339	33,368	2,576,335
Consultants	33,183	782,359	31,775	137,359	984,676	53,329	582	1,038,587
Participant travel	77,983	164,638	48,317	40,029	330,967	-	-	330,967
Office supplies	57,409	96,330	95,492	71,354	320,585	29,013	2,742	352,340
Equipment purchases and rental	46,909	103,270	53,040	18,580	221,799	20,897	3,027	245,723
Office expenses	19,309	8,678	520,636	9,560	558,183	153,381	216	711,780
Telephone	57,040	121,633	94,130	9,351	282,154	11,822	688	294,664
Insurance	-	-	-	-	-	178,355	-	178,355
Participant other	36,022	31,607	2,358	-	69,987	-	-	69,987
Professional fees	-	-	19,825	4,240	24,065	101,298	-	125,363
Staff training and conferences	26,565	23,536	29,580	1,540	81,221	24,378	17	105,616
Interest and bank charges	-	-	-	-	-	125,947	-	125,947
Participant supplies	12,420	43,147	14,351	1,572	71,490	-	-	71,490
Recruiting	238	870	87	585	1,780	30,955	-	32,735
Vehicle, fuel and maintenance	2,851	15,387	42,000	926	61,164	1,512	96	62,772
Commuter benefit tax	-	-	-	-	-	27,712	-	27,712
Total other than personnel services	<u>1,101,699</u>	<u>2,298,204</u>	<u>1,780,987</u>	<u>588,661</u>	<u>5,769,551</u>	<u>1,019,938</u>	<u>40,736</u>	<u>6,830,225</u>
Donated facilities	18,727	37,453	35,037	10,874	102,091	16,310	2,416	120,817
Depreciation and amortization	<u>123,400</u>	<u>103,605</u>	<u>243,537</u>	<u>49,998</u>	<u>520,540</u>	<u>33,448</u>	<u>4,342</u>	<u>558,330</u>
Totals	<u>\$ 3,975,711</u>	<u>\$ 7,953,548</u>	<u>\$ 7,326,710</u>	<u>\$ 2,177,766</u>	<u>\$ 21,433,735</u>	<u>\$ 3,496,496</u>	<u>\$ 207,038</u>	<u>\$ 25,137,269</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, 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.
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (735,162)	\$ (1,041,724)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	558,330	417,773
Deferred rent	291,188	216,660
Changes in assets (increase) decrease:		
Grants and contracts receivable	(639,482)	(223,207)
Contributions receivable	9,278	(80,783)
Medicaid/Managed Medicaid receivable	152,139	490,878
Other receivables	10,231	(17,112)
Prepaid expenses	9,639	5,648
Security deposits	(42,352)	(18,728)
Changes in liabilities increase (decrease):		
Accounts payable	(158,826)	(144,140)
Accrued expenses and other liabilities	620,289	206,901
Grants and contract advances	1,468,071	(16,016)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,543,343	(203,850)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of fixed assets	-	55,699
Acquisition of fixed assets	(174,032)	(981,016)
NET CASH USED IN INVESTING ACTIVITIES	(174,032)	(925,317)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of loans	(2,931,846)	(2,219,699)
Proceeds from borrowings on loans	1,573,000	3,546,712
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,358,846)	1,327,013
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,465	197,846
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	278,414	80,568
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 288,879	\$ 278,414
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	\$ 112,135	\$ 95,477

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, 2018 AND 2017

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 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, 2018 AND 2017

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, 2018 and 2017, the fair value of CASES' financial instruments, including cash and cash equivalents, grants and contracts receivable, contributions receivable, Medicaid/Managed Medicaid receivables, other receivables, accounts payable, accrued expenses and other liabilities, and grants and contract advances, approximated book value due to the short maturity of these instruments.

At June 30, 2018 and 2017, CASES does not have assets or liabilities required to be measured at fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement*.

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, 2018 AND 2017

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 FASB 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, 2018 AND 2017

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 the Medicaid/Managed Medicaid receivable for the years ended June 30, 2018 and 2017, and \$0 and \$7,441 for its grants and contracts receivable for the years ended June 30, 2018 and 2017, respectively.

Accounting for Uncertainty in Income Taxes

CASES applies 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 2015.

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, 2018 AND 2017

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 affect 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.

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 FASB ASC 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, 2018 AND 2017

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

New Accounting Pronouncements (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 ASUs 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, 2018 AND 2017

Note 4 - Fixed Assets

Fixed assets, net, consist of the following:

	<u>2018</u>	<u>2017</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	\$ 2,219,964	\$ 2,171,221	3 to 7 years
Vehicles	120,337	120,337	5 years
Leasehold improvements	1,563,933	1,685,271	5 years
Software database	305,885	305,885	3 years
Work in progress	148,489	23,201	
	<u>4,358,608</u>	<u>4,305,915</u>	
Less: Accumulated depreciation and amortization	<u>2,180,879</u>	<u>1,743,888</u>	
	<u><u>\$ 2,177,729</u></u>	<u><u>\$ 2,562,027</u></u>	

Note 5 - Loans Payable

CASES maintains 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 5.50% and 4.75% at June 30, 2018 and 2017, respectively) per annum. This agreement was renewed during the year and matures on January 4, 2019. The amount drawn down on the line of credit at June 30, 2018 and 2017 is \$1,872,977 and \$2,732,977, 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 and are due within 45-90 days. The amount due at June 30, 2018 and 2017 is \$361,417 and \$860,263, respectively.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017:

	2018			
	Beginning Balance	Additions	Releases	Ending Balance
Youth Programs	\$ 95,847	\$ 348,000	\$ (408,846)	\$ 35,001
Adult Behavioral Health Programs	31,739	31,000	(62,739)	-
Nathaniel Clinic Programs	-	110,000	(51,940)	58,060
	\$ 127,586	\$ 489,000	\$ (523,525)	\$ 93,061
	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

Net assets released from donor restrictions for the years ended June 30, 2018 and 2017 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 \$391,435 and \$275,404 for the years ended June 30, 2018 and 2017, 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 \$120,817 and \$126,172 for the years ended June 30, 2018 and 2017, respectively.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018.

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, 2018 and 2017 was \$2,195,619 and \$1,957,734, respectively.

In addition, at June 30, 2018, CASES is obligated under various operating leases for office and program equipment expiring through 2019. Related lease expense for the years ended June 30, 2018 and 2017 was \$73,412 and \$69,069, respectively.

Minimum annual future rental payments under the leases in each of the five years subsequent to June 30, 2018 and thereafter are as follows:

Years Ending June 30:

2019	\$ 1,827,283
2020	1,888,341
2021	1,993,497
2022	1,908,040
2023	1,948,161
Thereafter	<u>8,819,098</u>
	<u>\$ 18,384,420</u>

Note 11 - Subsequent Events

CASES has evaluated all events or transactions that occurred after June 30, 2018 through December 21, 2018, which is the date that the financial statements were available to be issued. During this period, there were no material subsequent events requiring disclosure.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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

We have audited the financial statements of Center for Alternative Sentencing and Employment Services, Inc. ("CASES") at and for the year ended June 30, 2018, and our report thereon dated December 21, 2018, which contained an unmodified opinion on those financial statements appears on pages one and two. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance") and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
December 21, 2018

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA/Contract Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<u>U.S. Department of Justice</u>			
Byrne Criminal Justice Innovation Program	16.817	2016-R-BX-K056	\$ 142,818
Total U.S. Department of Justice			<u>142,818</u>
<u>U.S. Department of Health and Human Services</u>			
Projects for Assistance In Transition from Homelessness (PATH)	93.150	SM-16-F2/816-1618-320	93,530
Substance Abuse and Mental Health Services Administration Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79SM062410-01	<u>515,268</u>
Total U.S. Department of Health and Human Services			<u>608,798</u>
<u>Corporation for National and Community Service</u>			
AmeriCorps	94.006	n/a	18,471
Social Innovation Fund	94.019	15SIHNY001 15SIHMD001	\$ 61,850 <u>231,223</u> <u>293,073</u>
Total Corporation for National and Community Service			<u>311,544</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 1,063,160</u>

See independent auditors' report on schedule of expenditures of federal awards.

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Center for Alternative Sentencing and Employment Services, Inc. ("CASES") under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of the Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the schedule presents only a selected portion of the operation of CASES, it is not intended to and does not present the financial position, changes in net assets or cash flows of CASES.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Subrecipient

There were no payments made to subrecipients for federal awards received during the year ended June 30, 2018.

Note 4 - Indirect Cost Rate

CASES did not elect to use the 10% de minimis indirect cost rate.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Center for Alternative Sentencing and Employment Services, Inc. ("CASES"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered CASES' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CASES' internal control. Accordingly, we do not express an opinion on the effectiveness of the CASES' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CASES' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CASES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CASES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York
December 21, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Center for Alternative Sentencing and Employment Services, Inc.'s ("CASES") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of CASES' major federal programs for the year ended June 30, 2018. CASES' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CASES' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CASES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CASES' compliance.

Opinion on Each Major Federal Program

In our opinion, CASES complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of CASES' is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CASES' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CASES' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grassi & Co., CPAs, P.C.

GRASSI & CO., CPAs, P.C.

New York, New York

December 21, 2018

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

- i. An unmodified opinion was issued on the financial statements of the Center for Alternative Sentencing and Employment Services, Inc.

- ii. Internal control over financial reporting:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified? Yes None Reported

- iii. Noncompliance material to financial statements noted? Yes No

Federal Awards

- iv. Internal control over major programs:
 - Material weakness(es) identified? Yes No
 - Significant deficiency(ies) identified? Yes None Reported

- v. An unmodified opinion was issued on compliance for major programs.

- vi. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? Yes No

- vii. Major Programs:
 - Substance Abuse and Mental Health Services Projects of Regional and National Significance (CFDA #93.243)

- viii. Federal award expenses that exceeded \$750,000 were considered type A programs.

- ix. CASES qualified as a low-risk auditee? Yes No

CENTER FOR ALTERNATIVE SENTENCING AND EMPLOYMENT SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

Section II - Financial Statement Findings

There are no current year findings.

Section III - Federal Awards Findings and Questioned Costs

There were no current year findings.