

BERKS CONNECTIONS/PRETRIAL SERVICES

FINANCIAL STATEMENTS

Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
Berks Connections/Pretrial Services
Reading, Pennsylvania**

Report on the Financial Statements

We have audited the accompanying financial statements of Berks Connections/Pretrial Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the 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 in the first paragraph present fairly, in all material respects, the financial position of Berks Connections/Pretrial Services as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1, Berks Connections/Pretrial Services adopted FASB ASU No. 2016-14 for the year ended December 31, 2018.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenue and expenses - PCCD is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2019, on our consideration of the Organization's 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 solely 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 the effectiveness of the Organization's 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 the Organization's internal control over financial reporting and compliance.

Herbein + Company, Inc.

**Reading, Pennsylvania
May 30, 2019**

BERKS CONNECTIONS/PRETRIAL SERVICES

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 118,216	\$ 129,026
Accounts receivable	350	1,325
Grants receivable	170,614	148,610
Prepaid expenses and other assets	<u>5,909</u>	<u>5,934</u>
TOTAL CURRENT ASSETS	295,089	284,895
INVESTMENTS	220,699	239,979
UNEMPLOYMENT RESERVE ACCOUNT	21,952	17,740
LEASEHOLD IMPROVEMENTS AND EQUIPMENT , less accumulated depreciation of \$99,585 in 2018 and \$73,306 in 2017	<u>126,299</u>	<u>143,705</u>
TOTAL ASSETS	<u><u>\$ 664,039</u></u>	<u><u>\$ 686,319</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ 125,000	\$ 40,000
Accounts payable	37,801	5,411
Accrued payroll and payroll taxes	50,377	45,414
Capital lease obligation	<u>1,707</u>	<u>1,707</u>
TOTAL LIABILITIES	214,885	92,532
NET ASSETS		
Without donor restrictions	449,154	578,787
With donor restrictions	<u>-</u>	<u>15,000</u>
TOTAL NET ASSETS	<u>449,154</u>	<u>593,787</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 664,039</u></u>	<u><u>\$ 686,319</u></u>

See accompanying notes.

BERKS CONNECTIONS/PRETRIAL SERVICES

STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2018			Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
County release program	\$ 592,195	\$ -	\$ 592,195	\$ 580,984	\$ -	\$ 580,984
Grant funding	1,465,335	-	1,465,335	1,124,206	-	1,124,206
United Way allocation	98,065	-	98,065	80,670	-	80,670
Contributions	86,480	-	86,480	111,423	15,000	126,423
Special events, net of expenses of \$8,785 - 2018 and \$10,286 - 2017	16,196	-	16,196	11,958	-	11,958
Program services	1,000	-	1,000	2,020	-	2,020
Investment income (loss)	(19,136)	-	(19,136)	32,659	-	32,659
Interest income	822	-	822	915	-	915
Net assets released from restriction	15,000	(15,000)	-	-	-	-
TOTAL REVENUES AND OTHER SUPPORT	2,255,957	(15,000)	2,240,957	1,944,835	15,000	1,959,835
EXPENSES						
Program expenses	2,195,046	-	2,195,046	1,651,240	-	1,651,240
Supporting services:						
Management and general	95,016	-	95,016	78,498	-	78,498
Fundraising	95,528	-	95,528	100,803	-	100,803
TOTAL EXPENSES	2,385,590	-	2,385,590	1,830,541	-	1,830,541
INCREASE (DECREASE) IN NET ASSETS	(129,633)	(15,000)	(144,633)	114,294	15,000	129,294
NET ASSETS AT BEGINNING OF YEAR	578,787	15,000	593,787	464,493	-	464,493
NET ASSETS AT END OF YEAR	<u>\$ 449,154</u>	<u>\$ -</u>	<u>\$ 449,154</u>	<u>\$ 578,787</u>	<u>\$ 15,000</u>	<u>\$ 593,787</u>

See accompanying notes.

BERKS CONNECTIONS/PRETRIAL SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Program Services				Supporting Services		Total
	Community Release	Reentry	Department of Labor	Total Program Services	Management and General	Fundraising	
Salaries	\$ 384,737	\$ 659,550	\$ 233,591	\$ 1,277,878	\$ 27,481	\$ 68,703	\$ 1,374,062
Employee benefits	47,786	98,986	18,773	165,545	3,413	1,707	170,665
Payroll taxes	28,562	48,963	17,341	94,866	2,040	5,100	102,006
Total payroll and related expenses	461,085	807,499	269,705	1,538,289	32,934	75,510	1,646,733
Insurance	3,694	9,498	4,208	17,400	-	-	17,400
Parking	6,432	16,140	7,428	30,000	-	804	30,804
Local travel	6,983	23,455	2,660	33,098	-	155	33,253
Contractual agreements	-	-	193,774	193,774	-	-	193,774
Reentry expenses	-	106,945	-	106,945	-	-	106,945
Housing programs rent expense	-	38,746	-	38,746	-	-	38,746
Office supplies	3,865	11,483	9,568	24,916	-	-	24,916
Rent	11,488	53,417	-	64,905	-	-	64,905
Telephone	4,474	14,812	-	19,286	-	-	19,286
Equipment lease	3,166	5,415	-	8,581	-	-	8,581
Postage	1,224	2,448	-	3,672	-	408	4,080
Software maintenance	11,522	34,651	-	46,173	-	-	46,173
Conference fees	7,362	22,084	1,627	31,073	939	-	32,012
Advertising, printing, and marketing	3,335	8,574	-	11,909	-	4,362	16,271
Dues and subscriptions	-	-	-	-	6,311	-	6,311
Professional fees	-	-	-	-	34,080	-	34,080
Other	-	-	-	-	17,550	-	17,550
Community outreach	-	-	-	-	-	14,289	14,289
Interest expense	-	-	-	-	3,202	-	3,202
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	524,630	1,155,167	488,970	2,168,767	95,016	95,528	2,359,311
Depreciation	-	26,279	-	26,279	-	-	26,279
TOTAL FUNCTIONAL EXPENSES	\$ 524,630	\$ 1,181,446	\$ 488,970	\$ 2,195,046	\$ 95,016	\$ 95,528	\$ 2,385,590

See accompanying notes.

BERKS CONNECTIONS/PRETRIAL SERVICES

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services					Supporting Services			Total
	Community Release	Reentry	Department of Labor	Mental Health Diversion	Emergency Solutions Grant	Total Program Services	Management and General	Fundraising	
Salaries	\$ 380,829	\$ 506,258	\$ 77,392	\$ 3,276	\$ 5,749	\$ 973,504	\$ 23,792	\$ 69,249	\$ 1,066,545
Employee benefits	43,849	53,391	6,620	651	-	104,511	2,272	6,816	113,599
Payroll taxes	29,182	36,887	5,883	251	-	72,203	1,570	4,709	78,482
Total payroll and related expenses	453,860	596,536	89,895	4,178	5,749	1,150,218	27,634	80,774	1,258,626
Insurance	3,270	8,410	3,367	-	-	15,047	-	-	15,047
Parking	5,737	14,752	2,326	-	-	22,815	-	804	23,619
Local travel	6,806	11,174	290	378	-	18,648	-	62	18,710
Contractual agreements	-	-	37,973	-	-	37,973	-	-	37,973
Reentry expenses	-	122,945	-	-	-	122,945	-	-	122,945
Housing programs rent expense	-	29,256	-	-	30,633	59,889	-	-	59,889
Office supplies	4,906	12,616	50,049	183	-	67,754	-	-	67,754
Rent	11,263	24,612	-	-	-	35,875	-	-	35,875
Telephone	4,323	3,385	-	38	-	7,746	-	-	7,746
Equipment lease	4,803	961	-	-	-	5,764	-	-	5,764
Postage	1,273	3,275	-	-	-	4,548	-	505	5,053
Software maintenance	11,586	32,713	-	-	-	44,299	-	-	44,299
Conference fees	5,609	18,148	9,850	-	-	33,607	72	-	33,679
Advertising, printing, and marketing	4,924	7,871	-	-	-	12,795	-	4,473	17,268
Dues and subscriptions	-	-	-	-	-	-	4,124	-	4,124
Professional fees	-	-	-	-	-	-	27,346	-	27,346
Other	-	-	-	-	-	-	16,088	-	16,088
Community outreach	-	-	-	-	-	-	-	14,185	14,185
Interest expense	-	-	-	-	-	-	1,977	-	1,977
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	518,360	886,654	193,750	4,777	36,382	1,639,923	77,241	100,803	1,817,967
Depreciation	-	11,317	-	-	-	11,317	1,257	-	12,574
TOTAL FUNCTIONAL EXPENSES	\$ 518,360	\$ 897,971	\$ 193,750	\$ 4,777	\$ 36,382	\$ 1,651,240	\$ 78,498	\$ 100,803	\$ 1,830,541

See accompanying notes.

BERKS CONNECTIONS/PRETRIAL SERVICES

STATEMENTS OF CASH FLOWS

	Year Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (144,633)	\$ 129,294
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Depreciation	26,279	12,574
Realized gain on investments	(3,832)	(10,406)
Unrealized (gain) loss on investments	25,080	(15,454)
Change in:		
Accounts receivable	975	(484)
Grants receivable	(22,004)	66,416
Prepaid expenses	25	200
Unemployment reserve account	(4,212)	(7,536)
Accounts payable	32,390	1,706
Accrued payroll and payroll taxes	4,963	10,038
	<u> </u>	<u> </u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(84,969)	186,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of leasehold improvements and equipment	(8,873)	(143,873)
(Purchases) sales of investments, net	<u>(1,968)</u>	<u>(6,798)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(10,841)	(150,671)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance on line of credit	<u>85,000</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	(10,810)	35,677
CASH AT BEGINNING OF YEAR	<u>129,026</u>	<u>93,349</u>
CASH AT END OF YEAR	<u><u>\$ 118,216</u></u>	<u><u>\$ 129,026</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 3,202	\$ 1,977
Purchase of equipment through capital lease	-	1,707

See accompanying notes.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Berks Connections/Pretrial Services (the "Organization") is a nonprofit organization incorporated in April 1975. The Organization's name was changed from Berks County Prison Society, Inc. effective April 1, 2005. The Organization provides services, support, and community-based outreach to adult offenders, at-risk youth, and their families through successful community reintegration and pretrial-related assistance. The Organization provides criminal justice services to the Berks County Jail System to assist in relieving jail overcrowding and to ensure the criminal justice system operates efficiently.

The Organization received approximately 84% of its total revenues for the year ended December 31, 2018, from the County of Berks, Department of Corrections, and Department of Labor as service fees. As of December 31, 2018, there was \$119,712 in grants receivable relating to the Department of Corrections.

The Organization received approximately 86% of its total revenues for the year ended December 31, 2017, from the County of Berks, Department of Corrections, and Department of Labor as services fees. As of December 31, 2017, there was \$148,025 in grants receivable relating to the Department of Corrections.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted highly-liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization places its cash in high credit quality institutions.

Investments

The Organization's investments are carried at fair value, as estimated by the most recent published sources as of the last day of the business year. Unless explicitly restricted by donor stipulation or by law, realized and unrealized gains and losses are reported in the statement of activities as increases or decreases in unrestricted net assets.

Investments in equity securities with readily determinable fair values, investments in debt securities, and investments in limited partnerships are measured at fair value in the statement of financial position. Investment income or loss, including gains and losses of investments, interest and dividends, and investment fees are included in the statement of activities as increases or decreases in net assets without donor restrictions unless the income or loss is restricted by donor or law.

Investments are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near-term and that such changes could materially affect the amounts reported in the statement of financial position.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Leasehold Improvements and Equipment

Purchased leasehold improvements and equipment are capitalized at cost. Donations of leasehold improvements and equipment are recorded as contributions at their fair market value. The Organization's policy is to capitalize any assets in excess of \$1,000 with an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Leasehold improvements	15 years
Office furniture and equipment	3 - 10 years
Vehicles	5 years

Maintenance and repairs of leasehold improvements and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of leasehold improvements and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Construction in progress is stated at cost and consists primarily of costs incurred in the construction of leasehold improvements. No provision for depreciation is made on construction in progress until the assets are complete and placed into service.

Net Assets

The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions - Net assets without donor restrictions include funds not subject to donor-imposed stipulations. In general, the revenues received, and expenses incurred in conducting the Organization's charitable mission are included in this category.

Net Assets With Donor Restrictions - Net assets with donor restrictions include gifts, grants, and pledges whose use by the Organization has been limited by donors to later periods of time or after specified dates, or to specified purposes.

The organization reports gifts of cash and other assets as revenue with donor restrictions 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, the net assets are reclassified as net assets without donor restriction and reported in the statements of activities as net assets released from restrictions.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenues and Receivables

Support received from grantors or from fees for tuition and programs is recorded as revenue when the related costs are met or services provided. Amounts received in advance are recorded as deferred revenues or unearned tuition. Amounts earned but not received are recorded as grants or accounts receivable. The Organization provides for losses on grants or accounts receivable using the allowance method. Receivables are considered impaired if full payments are not received based on the actual billing. The Organization charges off uncollectible accounts receivable when management determines the receivable will not be collected.

Contribution Revenue

The Organization recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as revenues without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met.

Donated Services and Materials

Gifts of property and equipment are presented as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Organization's activities).

Donated materials, furniture, fixtures, equipment, and certain services are reflected as contributions in the accompanying financial statements at their estimated fair value at the date of receipt. The amount of such donated materials, furniture, fixtures, equipment, and certain services was \$0 for the year ended December 31, 2018.

A substantial number of volunteers have donated significant hours to the Organization's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Functional Expense Allocations

As reported in the statement of functional expenses, expenses of the Organization have been allocated to the following functional reporting classifications: Program Services, Management and General and Fundraising.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Functional Expense Allocations - continued

Expenses directly attributable to a specific functional area are reported as expenses of those functions. The Organization's method for allocating expenses among the functional reporting classifications which cannot be specifically identified as program or supporting service are based on estimates made for time spent by key personnel between functions, space occupied by function, consumption of supplies and postage by function, and other objective bases.

Advertising Costs

Advertising costs are charged to expense as incurred. Advertising expense for the years ended December 31, 2018 and 2017, was \$16,271 and \$17,268, respectively.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In accordance with generally accepted accounting principles, the Organization accounts for uncertain tax positions, if any, as required.

Adoption of FASB ASU No. 2016-14

The Organization adopted FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. Under the new ASU, the previously existing three-category classification of net assets (i.e. unrestricted, temporarily restricted, and permanently restricted) is replaced with a model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." Differences in the nature of donor restrictions will be disclosed in the notes, with an emphasis on how and when the resources can be used. The guidance for classifying deficiencies in endowment funds ("underwater endowments") and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Note 13 discloses the extent to which the balance sheet comprises financial assets, the extent to which those assets can be converted to cash within one year, and any limitations that would preclude their current use. This standard is effective for fiscal years beginning after December 15, 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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. Accordingly, actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition through May 30, 2019, the date the financial statements were available to be issued.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 - PROGRAM SERVICES

The Organization offers the following program services:

Community Release Program

The Organization serves as a court-appointed pretrial services agency for Berks County, furnishing information relating to the defendants' pretrial risk to the court, and providing supervised release for defendants in lieu of incarceration. The Organization also provides personnel and support for the Berks County Treatment Courts.

Reentry Program

The Organization provides case management, employment preparation, job search assistance, and assistance obtaining housing to individuals returning to the community from jail or prison. The program also provides appropriate referrals to community-based programs and services and works closely with the county jail, the Department of Corrections, the Pennsylvania Board of Probation and Parole, as well as stakeholders in the Berks County criminal justice system to coordinate delivery of services. In 2018, the Organization started providing mentoring services to individuals in the State Correctional Institutions or on State Parole.

Department of Labor (DOL)

In 2017, the Organization was awarded a Reentry Training Grant from the U.S. Department of Labor to provide a training program entitled Rebuilding Reentrants and Reading. The program offers an opportunity for individuals with a criminal history to acquire skills in the construction trades. The Organization is partnering with Habitat for Humanity Berks County (HFHBC) and the Reading Muhlenberg Career and Technology Center (RMCTC) to provide the three components of the training; career and technical education at RMCTC, hands on learning on site at HFHBC properties and an employment focused cognitive curriculum delivered by the Organization's staff.

Other:

Emergency Solutions Grant (ESG)

The Organization provides assistance in obtaining housing, as well as case management services, budget counseling, and tenant education to Community Reentry Center residents and recent reentrants.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 3 - LONG-TERM INVESTMENTS

Market values, cost, and unrealized appreciation of long-term investments at December 31 are summarized below:

	2018		2017	
	Market Value	Cost	Market Value	Cost
Cash and equivalents	\$ 5,568	\$ 5,568	\$ 16,070	\$ 16,070
Marketable equity securities	-	-	149,392	121,370
Fixed income	-	-	74,517	74,637
Mutual funds	215,131	240,070	-	-
	<u>\$ 220,699</u>	<u>\$ 245,638</u>	<u>\$ 239,979</u>	<u>\$ 212,077</u>

Investment return at December 31 is as follows:

	2018	2017
Unrestricted:		
Interest and dividend income	\$ 4,815	\$ 8,766
Realized gain on investments	3,832	10,406
Unrealized gain (loss) on investments	(25,080)	15,454
Fees	(2,703)	(1,967)
	<u>\$ (19,136)</u>	<u>\$ 32,659</u>

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 4 - LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Assets are being depreciated over their remaining useful lives using the straight-line method. A summary of leasehold improvements and equipment is as follows for the years ended December 31:

	2017	Additions	Deletions	2018
Leasehold improvements	\$ 39,742	\$ -	\$ -	\$ 39,742
Office furniture and equipment	149,356	8,873	-	158,229
Vehicles	27,913	-	-	27,913
	<u>217,011</u>	<u>8,873</u>	<u>-</u>	<u>225,884</u>
Less: accumulated depreciation	<u>(73,306)</u>	<u>(26,279)</u>	<u>-</u>	<u>(99,585)</u>
	<u>\$ 143,705</u>	<u>\$ (17,406)</u>	<u>\$ -</u>	<u>\$ 126,299</u>
	2016	Additions	Deletions	2017
Leasehold improvements	\$ -	\$ 39,742	\$ -	\$ 39,742
Office furniture and equipment	71,430	77,926	-	149,356
Vehicles	-	27,913	-	27,913
	<u>71,430</u>	<u>145,581</u>	<u>-</u>	<u>217,011</u>
Less: accumulated depreciation	<u>(60,732)</u>	<u>(12,574)</u>	<u>-</u>	<u>(73,306)</u>
	<u>\$ 10,698</u>	<u>\$ 133,007</u>	<u>\$ -</u>	<u>\$ 143,705</u>

NOTE 5 - LINE OF CREDIT

In January 2017, the Organization opened a \$125,000 available line of credit with a bank to be drawn upon as needed with interest at 0.25% above the prime rate (5.83% - 2018 and 4.50% - 2017). The line of credit is available until January 2022 and is secured with the assets of the Organization. As of December 31, 2018 and 2017, the balance was \$125,000 and \$40,000, respectively. As of May 30, 2019, \$20,000 has been paid back on the line of credit reducing the outstanding balance to \$105,000.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 - SUMMARY OF GRANT/CONTRACT FUNDING

The operation of the Organization is dependent upon the fees received from the County of Berks and grants received from federal, state, and local agencies, as well as donations and grants from various organizations and individuals. A significant reduction in the level of this support would have a material effect on the Organization's programs and activities.

The federal and state grants received by the Organization are subject to audit by oversight agencies. As of the date of this report, management is unaware of any material adjustments that will be required as a result of such audits.

The Organization received funding through the following grants and contracts for the years ended December 31:

	2018	2017
County of Berks Emergency Solutions Grant	\$ 10,000	\$ 39,500
County of Berks Offender Community Reentry Grant	115,627	162,766
Service Access Management Mental Health Diversion Program Grant	-	4,991
Department of Labor	490,880	206,769
Council on Chemical Abuse Treatment Court Employment Specialist Grant	7,018	10,017
Department of Corrections Workforce Development	639,772	670,919
Department of Corrections Reentry Rent	31,387	29,244
Pennsylvania Commission on Crime & Delinquency	170,651	-
	<u>\$ 1,465,335</u>	<u>\$ 1,124,206</u>

The Organization is currently under a three year contract extension (2017-2019) with the County of Berks. Total compensation per the contract was reduced by an annual rent-reduced provision.

Future contract funding due is as follows for the years ending December 31:

	Installment Funding	Rent Withheld from Funding	Total Funding
2019	<u>\$ 627,457</u>	<u>\$ 2,944</u>	<u>\$ 630,401</u>

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 7 - LEASES

The Organization has a lease with the County of Berks to lease the 16th floor of the Courthouse and elected to renew the lease for a four-year period, beginning in January 2013 and expiring in December 2016. The lease was renewed for an additional three-year period, beginning in January 2017 and expiring in December 2019. The contract with the County of Berks, described in Note 6, reduces total funding by office rent through December 2019. The renewal increased monthly rent each year at the same rate of increase as the county funding. The monthly rent was \$957 and \$939 for the years ended December 31, 2018 and 2017, respectively. In April 2019, the lease was terminated as the Organization moved its office.

The Organization entered into a lease agreement for additional office space commencing on August 1, 2017, through June 30, 2022. The monthly rental payments are \$4,415 and will increase annually at the lesser of the Consumer Price Index or 2.5%. Utilities are included in the lease cost. The lease has the option to renew for two additional terms of three years each. In April 2019, a lease amendment was signed to lease additional office space commencing on April 1, 2019. The monthly rental payments are \$5,903 and will increase annually at the lesser of the Consumer Price Index or 2.5%. The other terms of the original lease remain in place.

The Organization entered into a lease for equipment effective April 2016 for four years. Total monthly payments are \$241, with an annual rate increase of 10% each year.

The Organization entered into a lease for a vehicle effective September 2017 through February 2020. Total monthly payments are \$919, which were paid in advance through December 2019. The remaining balance of \$1,707 is due in February 2020 along with a residual buyout of \$3, as the Organization is keeping the vehicle at the end of the lease term.

Future minimum payments under operating leases at December 31 are as follows:

2019	\$	74,108
2020		75,645
2021		75,047
2022		38,144

Total rent expense for the years ended December 31, 2018 and 2017, was \$73,486 and \$41,639, respectively.

NOTE 8 - RETIREMENT PLAN

The Organization has a 401(k) defined contribution plan (the "Plan") for eligible employees. Employees voluntarily make contributions to the Plan in amounts based upon limits established by Sections 402(g) and 414(v) of the Internal Revenue Code. The Plan provides for an employer match of 50% of elective deferrals, not to exceed 4% of compensation. The employer match was \$17,079 and \$10,733 for the years ended December 31, 2018 and 2017, respectively.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 - NET ASSETS WITH DONOR RESTRICTION

The Organization has net assets with donor restriction of \$0 and \$15,000 at December 31, 2018 and 2017, respectively. These funds were restricted by the donor for re-entry programs occurring in 2018.

Net assets released from donor restrictions during the years ended December 31, 2018 and 2017, were \$15,000 and \$0, respectively, and were restricted for re-entry programs.

NOTE 10 - SPECIAL EVENTS

Special event revenues and expenses are summarized as follows as of December:

	2018			2017		
	Revenues	Expenses	Net	Revenues	Expenses	Net
Annual breakfast	\$ 24,981	\$ 8,785	\$ 16,196	\$ 22,244	\$ 10,286	\$ 11,958

NOTE 11 - UNEMPLOYMENT SAVINGS PROGRAM AND RESERVE ACCOUNT

The Organization is a member, along with other organizations, of an Unemployment Savings Program in which the Organization uses the reimbursable method of financing Pennsylvania Unemployment Compensation coverage. The Organization makes quarterly contributions into the Program for estimated benefit charges, reserves, and administrative costs, which are maintained in a custodial account and recorded as an asset on the Organization's books. The Organization's actual unemployment claims are paid from this account, with the provision that any claims in excess of the Organization's deposit and reserve amounts must be repaid over a three-year period maximum. Stop loss insurance covers claims in excess of the attachment point of \$25,000 to \$75,000, without reimbursement required from the Organization. Claims in excess of \$75,000 must be repaid in the same manner paid as claims up to the attachment point. Contributions were \$3,590 and \$6,853 for December 31, 2018 and 2017, respectively. The balance of the unemployment reserve account at December 31, 2018 and 2017, was \$21,952 and \$17,740, respectively.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 12 - FAIR VALUE MEASUREMENTS

The Organization, in accordance with generally accepted accounting principles, has applied fair value measurement and disclosure in these financial statements as follows:

That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Long-term investments:

First Allied holds the investments of Berks Connections/Pretrial Services in accordance with the investment policy of the Organization. The policy allows for up to 75% of the reserves to be deposited in the investment account which can be made up of equity securities, corporate bond securities, and government bond securities. The investments are valued at the quoted market price for shares held at year end.

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 12 - FAIR VALUE MEASUREMENTS - CONTINUED

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31:

	2018			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	<u>\$ 215,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,131</u>
	2017			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 149,392	\$ -	\$ -	\$ 149,392
Fixed income mutual funds	<u>74,517</u>	<u>-</u>	<u>-</u>	<u>74,517</u>
Total	<u>\$ 223,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 223,909</u>

NOTE 13 - AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Organization's financial assets as of December 31, 2018, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions and financial liabilities due within one year. The Center's financial assets include cash, receivables, and investments. To help manage liquidity needs, the Organization has a committed line of credit totaling \$125,000, which it could draw upon.

	2018
Cash	\$ 118,216
Accounts receivable	350
Grants receivable	170,614
Investments	<u>220,699</u>
Total financial assets available	509,879
Plus:	
Line of credit to meet cash needs within one year	125,000
Outstanding balance on line of credit	<u>(125,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 509,879</u>

BERKS CONNECTIONS/PRETRIAL SERVICES

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 14 - NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-14 which defers the effective date of ASU No. 2014-09 one year, making it effective for fiscal years beginning after December 15, 2018. The Organization is evaluating the impact of this standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under this guidance, lessees will need to recognize the following for all leases (with the exception of leases with a term of twelve months or less) at the commencement date: (a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The guidance requires a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expire before the earliest comparative period presented. A full retrospective transition approach is not permitted. This standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Organization is evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The new ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 clarifies that benefits received by the general public is not the same as the resource provider receiving that benefit and that the execution of the resource provider's mission does not equate to commensurate value. The ASU also provides guidance for distinguishing between condition and unconditional contributions. A conditional contribution must have (1) a barrier that must be overcome AND (2) a right of return or release of the donor obligation. Conditional contributions received are accounted for as a liability, while conditional pledges are unrecognized. In each instance, when the barriers to entitlement are overcome, the related revenue is recognized and classified in the appropriate net asset class. The effective date is for fiscal years beginning after December 15, 2018, with early implementation permitted. The Organization is evaluating the impact of this standard on the financial statements.

SUPPLEMENTARY INFORMATION

BERKS CONNECTIONS/PRETRIAL SERVICES

SCHEDULE OF REVENUES AND EXPENSES - PCCD

Year Ended December 31, 2018

	Substance Abuse Curriculum for State Offenders 2017-SE-01-28311*	Working Towards Change 2017-JG-LS-28458*
REVENUES		
Grant income	\$ 146,674	\$ 23,978
EXPENSES		
Personnel	109,488	20,585
Employee benefits	13,373	2,878
Travel	10,063	515
Consultants	13,750	-
TOTAL EXPENSES	<u>146,674</u>	<u>23,978</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

* Reference number per grant contract

**INDEPENDENT AUDITOR'S 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 Directors
Berks Connections/Pretrial Services
Reading, Pennsylvania**

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 the Berks Connections/Pretrial Services (the "Organization"), a nonprofit organization, which comprise the statements of financial position as of December 31, 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 May 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 Organization'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 the Organization's 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Herbein + Company, Inc.

Reading, Pennsylvania
May 30, 2019