

New Jersey Reentry Corporation

Financial Report and Supplementary
Information to Conform With
New Jersey OMB Circular 15-08
June 30, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
New Jersey Reentry Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of New Jersey Reentry Corporation, which comprise the statement of financial position as of June 30, 2019, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Jersey Reentry Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, New Jersey Reentry Corporation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets and disclosures relating to net assets. Our opinion is not modified with respect to this matter.

As discussed in Note 9 to the financial statements, the 2019 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance, as required by New Jersey OMB Circular 15-08 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 June 30, 2020 on our consideration of New Jersey Reentry Corporation'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 covering the entity's fiscal year ended June 30, 2019. The purpose of that report is solely 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 the effectiveness of New Jersey Reentry Corporation'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 New Jersey Reentry Corporation's internal control over financial reporting and compliance.

RSM US LLP

Metro Park, New Jersey
June 30, 2020

New Jersey Reentry Corporation

**Statement of Financial Position
June 30, 2019**

Assets

Current assets:

Cash	\$	642,480
Grants receivable		243,064
Prepaid expenses		<u>277,230</u>
Total current assets		<u><u>1,162,774</u></u>

Noncurrent assets:

Furniture and equipment, net		196,223
Security deposits		<u>39,394</u>
Total noncurrent assets		<u><u>235,617</u></u>

Total assets	\$	<u><u>1,398,391</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued expenses	\$	188,670
Deferred revenue		<u>396,029</u>
Total current liabilities		<u><u>584,699</u></u>

Net assets:

Without donor restrictions		<u>813,692</u>
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Total liabilities and net assets	\$	<u><u>1,398,391</u></u>
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See notes to financial statements.

New Jersey Reentry Corporation

**Statement of Activities
Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:			
State Financial Assistance	\$ -	\$ 5,530,137	\$ 5,530,137
Contributions	58,323	-	58,323
Net assets released from restriction	5,530,137	(5,530,137)	-
Total revenues	5,588,460	-	5,588,460
Expenses:			
Program services	5,113,414	-	5,113,414
Management and general	681,873	-	681,873
Total expenses	5,795,287	-	5,795,287
Change in net assets	(206,827)	-	(206,827)
Net assets, beginning of year (as restated)	1,020,519	-	1,020,519
Net assets, end of year	\$ 813,692	\$ -	\$ 813,692

See notes to financial statements.

New Jersey Reentry Corporation

**Statement of Functional Expenses
Year Ended June 30, 2019**

	Total Programs Services	Management and General	Total
Salaries	\$ 2,846,852	\$ 464,627	\$ 3,311,479
Payroll taxes	187,906	28,070	215,976
Employee benefits	253,224	44,888	298,112
Total salaries and benefits	3,287,982	537,585	3,825,567
Rent expense	525,738	56,815	582,553
Program transportation	143,235	-	143,235
Participant cost	352,789	-	352,789
Depreciation	113,193	15,059	128,252
Facility operating costs	94,921	9,358	104,279
Computer expense	85,802	8,106	93,908
Technical services	19,571	2,659	22,230
Supplies	51,193	9,153	60,346
Consultants	91,080	5,133	96,213
Communication	63,838	8,374	72,212
Insurance	62,634	6,756	69,390
Printing and publication	55,130	6,698	61,828
Professional services	38,623	6,107	44,730
Office furniture and equipment	42,254	3,705	45,959
Maintenance and repairs	28,084	1,738	29,822
Utilities	30,132	4,048	34,180
Meetings and conferences	19,882	187	20,069
Travel	4,832	301	5,133
Miscellaneous	2,501	91	2,592
Total expenses	\$ 5,113,414	\$ 681,873	\$ 5,795,287

See notes to financial statements.

New Jersey Reentry Corporation

Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ (206,827)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	128,252
Changes in assets and liabilities:	
Decrease in grants receivable	232,444
Increase in prepaid expenses	(10,523)
Increase in payables and accrued expenses	43,501
Increase in deferred revenue	16,305
Net cash provided by operating activities	<u>203,152</u>
Cash flows used in investing activities:	
Purchases of furniture and equipment	<u>(40,741)</u>
Net increase in cash	162,411
Cash:	
Beginning of year	<u>480,069</u>
End of year	<u>\$ 642,480</u>

See notes to financial statements.

New Jersey Reentry Corporation

Notes to Financial Statements

Note 1. Nature of Activities

The New Jersey Reentry Corporation (NJRC), a nonprofit corporation, is designed to provide critical services for those persons who have been court-involved. Its purpose is to enroll and provide services, including addiction treatment, sober transitional housing, and training and employment, linkage to health care services, motor vehicle identification and legal support, for individuals with a diagnosed mental health and/or substance use disorder, who have been arrested, incarcerated and sentenced through the judicial system.

Description of program and supporting services:

The following program and supporting services are included in the accompanying financial statements:

One-stop offender re-entry services: The program is designed to help communities develop and implement comprehensive and collaborative strategies that address the challenges posed by offender reentry and recidivism reduction. The program provides rapid risk/needs assessment, pre-release services, linkage to entitlement and services prior to release, post-release services, ongoing assessment, case management, and implementation of data collection and analysis strategies to better understand the population and impact of the program.

Management and general: Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the NJRC's program strategy, secure proper administrative functioning of the Board of Directors, maintain competent legal services for the program administration, and manage the financial and budgetary responsibilities of the NJRC.

Note 2. Summary of Significant Accounting Policies

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 (U.S. GAAP).

Cash and cash equivalents: For financial statement purposes, NJRC considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Grants receivable: Grants receivable are stated at the amount management expects to be reimbursed by federal or state funding agencies. Based on analysis of historical collections, no allowance for doubtful accounts was deemed necessary as of June 30, 2019.

Furniture and equipment: NJRC capitalizes all expenditures for property and equipment in excess of \$5,000. Furniture and equipment are carried at cost. Depreciation is computed using the straight-line basis over the estimated useful life of the asset.

Revenue recognition: Unconditional contributions are recognized when received. Grants and contract awards from federal and state agencies are recognized as the related expenses are incurred or specified contract benchmarks are fulfilled by NJRC. Amounts received from grants which have not yet been earned under the terms of the agreement are recorded as deferred revenue in the accompanying financial statements. When a donor or sponsor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

New Jersey Reentry Corporation

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Net assets: Net assets, revenues, gains and losses are classified based on the existence and or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. There were no net assets with donor restrictions as of June 30, 2019.

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income tax status: NJRC is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. In addition, NJRC qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(2). NJRC is also exempt from state and local taxes. NJRC is subject to unrelated business income tax (UBIT), if applicable. For the tax year ended June 30, 2019, NJRC did not owe any UBIT.

Management has evaluated NJRC's tax positions for all open tax years and has concluded that they have taken no uncertain tax positions that would require adjustment or disclosure to the accompanying financial statements.

Use of estimates: The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

Risks and uncertainties: NJRC maintains its cash balances in one financial institution located in Jersey City, New Jersey. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. NJRC's uninsured cash balances totaled \$392,480 at June 30, 2019. NJRC has not experienced any losses in such accounts.

Recently adopted accounting pronouncement: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. NJRC has adopted this ASU in the year ended June 30, 2019. The impact to the financial statements include a change in the net asset classification from unrestricted, temporarily restricted, and permanently restricted to with donor restrictions and without donor restrictions, additional disclosure on liquidity analysis (see Note 3) and an expanded disclosure on the functional expense allocation (see Note 9).

New Jersey Reentry Corporation

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Recent accounting pronouncements: In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide the interim disclosures required by Accounting Standard Codification (ASC) 250-10-50-3 in the fiscal year in which a company adopts the new leases standard. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) Effective Dates for Certain Entities*, which defers the effective date of ASU 2016-02 for NJRC to fiscal years beginning after December 15, 2021. Early adoption is permitted. NJRC is currently evaluating the impact of pending adoption of the new standard on the financial statements.

In August 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The guidance in this ASU clarifies how a not-for-profit organization determines whether a resource provider is participating in an exchange transaction. The new standard is effective for annual reporting periods beginning after December 15, 2018. NJRC does not expect there to be a significant impact on the financial statements for the adoption of the new standard.

Subsequent events: NJRC evaluated subsequent events occurring after June 30, 2019, to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation was performed through June 30, 2020, the date the financial statements were available to be issued.

Note 3. Liquidity and Availability of Resources

NJRC prepares detailed budgets to plan financial resources available to run the organization every fiscal year. The strategic plan of NJRC aligns with the budget to maximize the limited resources of the organization. Cash balances are monitored regularly, and reimbursements are requested from grantors regularly to ensure NJRC maintains sufficient funds to meet obligations as they are due.

The following represents NJRC's available financial assets as of June 30, 2019, to meet general expenditures over the next 12 months.

Cash	\$ 642,480
Contributions receivable	243,064
Total financial assets at June 30, 2019	<u>\$ 885,544</u>

Note 4. Furniture and Equipment

Furniture and equipment for the year ended June 30, 2019, is as follows:

Furniture and equipment:	
Office furniture and equipment	\$ 428,159
Transportation equipment	24,800
Total furniture and equipment	<u>452,959</u>
Less accumulated depreciation	(256,736)
Total furniture and equipment, net	<u>\$ 196,223</u>

New Jersey Reentry Corporation

Notes to Financial Statements

Note 4. Furniture and Equipment (Continued)

Depreciation on furniture and equipment has been computed on a straight-line basis over estimated useful lives as follows:

	<u>Years</u>
Office furniture and equipment	3
Transportation equipment	5

Depreciation expense was \$128,252 for the year ended June 30, 2019.

Note 5. Contracts With Affiliates

On November 23, 2015, NJRC entered into an agreement with the Greater Newark Conservancy, a New Jersey nonprofit, to be the sole substance/mental health treatment provider at Integrity House, Inc. in connection with the One-Stop Offender Re-entry Services grant. This agreement was modified on May 11, 2016, to increase the funding allocation for the affiliate. During fiscal year 2019, NJRC reimbursed approximately \$325,000 to Newark Conservancy in accordance with the agreement.

On December 9, 2015, NJRC entered into a contract with the Jersey City Employment and Training Program, Inc. to provide administrative and program services in connection with the One-Stop Offender Re-entry Services grant. Under the terms of the contract, NJRC will reimburse Jersey City Employment and Training Program, Inc. for a percentage of costs related to administrative and program services. During fiscal year 2019, NJRC reimbursed approximately \$201,000 to Jersey City Employment and Training Program, Inc. in accordance with the agreement. On January 7, 2019, the relationship was terminated by a board resolution of Jersey City Employment and Training Program, Inc.

Note 6. Operating Leases

On January 10, 2016, NJRC entered into a one-year sub-lease agreement with the option to cancel the lease at the end of each year, with an expiration date of December 31, 2018, with William H. Butler Help Center Inc., a nonprofit corporation, commencing upon completion of renovations as determined by the sub-lease located at 147 Montgomery Street, Paterson, New Jersey for the entire second and third floor Grace Gospel Church of Paterson, Inc.

On February 23, 2016, NJRC entered into a five-year lease for office space located at 310 Main Street, Toms River, New Jersey to provide services in connection with the One-Stop Offender Re-entry Services grant.

On November 16, 2016, NJRC entered into a five-year lease for office space located at 9 Basin Drive Unit 190, Kearny, New Jersey in connection with the Community Resource Center grant.

On December 22, 2016, NJRC entered into a five-year lease for office space located at 66 Hamilton Avenue Units 201, 202, 203, and 205, Patterson, New Jersey in connection with the One-Stop Offender Re-entry Services grant.

On October 10, 2017, NJRC entered into a five-year lease for office space located at 57 Livingston Avenue, New Brunswick, New Jersey to operate and provide services in connection with the One-Stop Offender Re-entry Services grant.

New Jersey Reentry Corporation

Notes to Financial Statements

Note 6. Operating Leases (Continued)

On November 6, 2017, NJRC entered into a five-year lease for office space located at 208-214 Commerce Place Elizabeth, New Jersey to operate and provide services in connection with the One-Stop Offender Re-entry Services grant.

On November 30, 2017, NJRC entered into a five-year lease for office space located at 39 Hudson Street, Hackensack, New Jersey to operate and provide services in connection with the One-Stop Offender Re-entry Services grant.

On January 23, 2018, NJRC entered into a five-year lease for office space located at 72 Morris Avenue Neptune City, New Jersey to operate and provide services in connection with the One-Stop Offender Re-entry Services grant.

NJRC recognized rent expense in the amount of \$582,553 for the year ended June 30, 2019. Prepaid rent balances for the year ended June 30, 2019, totaled \$228,581.

NJRC will be obligated to pay future minimum lease payments under the term of the leases as follows:

Years ending June 30:	
2020	\$ 494,717
2021	441,643
2022	347,154
2023	124,715
	<u>\$ 1,408,229</u>

NJRC has several noncancelable operating leases, primarily for office copiers and vehicles, with expiration periods from two to three years. Rental expense for those leases consisted of \$48,874 for the year ended June 30, 2019.

NJRC will be obligated to pay future minimum lease payments under the term of the leases as follows:

Years ending June 30:	
2020	\$ 40,912
2021	30,820
2022	5,916
	<u>\$ 77,648</u>

Note 7. Contingencies

NJRC receives its support from the state of New Jersey, Department of Community Affairs, New Jersey Department of Labor and New Jersey State Parole Board. A significant reduction in the level of this support may have an effect on the NJRC's programs. Grants require the fulfillment of certain conditions as set forth in the grant agreement. Failure to fulfill the conditions could result in the return of the funds to grantors. Although that is a possibility, management deems the contingency remote, since by accepting grants and their terms it has accommodated the objectives of the organization to the provisions of the grant.

New Jersey Reentry Corporation

Notes to Financial Statements

Note 8. Functional Allocation of Expenses

Certain expenses are attributable to more than one program or supporting function. Payroll taxes and employee benefits are allocated consistently based on approved budgets and salary allocations. The following expenses are allocated consistently based on salary expenses. Salary expense allocation is supported by the employees' timesheets.

- Occupancy costs
- Supplies, postage, printing, and communication expenses
- Insurance
- Professional service costs
- Depreciation expense

Note 9. Restatement of Opening Net Assets

NJRC's financial statements as of June 30, 2018 contained an error which understated deferred revenue and therefore overstated revenue and changes in net assets by \$185,787. Net assets as of July 1, 2018, have been reduced by \$185,787 to correct the effect of the error.

The following illustrates the correction of the error as shown on NJRC's statement of financial position for the year ended June 30, 2019:

Net assets at July 1, 2018, as previously reported	\$ 1,206,306
Prior period adjustment	<u>(185,787)</u>
Net assets at July 1, 2018, as restated	1,020,519
Change in net assets	<u>(206,827)</u>
Net assets at June 30, 2019	<u><u>\$ 813,692</u></u>

Note 10. Subsequent Events

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a Public Health Emergency of International Concern and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which NJRC operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. The extent of the impact of COVID-19 on NJRC's future operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, and is uncertain and cannot be determined at this time.

In April 2020, NJRC received approximately \$648,000 in funding from the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP) established by the CARES Act. The loan, or a portion thereof, is eligible for forgiveness by the SBA if the qualifying entity meets certain conditions. Whether an entity qualifies for a PPP loan, and whether it meets the necessary conditions for forgiveness, requires careful consideration of the PPP requirements and the individual entity's facts and circumstances. NJRC has not been forgiven for any portion of the loan as of June 30, 2020. The loan will be accounted for in accordance with ASC Subtopic 958-605 as a conditional contribution, in line with FASB guidance for treatment of PPP loans made to nonprofit entities where loan forgiveness is expected.

New Jersey Reentry Corporation

Notes to Financial Statements

Note 10. Subsequent Events (Continued)

On April 1, 2020, NJRC entered into a five-year lease for office space located at 936-938 Bergen Street, Newark, New Jersey in connection with the One-Stop Offender Re-entry Services Grant. The base rent under the new lease is \$84,000, escalating 3% per year after the first two years.

On May 4, 2020, NJRC entered into an agreement with Principal Financial Group to start a new 401(k) plan for its employees, effective beginning July 1, 2020.

**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***

Board of Directors
New Jersey Reentry Corporation

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 New Jersey Reentry Corporation (NJRC), which comprise the statement of financial position as of June 30, 2019, 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 June 30, 2020. Our report contained emphasis of matter paragraphs for the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and for the restatement of opening net assets in the 2019 financial statements to correct a misstatement.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NJRC'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 NJRC 's internal control. Accordingly, we do not express an opinion on the effectiveness of NJRC'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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NJRC'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*.

NJRC's Response to Findings

NJRC's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. NJRC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Metro Park, New Jersey
June 30, 2020

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by New Jersey OMB Circular 15-08

Board of Directors
New Jersey Reentry Corporation

Report on Compliance for Each Major Federal Program

We have audited New Jersey Reentry Corporation's (NJRC) compliance with the types of compliance requirements described in the State Grant Compliance Supplement that could have a direct and material effect on each of NJRC's major state programs for the year ended June 30, 2019. NJRC's major state 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 state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NJRC's major state 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 New Jersey OMB Circular 15-08 (Circular 15-08). Those standards and Circular 15-08 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 state program occurred. An audit includes examining, on a test basis, evidence about NJRC's 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 state program. However, our audit does not provide a legal determination of NJRC's compliance with those requirements.

Opinion on Each Major State Program

In our opinion, NJRC 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 state programs for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with Circular 15-08 and which are described in the accompanying schedule of findings and questioned costs as items 2019-005, 2019-006 and 2019-007. Our opinion on each major state program is not modified with respect to these matters.

NJRC's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NJRC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of NJRC 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 NJRC's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with Circular 15-08, 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 NJRC's 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 state 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 state 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 state 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2019-002, 2019-003 and 2019-004 that we consider to be significant deficiencies.

NJRC's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. NJRC's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 Circular 15-08. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Metro Park, New Jersey
June 30, 2020

New Jersey Reentry Corporation

**Schedule of Expenditures of State Financial Assistance
Year Ended June 30, 2019**

State of New Jersey Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Account Number	Award Amount	Grant Period		June 30, 2019 Expenditures	Cumulative Expenditures
			From	To		
New Jersey Department of Community Affairs:						
One-Stop Offender Re-entry Services	2019-05161-0371-00	\$ 4,000,000	11/01/18	10/31/19	\$ 1,608,554	\$ 1,608,554
One-Stop Offender Re-entry Services	2018-05161-0049-00	4,000,000	09/01/17	01/31/19	2,341,751	4,000,000
One-Stop Offender Re-entry Services	2017-05161-0139-00	2,500,000	10/01/16	06/30/18	9,646	2,500,000
Total N.J. Department of Community Affairs					<u>3,959,951</u>	<u>8,108,554</u>
New Jersey Department of Labor and Workforce Development:						
NJBUILD Regional	NJBR-1804	275,100	05/01/18	08/31/19	220,739	222,365
NJBUILD Regional	NJBR-1802	290,800	05/01/18	08/31/19	209,503	216,130
NJBUILD Regional	NJBR-1803	276,681	05/01/18	08/31/19	202,996	204,622
Total N.J. Department of Labor and Workforce Development					<u>633,238</u>	<u>643,117</u>
New Jersey State Parole Board:						
Community Resource Center	N/A	4,275,000	09/01/15	09/30/20	611,696	1,537,505
Total N.J. Parole Board					<u>611,696</u>	<u>1,537,505</u>
Total state financial assistance					<u>\$ 5,204,885</u>	<u>\$ 10,289,176</u>

N/A – information not available

See notes to schedule of expenditures of state financial assistance.

New Jersey Reentry Corporation

Notes to Schedule of Expenditures of State Financial Assistance Year Ended June 30, 2019

Note 1. Basis of Presentation

The Schedule of Expenditures of State Financial Assistance (SESFA) includes the state grant activity of New Jersey Reentry Corporation under programs of the state government for the year ended June 30, 2019. The information on this schedule is presented in accordance with the requirements of the State of New Jersey Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. All state awards received from state agencies, as well as state financial assistance passed through other governmental agencies are included on this schedule.

Note 2. Summary of Significant Accounting Policies

The accompanying SESFA is presented on the accrual basis of accounting. This basis of accounting is described in Note 1 to the financial statements. The information in this schedule is presented in accordance with the requirements of the State of New Jersey Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 3. Relationship to State Reporting

Amounts reported in the accompanying schedules agree with the amounts reported in the related state financial reports.

Note 4. Reconciliation to U.S. GAAP Financial Statements

Amounts reported in the accompanying schedules differ from revenue recognized within the U.S. GAAP financial statements due to reconciling items which are deemed expenditures of state awards but not recognizable under U.S. GAAP. The following is a reconciliation of expenditures reported in the accompanying schedules to the revenue recognized per the U.S. GAAP financial statements for the year ended June 30, 2019.

Expenditures reported in SESFA	<u>\$ 5,204,885</u>
Reconciling items:	
Excess unrestricted funding – Parole Board	178,718
Federal pass-through funds excluded from SESFA	<u>146,534</u>
	<u>325,252</u>
Governmental grant revenue recognized	<u><u>\$ 5,530,137</u></u>

New Jersey Reentry Corporation

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019**

Section II. Financial Statement Findings

A. Internal Control Over Financial Reporting

2019-001 – Revenue Recognition

Criteria: New Jersey Reentry Corporation (NJRC) is required to prepay one year of rent for five of its leases. Rent is an allowable cost under the state programs that NJRC administers. For purposes of the schedule of expenditures of state financial assistance (SESFA), an expenditure should not be reported until the activity related to the state award occurs (i.e. the period in which the expense has been incurred). Further, for revenue recognition in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America, there is no earned state aid revenue until the underlying allowable cost has been incurred.

Condition: NJRC had previously recognized the cash outlay for prepaid rent as an expenditure in the SESFA and had also recognized state aid revenue in the financial statements in advance of incurring the monthly rent expense.

Cause: NJRC received prior accounting advice to mirror the financial statements to the SESFA expenditures, and to include prepaid rent in these figures.

Effect: In the 2018 financial statements, approximately \$186,000 of prepaid items had been appropriately recognized as prepaid expenses, but had also been (erroneously) recognized as state aid revenue. This has been corrected in the 2019 financial statements as a restatement of opening net assets. The 2019 financial statements have further been adjusted for approximately \$259,000 of prepaid items that had been erroneously recognized as state aid revenue in 2019. When the rent is incurred during FY 2020, it will be recognized as revenue at that time.

Recommendation: We recommend that management implement a reconciliation process to ensure revenue is properly recognized in the correct period and that the SESFA includes expenditures based on when the activity related to the state award occurs. The period when the rent is incurred (over the life of the lease agreement) is the period the activity occurs.

Views of responsible officials and planned corrective actions: The following procedures will be implemented to ensure that revenue is recognized in the correct period. The Chief Financial Officer will oversee an annual process to reconcile grant expenses to grant revenues for each fiscal year.

B. Compliance

None reported.

(Continued)

New Jersey Reentry Corporation

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019**

Section III. Findings and Questioned Costs for State Awards

A. Internal Control Over Compliance

2019-002 – Period of Performance

**New Jersey Department of Community Affairs
One-Stop Offender Re-entry Services
Grant 2017-05161-0139-00
October 1, 2016 – June 30, 2018**

Criteria: The recipient may charge only costs resulting from obligations made during the funding period to the award.

Condition: We noted expenditures in the amount of \$9,646 for rent expense were charged to grant 2017-05161-139-00 during the fiscal year ended June 30, 2019 although the grant period ended on June 30, 2018.

Cause: As noted in 2019-001, NJRC had recognized the cash outlay for prepaid rent as an expenditure in the SESFA, which has been corrected in the 2019 SESFA. The expenditures represent rent incurred in fiscal year 2019 which was paid in fiscal year 2018 (the period of the grant). Because of the types of leases that were in place, NJRC had to pay certain rent costs in advance and the source of funding for those rent payments was the state grant.

Effect: Costs were charged to the grant which were incurred outside of the grant period.

Questioned costs: The amount is below the reportable threshold of \$25,000.

Context: When performing procedures on management's reconciliation described in 2019-001, it was found that costs incurred in FY 2019 were paid for with funds received from grant 2017-05161-139-00. The grant period ended June 30, 2018 so all costs should have been incurred as of that date.

Recommendation: We recommend that management reconcile grant costs annually based on when the underlying expense is incurred.

Views of responsible officials and planned corrective actions: The following procedures will be implemented to ensure that revenue is recognized in the correct period. The Chief Financial Officer will oversee an annual process to reconcile grant expenses to grant revenues for each fiscal year.

(Continued)

New Jersey Reentry Corporation

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019**

Section III. Findings and Questioned Costs for State Awards (Continued)

2019-003 – Equipment and Real Property

**New Jersey Parole Board
Community Resource Center
Grant identifier: N/A
September 1, 2015 – September 30, 2020**

Criteria: Each piece of equipment purchased with grant funds shall be assigned a unique identification number tag, making it distinguishable from other equipment.

Condition: When performing a physical inspection of equipment at NJRC's Community Resource Center, we noted that certain pieces of furniture, primarily stackable chairs and tables used by clients, had not been tagged.

Cause: Stackable chairs and tables, which represent a homogeneous set of equipment, were not tagged and tracked as the total count of the items were known by management.

Effect: Lack of tagged equipment purchased using grant funds, which is integral to ensure that NJRC is following the requirements of the grant.

Questioned costs: None.

Context: We performed a physical inspection and count of tagged equipment at NJRC's Community Resource Center, selecting 20 items for testing. When performing floor to sheet procedures, it was found that certain equipment had not been tagged.

Recommendation: We recommend that management tags and tracks all pieces of equipment purchased with grant funds.

Views of responsible officials and planned corrective actions: The Community Resource Center Program Director will oversee the tagging of all purchased equipment.

2019-004 – Eligibility

**New Jersey Department of Labor and Workforce Development
New Jersey BUILD
NJBR-1804
May 1, 2018 – August 31, 2019**

Criteria: Complete files with all relevant paperwork should be maintained, indicating the case manager for the member, the start date of the program, and the list indicating that eligibility for admission to the program was met.

Condition: We noted for one of 13 eligibility selections that the relevant paperwork was not present in a member's file to support that the member possessed a high school diploma or High School Equivalency, as required per the grant agreement.

(Continued)

New Jersey Reentry Corporation

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019

Cause: Due to the move from NJRC's former affiliate, Jersey City Employment and Training Program, Inc., a member's file was misplaced and NJRC was unable to locate the related paperwork. Additionally, the case manager for the member's case is no longer employed by NJRC, which limits the ability to follow up on obtaining paperwork.

Effect: Lack of complete file to support eligibility for the program, which is critical to ensure that NJRC is following the requirements of the grant agreement.

Questioned costs: None.

Context: We obtained 13 member files for inspection, noting one with incomplete paperwork to support that the member possessed a high school diploma or High School Equivalency, as required per the grant agreement.

Recommendation: We recommend that management implements procedures to ensure all relevant paperwork is maintained in member files, including consideration of storing documents electronically.

Views of responsible officials and planned corrective actions: The Chief Financial Officer will oversee controls implemented to ensure that member files are complete, including evaluating the feasibility of storing documents electronically.

(Continued)

New Jersey Reentry Corporation

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2019**

Section III. Findings and Questioned Costs for State Awards (Continued)

B. Compliance

2019-005 – Period of Performance

**New Jersey Department of Community Affairs
One-Stop Offender Re-entry Services
Grant 2017-05161-0139-00
October 1, 2016 – June 30, 2018**

See 2019-002.

2019-006 – Equipment and Real Property

**New Jersey Parole Board
Community Resource Center
Grant identifier: N/A
September 1, 2015 – September 30, 2020**

See 2019-003.

2019-007 – Eligibility

**New Jersey Department of Labor and Workforce Development
New Jersey BUILD
NJBR-1804
May 1, 2018 – August 31, 2019**

See 2019-004.

New Jersey Reentry Corporation

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2019**

None.



June 30, 2020

NJRC CORRECTIVE ACTION PLAN

2019-001- Revenue Recognition

NJRC has receded from prior years of accounting advices received related to recognizing revenue of prepaid rent. Effective July 1, 2019, NJRC has corrected the issue of recognizing revenue in the month rent expenditures are incurred. To strengthen the process, NJRC has strengthen the process of reconciling prepaid rent against actual rent expenditures in order to recognize revenue in the month rent expenditures are incurred. Prepaid reconciliations prepared by the Accountant, Stephanie Robinson are reviewed and approved by the Chief Financial Officer, Deophister Uffer. Ms. Robinson may be contacted at srobinson@njreentry.org and Ms. Uffer may be contacted at duffer@njrreentry.org.

2019-002-Period of Performance

NJRC has implemented a reconciliation process for prepaid rents to make sure rent expenditures are recognized in the month they occur. To strengthen the company's cash flow and avoid this error from occurring again, NJRC will be working with landlords when leases are due for renewal and revise leases to pay rent on a monthly basis instead of paying rent in advance. The Chief Financial Officer, Deophister Uffer, will work with the Legal Counsel of NJRC during the renewal of all leases. Ms. Uffer may be contacted at duffer@njrreentry.org.

2019-003-Equipment and Real Property

Through the annual asset inventory conducted by NJRC, NJRC will make sure all chairs included in fixed assets are also tagged. This task shall be executed by the Chief Financial Officer, Deophister Uffer, in July 2020 and August 2020 in all eight locations of NJRC. Ms. Uffer may be contacted at duffer@njrreentry.org.

2019-004-Eligibility

NJRC implemented procedures of auditing client files in February 2020 to make sure the organization is in compliance with grantors/donors requirements. This was executed by hiring a Compliance Specialist whose tasks are to review/audit client files for eligibility requirements, audit training vendors, issuing compliance reports, and working with program staff on compliance issues related to managing grants. The Regional Program Director, Robert Carter and Grant Managers/Directors shall work hand in with the Compliance Specialist in July 2020 and August 2020 to make sure all client files are maintained. Mr. Carter may be contacted at rcarter@njreentry.org.



2019-005-Period of Performance

See 2019-002.

2019-006-Equipment and Real Property

See 2019-003.

2019-007-Eligibility

See 2019-004.