THE PUERTO RICAN ORGANIZATION TO MOTIVATE, ENLIGHTEN AND SERVE ADDICTS, INC.
(PROMESA)

Financial Statements
December 31, 2018 and 2017
With Independent Auditors' Reports

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
December 31, 2018 and 2017

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ADVISORY TAX AUDIT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA):

We have audited the accompanying financial statements of The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 PROMESA 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.

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Emphasis of Matter

As discussed in Note 1, in 2018, PROMESA adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information
Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records use to prepare the financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

WithumSmith+Brown, PC

September 30, 2019

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 10,628,396	$ 4,980,474
Cash - residents	236,183	218,880
Due from government agencies, net of allowance of approx. $1.6 million for each of the years ended 2018 and 2017	8,077,963	6,924,882
Due from related and affiliated organizations, net of allowance of approx $1.5 million for each of the years ended 2018 and 2017	19,153,558	12,540,449
Loan receivable - related party	936,898	905,896
Security deposits and other assets	200,603	154,358
Property and equipment - net	25,022,734	25,670,301
Total assets	$ 64,256,335	$ 51,395,240
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 4,072,174	$ 4,359,285
Accrued vacation	1,690,883	1,593,038
Due to residents	236,183	218,880
Grant advances	1,539,399	1,296,365
Due to related and affiliated organizations	3,216,109	3,574,725
Loan payable - related party	1,188,000	1,188,000
Reserve for potential contingencies	3,832,968	4,352,507
Mortgage loans payable, net of unamortized deferred costs	9,055,497	9,842,840
Total liabilities	24,831,213	26,425,640
Net assets without donor restrictions	39,425,122	24,969,600
Total liabilities and net assets	$ 64,256,335	$ 51,395,240

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues		
Government grants and contracts	$ 14,041,120	$ 12,664,123
Program service revenue	58,993,920	51,768,720
Rental income	2,495,949	2,554,151
Interest income	53,546	33,935
Other revenues	1,070,968	891,493
	76,655,503	67,912,422
Expenses		
Program services	58,481,097	57,462,319
Management and general	3,718,884	2,837,821
	62,199,981	60,300,140
Changes in net assets without donor restrictions	14,455,522	7,612,282
Net assets without donor restrictions - beginning of year	24,969,600	17,357,318
Net assets without donor restrictions - end of year	$ 39,425,122	$ 24,969,600

The Notes to Financial Statements are an integral part of these statements.

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018			2017		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	$ 29,429,196	$ --	$ 29,429,196	$ 26,623,298	$ --	$ 26,623,298
Payroll taxes and employee benefits	10,169,025	--	10,169,025	9,227,181	--	9,227,181
	39,598,221	--	39,598,221	35,850,479	--	35,850,479
Professional fees and contract service payments	6,292,157	3,402,595	9,694,752	6,360,132	2,557,540	8,917,672
Supplies	493,884	64,176	558,060	452,884	58,848	511,732
Telephone	143,526	61,512	205,038	131,999	56,572	188,571
Rent	3,890,996	--	3,890,996	4,013,628	--	4,013,628
Travel and transportation	276,035	--	276,035	319,640	--	319,640
Food	1,372,804	--	1,372,804	1,423,689	--	1,423,689
Repairs and maintenance	410,228	--	410,228	508,567	--	508,567
Equipment	403,678	27,859	431,537	360,782	24,898	385,680
Utilities	1,048,297	66,914	1,115,211	1,013,459	64,690	1,078,149
Insurance	775,323	95,828	871,151	609,018	75,273	684,291
Interest	572,869	--	572,869	406,738	--	406,738
Medical supplies	836,492	--	836,492	596,452	--	596,452
Depreciation	1,291,071	--	1,291,071	1,336,599	--	1,336,599
Miscellaneous	1,075,516	--	1,075,516	4,078,253	--	4,078,253
	$ 58,481,097	$ 3,718,884	$ 62,199,981	$ 57,462,319	$ 2,837,821	$ 60,300,140

The Notes to Financial Statements are an integral part of these statements.

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Changes in net assets without donor restrictions	$ 14,455,522	$ 7,612,282
Adjustments to reconcile changes in net assets without donor restrictions to net cash provided by operating activities		
Revenue recognized from third party repayment of mortgage loans payable	(725,504)	(290,861)
Depreciation and amortization	1,291,071	1,336,599
Interest expense	29,449	29,449
Change in		
Due to residents	17,303	(8,680)
Due from government agencies	(1,153,081)	(1,597,127)
Due from related and affiliated organizations	(6,613,109)	(3,537,011)
Security deposits and other assets	(46,245)	(1,081)
Accounts payable and accrued expenses	(287,111)	255,302
Accrued vacation	97,845	338,434
Residents cash	(17,303)	8,680
Grant advances	243,034	(1,193,969)
Change in reserve for potential contigencies	(519,539)	405,186
Net cash provided by operating activities	6,772,332	3,357,203
Cash flows from investing activities		
Purchases of property and equipment	(643,504)	(717,582)
Payment of deferred financing costs	--	(106,120)
Net cash used by investing activities	(643,504)	(823,702)
Cash flows from financing activities		
Payment of loans receivable - related party	(31,002)	(805,896)
Repayment of loans payable	--	(567,127)
Change in due to related and affiliated organizations	(358,616)	(419,814)
Repayment of mortgage loans payable	(91,288)	(289,067)
Net cash used by financing activities	(480,906)	(2,081,904)
Net change in cash	5,647,922	451,597
Cash		
Beginning of year	4,980,474	4,528,877
End of year	$ 10,628,396	$ 4,980,474
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 45,558	$ 58,364
Change in cash - residents	$ 17,303	$ (8,680)
Building acquired via mortgage loan proceeds	$ --	$ 5,323,361
Buildings acquired via assumed mortgages	$ --	$ 2,637,866

The Notes to Financial Statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF ORGANIZATION AND OPERATIONS

Significant accounting policies followed by The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (“PROMESA” or the “Organization”) in the preparation of the accompanying financial statements are summarized below.

Organization and Operations
PROMESA was founded in 1977. PROMESA is a Bronx-based health, human service, and community development organization with a mission to enable New York City residents to become self-sufficient citizens who contribute to the quality of life of their communities. The Organization provides residential and ambulatory substance abuse treatment services, primary health care for the community, educational and vocational training, along with operating a Head Start program, transitional housing for youth, and a 24-hour drop-in center for homeless and/or runaway youth in the Bronx. PROMESA is supported primarily by service fees paid by New York City and New York State, and grants from various Federal, New York City and New York State agencies.

Financial Statement Presentation
The accounting pronouncement related to not-for-profit organizations requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions in accordance with the accounting pronouncement related to net assets. At December 31, 2018 and 2017, the Organization had no net assets with donor restrictions.

Reclassifications
Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. These changes have had no effect on the net assets of the Organization.

Revenue Recognition
Income from grants and contracts (up to the grant or contract ceiling) is recorded in the period when the Organization incurs expenditures in compliance with the specific terms and conditions of the grant or contract. The Organization’s grant revenue consists primarily of cost reimbursement contracts obtained from federal, state, and local agencies.

In addition, these contracts are subject to audit by the awarding agencies. Each funding source, at its discretion, can request reimbursement for expenses, return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants/contracts. Expenditures in excess of grant revenue are absorbed by the net assets without donor restrictions. Payments received in excess of revenue recognized are shown as grant advances in the statements of financial position. Program service fee revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Rental income is recorded in the month in which it is earned.

Program Service Revenue

The Organization has agreements with Medicare, Medicaid, and other third-party contractual arrangements that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Organization provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

The Organization recognizes patient service revenues associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Due from Government Agencies

Amounts due from government agencies are stated as unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on amounts due using the allowance method. The allowance method is based on experience, contractual terms, and other circumstances, which may affect the ability of the agencies to meet their obligations. Amounts due from government agencies are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization’s policy to charge off uncollectible amounts when management determines they will not be collected.

Allowance for Doubtful Accounts

In addition to the allowance on amounts due from government agencies, the carrying amount of amounts due from affiliates is reduced by a valuation allowance that reflects management’s best estimate of the amounts that may not be collected. Management individually reviews all balances due from affiliates and based upon an assessment of current creditworthiness, estimates the portion, if any, of the balance that may not be collected. Additionally, management estimates, based on historical performance, a general allowance against the aggregate remaining amount due from affiliates.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Life (Years)
Building and building improvements	5 – 39
Furniture and equipment	3 – 20
Vehicles	5
Software	5

Property and equipment acquired with funds received from federal, state, and local funding sources are considered to be owned by the Organization. The funding agency maintains a reversionary interest in those assets purchased with its funds, and in the determination of the use of the asset or any proceeds from the sale of those assets.

Expenditures for maintenance and repairs are charged to activities as incurred. Expenditures for betterments and major renewals are capitalized and, therefore, are included in property and equipment.

Functional Allocation of Expenses
The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs for supplies, telephone, equipment, utilities and insurance are allocated based on full time equivalent usage.

Indirect Cost Allocation
The Organization allocates indirect costs to the programs based on a cost allocation methodology. This method of allocation better determines the cost of grants, contracts and other agreements administered by the Organization.

Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Organization believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrong doing. Action for noncompliance may include repayment of amounts improperly reimbursed, fines, penalties, and exclusion from the Medicare and Medicaid programs.

Reserve for Potential Contingencies
The Organization has recorded an estimated amount as a reserve for potential adjustments that may result from settlements based on potential Medicaid claims audits.

Concentration of Labor
During each of the years 2018 and 2017, approximately 65 percent of the Organization’s employees were covered under a collective bargaining agreement which expires in June 2020.

Income Taxes
The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and New York taxation codes. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

The Organization follows generally accepted accounting principles in the United States of America related to uncertain tax positions which require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded. The Organization's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in the Organization's tax filings and does not believe that any material uncertain tax positions exist.

The Organization files forms 990 in the U.S. federal jurisdiction and CHAR 500 in the State of New York. The Organization did not recognize any tax related penalties or interest for the years ended December 31, 2018 and 2017.

Concentration of Credit Risk
Financial instruments that potentially expose the Organization to concentration of credit risk consist primarily of cash and receivables due from government agencies. The Organization places its cash in high quality financial institutions and at times during the years, the amount on deposit may exceed the amounts insured by the Federal Deposit Insurance Corporation. Management does not believe any significant credit risk exists at December 31, 2018. The Organization does not believe any credit risk exists with respect to receivables from government agencies and in addition has provided an allowance for potentially uncollectible amounts.

Retirement Plans
The Organization has a contributory thrift and savings plan for salaried employees meeting certain service requirements which qualifies under Section 401(k) of the Internal Revenue Service Code. Contributions into the plan, which are discretionary, are made based on specified eligibility requirements. For the years ended December 31, 2018 and 2017, the total retirement plan expense included in payroll taxes and employee benefits amounted to $1,102,783 and $910,116, respectively.

Accounting Pronouncements Adopted in the Current Year
In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 reduces the number of net asset from three to two: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources, and requires expenses to be reported by both their natural and functional classification in one location. A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

	ASU 2016-14 Classifications		
Net Asset Classifications	**Net Assets Without Restrictions**	**Net Assets With Restrictions**	**Total**
Net assets			
Unrestricted	$ 24,969,600	$ --	$ 24,969,600
Temporarily restricted	--	--	--
Permanently restricted	--	--	--
Total net assets	$ 24,969,600	$ --	$ 24,969,600

Recent Accounting Pronouncements
Revenue Recognition – Exchange Transactions
In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 *Revenue from Contracts with Customers* (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. Together with subsequent amendments, this created Accounting Standards Codification Topic 606 ("ASC 606"). ASC 606 requires an entity to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the entity expects to receive for those goods or services. ASC 606 also expands disclosure requirements. ASC 606 will be effective for the Organization beginning January 1, 2019. ASC 606 allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Organization is currently evaluating the impact of adoption of ASC 606. At this time, management believes that the adoption of ASC 606 will have a minimal impact on its financial statements.

Revenue Recognition - Contributions
In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB is issuing this ASU to improve and clarify existing guidance on revenue recognition of grants and contracts by not-for-profit organizations ("NFPs") because there is diversity in practice among NFPs with characterizing grants and similar contracts with government agencies and others as reciprocal transactions (exchanges) or nonreciprocal transactions (contributions) and distinguishing between conditional and unconditional contributions. This proposed ASU also provides guidance to help determine whether a contribution is conditional or unconditional, and better distinguish a donor-imposed condition from a donor-imposed restriction. This ASU is effective for annual periods and interim periods beginning after December 15, 2018.

Leases
In February 2016, the FASB issued ASU 2016-02 *Leases* (Topic 842), which requires the recognition of a "right of use" asset and a lease liability, initially measured at the present value of the lease payments, on the statement of financial position or all of the Organization's lease obligations. This ASU is effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the effect that this pronouncement will have on its financial statements and related disclosures.

Restricted Cash
In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash* (Topic 230) which is effective for fiscal years beginning after December 15, 2018 with early adoption permitted.

Under ASU 2016-18, the statement of cash flows requires an explanation of the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling beginning-of-year and end-of-year total amounts shown on the statement of cash flows.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	2018	2017
Land	$ 12,750	$ 12,750
Buildings	15,754,741	15,754,741
Building improvements	17,527,143	17,063,447
Furniture and equipment	4,493,751	4,399,415
Vehicles	162,180	162,180
Software	663,989	578,517
	38,614,554	37,971,050
Less: Accumulated depreciation	(13,591,820)	(12,300,749)
Property and equipment - net	$ 25,022,734	$ 25,670,301

Depreciation expense amounted to $1,291,071 and $1,336,599 in 2018 and 2017, respectively.

3. RELATED PARTY AND AFFILIATED TRANSACTIONS

PROMESA is a member of the Acacia Network and is related to Promesa Housing Development Fund Corporation, Inc. (“PHDFC”), Promesa Residential Health Care Facility, Inc. (“Casa”), Promesa Administrative Services Organization, Inc. ("PASO"), Promesa Enterprises, Inc. (“Enterprises”), Promesa Foundation, Inc. (“Foundation”), Acacia Network Housing, Inc. (“Acacia Housing”), East Harlem Council for Community Improvement, Inc.(“EHCCI”), Hispanos Unidos De Buffalo, Inc. (“HUB”), Loisaida, Inc., 1068 Franklin Avenue Housing Development Fund Corporation (“1068 HDFC”), Audubon Partnership for Economic Development (“Audubon”), Community Association of Progressive Dominicans (“ACDP”), Bronx Addiction Integrated Concepts Systems, Inc. ("BASICS"), United Bronx Parents, Inc. (“UBP”), La Casa De Salud, Inc., South Bronx Community Management Company, Inc. (“SBCMC”), Palacio Dorado Puerto Rico Housing (“Palacio Dorado”), El Regreso Foundation (“El Regreso”), Ilene R. Smith Limited Partnership (“Ilene Smith”), Sera Security Services, LLC (“Sera”), Institute for Puerto Rican/Hispanic Elderly, Inc. (“IPRHE”), Hunts Point Multi Service Center, Inc. (“Hunts Point”), and Greenhope Services for Women, Inc. (“Greenhope”), with which it shares common management. In addition, employees of the Organization participate in the pension plan of Promesa, Inc.

At December 31, due from related and affiliated organizations consists of the following:

	2018	2017
Acacia Network	$ 1,217,793	$ 642,023
PHDFC	8,039,497	7,035,739
Foundation	1,274,296	1,023,932
PASO	7,894,343	3,747,507
Acacia Housing	512,172	607,475
1068 HDFC	--	435
Enterprises	20,917	18,409
Loisaida, Inc.	109,779	27,733
ACDP	252,066	203,004
BASICS	478,222	340,027
La Casa de Salud, Inc.	40,732	56,104
Audubon	61,200	61,200
IPRHE	55,016	30,856
Hunts Point	30,113	30,055
SBCMC	40,000	40,000
Palacio Dorado	220,747	40,571
El Regreso	118,286	64,936
Capital District Latinos	121,666	--
UBP	43,777	21,271
Ilene Smith	220	220
EHCCI	822	--
Greenhope	42,737	19,795
La Liga	50,000	--
	20,624,401	14,011,292
Less: Allowance for doubtful accounts	(1,470,843)	(1,470,843)
Total due from related and affiliated organizations	$ 19,153,558	$ 12,540,449

At December 31, due to related and affiliated organizations consists of the following:

	2018	2017
EHCCI	$ --	$ 60,208
HUB	189,460	55,310
Casa	3,026,649	3,459,207
Total due to related and affiliated organizations	$ 3,216,109	$ 3,574,725

All amounts due represent non-interest bearing advances with no specific repayment terms.

At December 31, charges due to related organizations included in accounts payable consist of the following:

	2018	2017
Sera	$ 171,440	$ 209,305
Acacia Housing	--	--
La Casa de Salud	39,104	24,625
Greenhope	--	4,880
ACDP	4,740	1,819
BASICS	680	40,533
La Marqueta Enterprises, LLC	39,149	--
Foundation	163	475
UBP	30,000	5,955
	$ 285,276	$ 287,592

At December 31, total salary paid by PROMESA on behalf of other organizations consists of the following:

	2018	2017
PHDFC	$ 2,002,532	$ 1,722,180
BASICS	139,187	116,001
Acacia Housing	64,570	67,050
UBP	66,665	54,406
La Casa de Salud	182,199	165,976
Foundation	15,747	58,051
ACDP	92,880	91,562
PASO	53,231	55,113
Casa	--	4,175
IPRHE	16,144	13,962
Greenhope	13,922	15,710
El Regreso	104,882	62,563
EHCCI	48,881	--
Capital District Latinos	9,419	--
Loisaida, Inc.	2,019	--
Acacia Network	1,470	--
	$ 2,813,748	$ 2,426,749

At December 31, total rent incurred by PROMESA to related organizations consists of the following:

	2018	2017
PHDFC	$ 116,601	$ 43,848
Casa	108,996	108,996
Foundation	414,383	414,383
1068 HDFC	550,000	550,000
UBP	177,800	304,800
	$ 1,367,780	$ 1,422,027

PASO acts as a common paymaster. In addition, certain administrative payroll and benefits are allocated to PROMESA. For the years ended December 31, 2018 and 2017, allocated costs amounted to $3,462,779 and $3,569,704, respectively.

The Organization paid Sera $2,163,502 and $1,876,143 for security services provided for the years ended December 31, 2018 and 2017, respectively.

The Organization obtained a five-year loan during 2004, which converted to an on demand loan at maturity, from Casa in the principal amount of $900,000. Interest is charged at 4 percent with repayments to be made at unspecified intervals. In addition, during 2006 the Organization added a ten-year non-interest bearing loan in the principal amount of $288,000 from Casa. Both loans are included in the financial statements as loan payable - related party. Unpaid interest on these loans is included in the balance due to Casa. Interest charged by Casa was $36,000 for each of the years ended December 31, 2018 and 2017.

The Organization has loaned Foundation $100,000. Interest is charged at 5 percent and all unpaid principal and interest is due at maturity, June 30, 2020. As of each of the years ended December 31, 2018 and 2017, the loan receivable balance was $100,000. Interest earned by the Organization was $5,000 for each of the years ended December 31, 2018 and 2017.

In 2016, the Organization entered into a development agreement with Palacio Dorado to develop a 103 unit multi-family housing project in Toa Alta, Puerto Rico. In connection with this agreement, the Organization is entitled to a developer fee of $2,270,975. As of December 31, 2018, the Organization earned and received $681,275 of the developer fee.

In 2017, the Organization obtained a grant under the HOME program from the Puerto Rican Housing Finance Authority as the developer of the Palacio Dorado project. Under the terms of this agreement, the Organization entered into a loan agreement with Palacio Dorado to provide these funds as needed during the construction phase of the project. The loan has a principal amount of $915,600. Interest is charged at 6 percent and all unpaid principal and interest is due at maturity, October 31, 2056. As of December 31, 2018 and 2017, the loan receivable balance was $822,731 and $793,396, respectively.

The aggregate minimum annual rental commitment, under all non-cancelable leases with related parties with terms of one year or more for the periods set forth below are as follows:

Year	**Amount**
2019	$ 1,065,901
2018	821,834
2021	363,501
2022	363,501
2023 and thereafter	6,179,262
	$ 8,793,999

4. MORTGAGE LOANS PAYABLE

Mortgage loans payable at December 31, consist of the following:

	2018	2017
Dormitory Authority of the State of New York ("DASNY"), interest at 5.47 percent, payable in semiannual installments, due August 2019 (A)	$ 107,500	$ 262,500
DASNY, interest at 4.76 percent, payable in annual installments, due February 2028 (A)	1,932,324	2,080,170
DASNY, interest at 5.06 percent, payable in semi-annual installments, due December 2034 (B)	5,026,957	5,227,018
DASNY, interest at 4.95 percent, payable in semi-annual installments, due December 2031 (C)	2,132,703	2,247,310
DASNY, interest at 6.77 percent, payable in semi-annual installments, due June 2020 (C)	175,972	283,962
Banco Popular, interest at 5.75 percent, payable in monthly installments, maturing in February 2020 (D)	113,438	204,726
	9,488,894	10,305,686
Less: Unamortized deferred costs	433,397	462,846
Mortgage loans payable, net of unamortized deferred costs	$ 9,055,497	$ 9,842,840

(A) Installments are paid directly by New York State Office of Alcoholism and Substance Abuse Services ("OASAS"). PROMESA records revenue equal to the amount of debt service. The loan is collateralized by certain assets of the Organization. OASAS has a lien on the Detox center for a period of 20 years commencing from the first date services were provided. During the 20 year period, PROMESA has to maintain compliance with several contractual requirements. If the Organization fails to comply with any of the contractual requirements during the 20 year period, the Organization must pay back OASAS all the money advanced less a credit of 5 percent for each year in which the Organization was in compliance.

(B) Semi-annual installments are paid directly by New York State Office of Mental Health ("OMH"). PROMESA records revenue equal to the amount of debt service The loan is secured by pledged revenues of the project.

(C) Loans were assumed from OMH for a previous provider who terminated operations. Semi-annual installments are paid directly by New York State Office of Mental Health. PROMESA records revenue equal to the amount of debt service. These loans are secured by certain assets of PROMESA.

(D) The loan calls for a fifteen year repayment term with equal monthly installment payments and an interest rate fixed at a rate per annum equal to the effective yield rate for United States Treasury Notes with a maturity of five years, as published in *The Wall Street Journal* on the day which is three business days prior to the closing (January 5, 2005), plus 225 basis points (5.87 percent as of January 2, 2005). Thereafter, the interest rate was adjusted on the 5th and 10th anniversary dates of the loan to fixed for the subsequent five year periods. In no event shall the interest rate for the loan ever be less than 5.75 percent. At December 31, 2018, the interest rate was 5.75 percent. The loan is collateralized by certain assets of the Organization.

The future maturities of the mortgage loans payable are as follows:

Year	Amount
2019	$ 803,494
2020	586,621
2021	534,522
2022	561,640
2023	590,097
Thereafter	6,412,520
	$ 9,488,894

Deferred charges are certain mortgage costs, which are capitalized, and are reflected as debt discounts and reported on the statements of financial position net of the corresponding mortgage payable. Amortization is provided over the life of the loan. Interest expense relating to deferred charges amounted to $29,449 for each of the years ended December 31, 2018 and 2017. Projected amortization charged as interest expense is as follows:

Year	Amount
2019	$ 36,215
2020	24,407
2021	20,346
2022	20,346
2023	20,346
Thereafter	319,029
	$ 440,689

5. LIQUIDITY AND AVAILABILITY OF RESOURCES

At December 31, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

	2018	2017
Financial assets		
Cash	$ 10,628,396	$ 4,980,474
Cash - residents	236,183	218,880
Due from government agencies - net	8,077,963	6,924,882
Due from related parties - net	19,153,558	12,540,449
Loan receivable - related party	936,898	905,896
Total financial assets	39,032,998	25,570,581
Less amounts not avaliable to be used within one year:		
Cash - residents	236,183	218,880
Loan receivable - related party	936,898	905,896
Total financial assets available within one year	$ 37,859,917	$ 24,445,805

The Organization manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. The Organization's cash flows have fluctuations during the year attributable to the timing of program operations and collection of funds from donors and grantors.

6. DUE TO RESIDENTS

PROMESA acts as a fiscal agent for the residents' funds. PROMESA controls these funds during the clients' period of residency. Upon departure from the facility, the money is either returned to the client or to the appropriate government agency. The cash held for this purpose is considered restricted. At December 31, 2018 and 2017, the amount due to residents is $236,183 and $218,880, respectively.

7. COMMITMENTS AND CONTINGENCY

PROMESA has entered into leases for office space and equipment expiring at various dates through 2019 with unrelated third party lessors. Certain of the office leases provide for rental payments to increase annually based on the increase in the Consumer Price Index.

Total rent expense including related party transactions for the years ended December 31, 2018 and 2017 amounted to $3,890,996 and $4,013,628, respectively.

The aggregate minimum annual rental commitment, under all non-cancelable leases with unrelated third party lessors with terms of one year or more for the periods set forth below are as follows:

Year	Amount
2019	$ 725,046
2020	397,046
2021	294,096
2022	294,096
2023 and thereafter	1,057,991
	$ 2,768,275

8. CONCENTRATIONS

PROMESA receives funding for residents and clients from various third-party payers, e.g., government-funded contracts, Medicaid, Supplemental Security Income ("SSI"), Home Relief, etc. PROMESA does not require these residents and clients to remit deposits upon admission to its programs. Included in due from government agencies are the following:

	2018	2017
New York State	$ 7,455,171	$ 6,504,695
New York City	$ 241,549	$ 184,794

The majority of services are paid by New York State. Thus, PROMESA is highly dependent on New York State reimbursement systems. The following represents those funding sources and amounts which represent 68 and 64 percent for the years ended 2018 and 2017, respectively, of PROMESA's total revenues:

	2018	2017
OASAS	$ 2,284,033	$ 1,956,368
Department of Health	$ 48,113,864	$ 40,226,989
Human Resources Administration	$ 1,079,059	$ 1,093,844

9. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the statement of financial position date, through the date of September 30, 2019, the date the financial statements were available for release. Based upon this evaluation, the Organization has determined that no subsequent events have occurred, which require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

	CFDA Number	Pass-through Entity Identifying Number	Awards to Subrecipients	Expenditures
U.S. Department of Health and Human Services				
Outpatient Early Intervention Services with Respect to HIV Diseases	93.918	H76HA00746	$ --	$ 399,267
U.S. Dept. of Health & Human Services - Substance Abuse & Mental Health Services Administration				
Ryan White HIV/AIDS Treatment	93.914	11-TCC-835	--	213,469
Together in Care	93.243	1H79SM062245	--	358,574
Pass-through Research Foundation for Mental Hygiene, Inc.				
OASAS PIPBHC Project	93.243	1014017/2/26749	--	821,174
Subtotal			--	1,179,748
Pass-through New York City Human Resources Administration				
Temporary Assistance for Needy Families	93.558	20111428422	--	8,717
Pass-through New York State Office of Alcoholism and Substance Abuse Services				
HIV Early Intervention Services	93.959	C004219	--	252,576
U.S. Dept. of Health & Human Services - Administration for Children and Families				
Pass-through New York City Agency for Child Development - Head Start	93.600	20131407173	--	1,484,406
Total U.S. Department of Health and Human Services			--	3,538,183
U.S. Department of Housing and Urban Development				
Housing Opportunities for Persons with AIDS	14.241	14B-SPH-011	--	199,096
Pass-through New York City Human Resources Administration				
Housing Opportunities for Persons with AIDS	14.241	20151421977	--	73,829
Subtotal			--	272,925
Pass-through Puerto Rican Housing Finance Authority				
HOME program	14.239	Unidentified	30,644	30,644
U.S. Department of Housing and Urban Development				
Pass-through New York State Office of Alcoholism and Substance Abuse Services - Shelter Plus Care	14.238	C004070	--	818,607
Total U.S. Department of Housing and Urban Development			30,644	1,122,176
U.S. Department of Agriculture				
Child and Adult Care Food Program				
Pass-through New York State Department of Health	10.558	4023	--	166,121
			$ 30,644	$ 4,826,480

See Independent Auditors' Report.
See accompanying Notes to Schedule of Expenditures of Federal Awards.

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. INDIRECT COST

The Organization has a federally negotiated indirect cost rate for its federal programs as covered in section 200.414 in the Uniform Guidance.

3. PROCUREMENT

For the year ended December 31, 2018, PROMESA is following the guidance under Uniform Guidance.

4. SUBRECIPIENTS

For the year ended December 31, 2018, PROMESA awarded $30,644 to a subrecipient, Palacio Dorado, LLC under the HOME program.

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*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA):

We have audited, 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, the financial statements of PROMESA, 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, and have issued our report thereon dated September 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PROMESA'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 PROMESA's internal control. Accordingly, we do not express an opinion on the effectiveness of PROMESA'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. 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 PROMESA'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 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.

Withum Smith+Brown, PC

September 30, 2019

REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA):

Report on Compliance for Each Major Federal Program

We have audited PROMESA's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of PROMESA's major federal programs for the year ended December 31, 2018. PROMESA's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of PROMESA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PROMESA'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 federal program. However, our audit does not provide a legal determination of PROMESA's compliance.

Opinion on Each Major Federal Program

In our opinion, PROMESA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of PROMESA 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 PROMESA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PROMESA'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 federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

WithumSmith+Brown, PC

September 30, 2019

Section 1 – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Non-compliance material to financial statements?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

CFDA Number	Name of Federal Programs
93.243	Together in Care/OASAS PIPBHC Project
14.238	Shelter Plus Care

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section 2 – Financial Statement Findings

None noted.

Section 3 - Major Federal Awards Findings and Questioned Costs

None noted.

None noted.