EL REGRESO, INC.
Financial Statements
June 30, 2019 and 2018
With Independent Auditor's Reports

withum
ADVISORY TAX AUDIT

El Regreso, Inc.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
El Regreso, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of El Regreso, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with 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 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 El Regreso, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information
Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) 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. 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 audits 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 December 13, 2019 on our consideration of El Regreso, Inc.'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 El Regreso, Inc.'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 El Regreso, Inc.'s internal control over financial reporting and compliance.

Emphasis of Matters – Changes in Accounting Principles

As discussed in Note 2 to the financial statements, during the year ended June 30, 2019, El Regreso, Inc. adopted new accounting guidance in accordance with Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14 - *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958) and ASU 2016-18 - *Statement of Cash Flows* (Topic 230). Our opinion is not modified with respect to these matters.

WithumSmith+Brown, PC

December 13, 2019

El Regreso, Inc.
Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash	$ 227,857	$ 224,810
Grant and contract receivables, net of allowance for doubtful accounts of $248,911 and $34,852 in 2019 and 2018, respectively	140,788	329,189
Prepaid expenses	38,436	25,561
Due from affiliates	7,488	-
Total current assets	414,569	579,560
Property and equipment, net	5,898,392	4,933,803
Restricted cash	4,731,543	2,433,283
Total assets	$ 11,044,504	$ 7,946,646
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 256,497	$ 224,962
Refundable advances	6,452,592	3,036,003
Due to affiliates	655,325	406,015
Due to residents	94,299	60,811
Total current liabilities	7,458,713	3,727,791
Net assets		
Without donor restrictions		
Unrestricted	3,585,791	4,218,855
Total liabilities and net assets	$ 11,044,504	$ 7,946,646

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

El Regreso, Inc.
Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Revenue and support		
Government contracts and grants	$ 2,398,791	$ 2,475,514
Service fees	1,398,082	1,357,811
Income from affiliates	38,064	-
Other income	5,407	31,296
	3,840,344	3,864,621
Expenses		
Program services	3,658,311	3,755,400
Management and general	815,097	366,992
	4,473,408	4,122,392
Change in net assets	(633,064)	(257,771)
Net assets		
Beginning of year	4,218,855	4,476,626
End of year	$ 3,585,791	$ 4,218,855

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

El Regreso, Inc.
Statement of Functional Expenses
Year Ended June 30, 2019

	Program Services						
	Men's Residential Facility	Women's Residential Facility	Ambulatory Program	Continuum of Care	Subtotal	Management and General	Total
Personnel services							
Salaries and wages	$ 484,720	$ 587,093	$ 169,837	$ 112,330	$ 1,353,980	$ 198,831	$ 1,552,811
Fringe benefits	158,664	160,367	45,563	6,382	370,976	55,793	426,769
	643,384	747,460	215,400	118,712	1,724,956	254,624	1,979,580
Other than personnel services (OTPS)							
Professional consultants	127,051	126,746	115,889	-	369,686	223,443	593,129
Repairs and maintenance	39,719	59,359	-	9,190	108,268	1,133	109,401
Supplies and materials	22,573	44,214	2,214	10,707	79,708	9,506	89,214
Equipment	7,442	13,005	3,058	5,428	28,933	1,100	30,033
Transportation	28,174	35,003	22,750	169	86,096	56	86,152
Rent	-	-	-	-	-	-	-
Utilities	101,649	117,929	14,611	14,480	248,669	99,478	348,147
Food services	126,003	181,879	297	97,928	406,107	1,424	407,531
Insurance	8,586	8,584	7,018	-	24,188	2,827	27,015
Miscellaneous	27,005	275,537	47,703	6,611	356,856	17,447	374,303
Depreciation and amortization	108,781	116,063	-	-	224,844	-	224,844
Bad debt expense	-	-	-	-	-	204,059	204,059
	596,983	978,319	213,540	144,513	1,933,355	560,473	2,493,828
	$ 1,240,367	$ 1,725,779	$ 428,940	$ 263,225	$ 3,658,311	$ 815,097	$ 4,473,408

The Notes to Financial Statements are an integral part of this statement.

El Regreso, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services						
	Men's Residential Facility	Women's Residential Facility	Ambulatory Program	Continuum of Care	Subtotal	Management and General	Total
Personnel services							
Salaries and wages	$ 504,879	$ 496,785	$ 156,695	$ 84,054	$ 1,242,413	$ 81,164	$ 1,323,577
Fringe benefits	150,984	158,685	49,148	22,955	381,772	30,780	412,552
	655,863	655,470	205,843	107,009	1,624,185	111,944	1,736,129
Other than personnel services (OTPS)							
Professional consultants	176,228	180,948	177,276	-	534,452	200,869	735,321
Repairs and maintenance	176,228	99,395	597	8,048	225,060	1,088	226,148
Supplies and materials	32,778	28,363	5,902	7,283	74,326	13,236	87,562
Equipment	14,062	21,587	560	8,713	44,922	3,739	48,661
Transportation	29,377	28,126	18,848	970	77,321	115	77,436
Utilities	70,434	92,524	7,919	26,367	197,244	5,898	203,142
Food services	212,787	215,350	-	96,600	524,737	1,815	526,552
Insurance	18,808	18,198	7,066	3,981	48,053	12,111	60,164
Miscellaneous	121,144	34,159	2,552	5,973	163,828	16,177	180,005
Depreciation and amortization	125,209	116,063	-	-	241,272	-	241,272
	977,055	834,713	220,720	157,935	2,131,215	255,048	2,386,263
	$ 1,632,918	$ 1,490,183	$ 426,563	$ 264,944	$ 3,755,400	$ 366,992	$ 4,122,392

The Notes to Financial Statements are an integral part of this statement.

El Regreso, Inc.
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating activities		
Change in net assets	$ (633,064)	$ (257,771)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	224,844	241,272
Changes in operating assets and liabilities		
Grant and contract receivables	188,401	271,577
Prepaid expenses	(12,875)	(4,179)
Restricted cash	(2,298,260)	(959,617)
Accounts payable and accrued expenses	31,535	(16,108)
Refundable advances	3,416,589	1,121,361
Due to residents	33,488	14,048
Due to/from affiliates	241,822	-
Net cash provided by operating activities	1,192,480	410,583
Investing activities		
Purchase of property and equipment	(1,189,433)	(694,268)
Net change in cash and restricted cash	3,047	(283,685)
Cash		
Beginning of year	224,810	508,495
End of year	$ 227,857	$ 224,810
Supplemental disclosure of cash flow information		
Interest paid	$ -	$ -

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

1. BACKGROUND

El Regreso, Inc. (the "Organization") is a not-for-profit organization founded in 1986 with its headquarters located at 141 South Third Street, Brooklyn, N.Y. 11211. The Organization is bi-lingual and bi-cultural and offers residential treatment and ambulatory services. The Organization's primary purpose is to service substance and alcohol abusers in the Williamsburg, Bushwick, and Greenpoint sections of Brooklyn. These communities have been greatly affected by the use and abuse of drugs, alcohol, and the spread of HIV/AIDS.

The Organization qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is exempt from federal income taxes. El Regreso, Inc. is also exempt from New York State and New York City income taxes. Additionally, since El Regreso, Inc. is a section 509(a)(1) and 170(b)(1) (A)(iv) publicly supported organization, contributions made to El Regreso, Inc. qualify for the maximum charitable contribution deduction under the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed by the Organization in the preparation of the accompanying financial statements are summarized below.

Basis of Accounting

The financial statements of the Organization have been prepared on an accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses and costs are recognized when incurred.

Net Assets

The accompanying financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions: Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions: Net assets with donor restrictions are 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. 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 received during either of the years ended June 30, 2019 and 2018.

Revenue Recognition

Income from grants and contracts (up to the grant or contract ceiling) is recorded in the period 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 return of funds as a result of noncompliance by the Organization with the terms of the grants/contracts.

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.

The Organization has agreements with 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. The Organization provides care to certain patients under Medicaid payment arrangements. Laws and regulations governing the Medicaid program 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. Self-pay revenue is recorded at published charges with charity care deducted to arrive at gross self-pay revenue. Allowances are then deducted to arrive at net self-pay revenue.

Grant and Contract Receivables

Amounts due from grants and contracts are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on amounts due using the allowance method which 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.

Property and Equipment

Property and equipment are stated at cost. Items with a value of $5,000 or more with estimated useful lives of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Life (Years)
Building	40
Building improvements	10
Furniture and equipment	7 to 10

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.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs of disposal.

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.

Use of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant estimates included in the financial statements relate to the allowance for doubtful accounts, depreciation and amounts due under third party payer arrangements.

Laws and regulations governing the 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 wrongdoing. Action for noncompliance may include repayment of amounts improperly reimbursed, fines, penalties, and exclusion from the Medicaid program.

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.

The Organization follows the provision of authoritative guidance that clarifies the accounting for uncertainty in income taxes. Under this guidance, the Organization evaluates tax positions requiring recognition using a more-likely-than-not threshold, and those tax positions requiring recognition are measured at the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. The Organization has evaluated the likelihood of their tax-exempt status being challenged as remote. Accordingly, as of June 30, 2019, the Organization has not included any income tax provisions, including interest and penalties, in the financial statements.

Adoption of Accounting Principles

Presentation of Financial Statements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958). ASU 2016-14, which is effective for fiscal years beginning after December 15, 2017 with early adoption permitted, requires a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14, underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities are required to relieve the donor's restrictions at the time the asset is placed in service. The ASU also changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 is as follows:

	ASU 2016-14 Classifications			
		With Donor Restrictions		
Net Asset Classifications	Without Donor Restrictions - Unrestricted	Purpose Restrictions	Perpetual in Nature	Total With Donor Restrictions
As previously presented:				
Unrestricted	$ 4,476,626	$ -	$ -	$ -
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	-	-
	$ 4,476,626	$ -	$ -	$ -

New Accounting Pronouncements Not Yet Adopted

Statement of Cash Flows

In November 2016, the 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. This guidance requires restricted cash to be included within cash when explaining the total change in cash for the period within the statement of cash flows.

Lease Transactions

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. In addition to expanded disclosure requirements regarding leasing activities, the new standard significantly changes current lessee accounting for operating leases. Under the new standard, all lessees will be required to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases of property and equipment, except for certain leases classified as short-term leases.

The Organization has not adopted the new standard in these financial statements and is presently evaluating the effect the adoption will have on prospective financial statements. However, based on the Organization's present leasing activities, management expects that the adoption of the new standard will not require the recognition of significant, long-term right-of-use assets and a lease liability.

Revenue Recognition
ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) was issued by the FASB in May 2014 and is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The new revenue accounting standard requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The new standard supersedes all U.S. GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires significant additional disclosures. The new requirement has not been adopted in these financial statements. Management is currently assessing the impact of this pronouncement on prospective financial statements.

Accounting for Contributions
In June 2018, the FASB issued ASU 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The new guidance assists not-for-profit entities in determining whether to account for a transfer of assets as a contribution or an exchange transaction. This update also clarifies that a contribution is conditional if the agreement includes both a barrier (as defined) and a right of return or release. The standard is effective for transactions in which the entity serves as a resource recipient for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019, and as a resource provider for annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020. The new requirement has not been adopted in these financial statements. Management is currently assessing the impact of this pronouncement on prospective financial statements.

Reclassifications
Certain prior year balances have been reclassified to be consistent with the current year financial statement presentation. The reclassifications had no impact on the net assets. Assets under construction totaling $651,937 were reclassified on the statement of financial position from deferred revenue to construction in progress. Purchase of property and equipment and refundable advances on the statement of cash flows each changed by $651,937. This reclassification had no effect on previously reported change in net assets.

Refundable Advances
Advance payments from government agencies that are not yet earned are recorded as liabilities until earned.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2019	2018
Land	$ 253,894	$ 253,894
Building and building improvements	6,394,107	6,394,107
Leasehold improvements	719,302	719,302
Furniture and equipment	48,244	48,244
	7,415,547	7,415,547
Less, accumulated depreciation and amortization	3,358,525	3,133,681
	4,057,022	4,281,866
Construction in progress	1,841,370	651,937
	$ 5,898,392	$ 4,933,803

Depreciation and amortization expense amounted to $224,844 and $241,272 for the years ended June 30, 2019 and 2018, respectively.

4. RESTRICTED CASH

The Organization has classified cash that is not available for use in its operations as restricted cash. As of June 30, 2019, the Organization had commitments to renovate the Men's Residential Facility located at 187/189-191 South Second Street, Brooklyn, NY at an estimated cost of $10,796,694. The Organization has spent $1,841,370 and $651,937 which is included in construction in progress as of June 30, 2019 and 2018, respectively. Restricted cash available for completion of this project, subject to the New York State Office of Addiction Services and Supports' ("NYSOASAS") approval, amounted to $4,609,610 and $2,384,066 as of June 30, 2019 and 2018, respectively.

The Organization also has classified cash as restricted for providing public assistance to residents in their facilities. Restricted cash available for residents receiving stipends for personal needs as of June 30, 2019 and 2018 amounted to $121,933 and $49,217, respectively.

5. DUE TO RESIDENTS

El Regreso, Inc. receives stipends from the public assistance program on a monthly basis. These monies are deposited into a bank account and withdrawn on the resident's behalf (see Note 4). Residents receive stipends on a weekly basis for their personal needs.

6. RETIREMENT PLAN

El Regreso, Inc. has a noncontributory money purchase pension plan and trust covering substantially all employees. Included in fringe benefits is pension expense amounting to $101,228 and $92,409 for the years ended June 30, 2019 and 2018, respectively. El Regreso, Inc. makes annual contributions of up to 10% of the participant's compensation provided that the participant has completed at least 1,000 hours of service during the plan year. A participant is 20% vested upon completion of three years of service. The vesting percentage increases 20% per year thereafter until fully vested in seven years. Upon termination, the participants are entitled to the vested portion of their benefits.

7. COMMITMENTS

El Regreso, Inc. has entered into a contract with NYSOASAS to renovate the Men's Residential Facility located at 187/189-191 South Second Street, Brooklyn, N.Y. The project has a total approved budget of $11,877,450 and commitments to contractors for design and construction totaling $10,796,694. The Organization has received funds from NYSOASAS which are restricted for this project (see Note 4). Amounts included in refundable advances related to this commitment as of June 30, 2019 and 2018 amounted to $6,345,546 and $3,036,003, respectively. The facility, when completed, must be operated in accordance with the New York Department of Mental Hygiene and Division of Substance Abuse Services.

8. CONCENTRATIONS

Financial instruments which potentially subject El Regreso, Inc. to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

El Regreso, Inc. receives funding for residents and clients from various third-party payers, e.g., government funded contracts, Medicaid, Supplemental Security Income ("SSI"), Home Relief, etc. El Regreso, Inc. does not require these residents and clients to remit deposits upon admission to its programs. Included in grant and contract receivables on the statements of financial position are the following as of June 30:

	2019	2018
Human Resources Administration (HRA)	17.9%	18.9%
NYSOASAS	60.3%	64.5%
Medicaid	19.3%	16.0%

The majority of revenue for services is paid by New York State; thus, El Regreso, Inc. is highly dependent on New York State reimbursement systems. The following represents the funding sources and amounts which together comprise approximately 85% of the total revenue for each of the years ended June 30:

	2019	2018
New York State - Office of Alcoholism and Substance Abuse (OASAS)	$ 2,140,100	$ 2,216,823
Human Resources Administration (HRA)	$ 899,291	$ 862,294
U.S. Department of Housing and Urban Development (HUD)	$ 258,691	$ 258,691

9. DUE TO / FROM AFFILIATES

The Organization is a member of the Acacia Network and is related to the various affiliates within the network through common management and board members. The Organization has entered into certain transactions with affiliates of the network primarily for sharing team members and allocating the related costs as well as certain security guard services on a temporary basis. Certain entities with which El Regreso, Inc. has conducted transactions with are Promesa Residential Health Care Facility, Inc. ("Casa"), Promesa Administrative Services Organization, Inc. ("PASO"), Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc ("Promesa"), Bronx Addiction Integrated Concepts Systems, Inc. ("BASICS"), United Bronx Parents, Inc. ("UBP"), Sera Security, LLC ("Sera") and Greenhope Services for Women, Inc. ("Greenhope").

The Organization is due from related and affiliated organizations amounts related to the allocation of costs for services its employees provided to the affiliate as of June 30:

	2019	2018
Casa	$ 7,488	$ -

The Organization is obligated to related and affiliated organizations amounts related to the allocation of costs for services the affiliate provided to El Regreso, Inc. including security services provided on a temporary basis as of June 30:

	2019	2018
BASICS	$ 6,881	$ 8,971
Greenhope	37,666	-
Promesa	96,534	51,922
UBP	77,923	67,013
PASO	436,321	273,464
Sera	-	4,645
	$ 655,325	$ 406,015

The Organization charged to various categories in the statements of functional expenses amounts allocated for services provided by related organizations as follows for the years ended June 30:

	2019	2018
BASICS	$ 47,480	$ 66,715
Greenhope	88,462	12,423
Promesa	133,206	110,062
UBP	111,569	67,013
PASO	711,843	611,980
Sera	-	77,717
	$ 1,092,560	$ 945,910

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events occurring after the statement of financial position date through December 13, 2019, which is 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

El Regreso, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

	Federal CFDA #	Pass-Through Entity Identifying Number	Awards to Subrecipients	Total Expenditures
Federal Agencies				
U.S. Department of Housing and Urban Development				
Continuum of Care	14.267	N/A	$ -	$ 258,691
Pass-through from Federal Agencies				
U.S. Department of Health and Human Services				
Passed through New York State				
Office of Alcoholism and Substance Abuse Services (OASAS)				
Chemical Dependency, Problem Gambling, Treatment and Program Support Services	93.959	C004051	-	2,054,705
				$ 2,313,396

See Independent Auditor's 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 award activity of El Regreso, Inc. for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Because the schedule presents only a selected portion of the operations of El Regreso, Inc., it is not intended to and does not present the financial position, change in net assets, or cash flows of El Regreso, Inc. Therefore, some amounts presented in this schedule may differ from amounts presented or used in the preparation of the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this schedule are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and may differ from certain financial reports submitted to other federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

3. INDIRECT COSTS

El Regreso, Inc. does not have a federally negotiated indirect cost rate and has not elected to use the 10% de minimus cost rate as covered in section 200.414 of Uniform Guidance.

4. SUBRECIPIENTS

For the year ended June 30, 2019, the Organization had no sub-recipients.

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

To the Board of Directors,
El Regreso, Inc.:

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 El Regreso, Inc., which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered El Regreso, Inc.'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 El Regreso, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of El Regreso, Inc.'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether El Regreso, Inc.'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*.

Organization Response to Findings

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

Purpose of the 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 El Regreso, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering El Regreso, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Withum Smith + Brown, PC

December 13, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH UNIFORM GUIDANCE

To the Board of Directors,
El Regreso, Inc.:

Report on Compliance for Each Major Federal Program

We have audited El Regreso, Inc.'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 El Regreso, Inc.'s major federal programs for the year ended June 30, 2019. El Regreso, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of El Regreso, Inc.'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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and 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 El Regreso, Inc.'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 El Regreso, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, El Regreso, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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Report on Internal Control over Compliance

Management of El Regreso, Inc. 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 El Regreso, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 El Regreso, Inc.'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 were not 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Withum Smith+Brown, PC

December 13, 2019

El Regreso, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	Yes
Noncompliance material to financial statements noted?	None

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's 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) of Uniform Guidance?	No

Identification of federal major program:

Name of Federal Program	Federal CFDA #
Chemical Dependency, Problem Gambling, Treatment and Program Support Services	93.959

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

Section 3 – Federal Award Findings and Questioned Costs

None.

Finding 2019-001:

Criteria:
The Organization should have sufficient processes in place to analyze and reconcile financial accounts on a timely basis. Such processes are necessary to produce financial statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Condition:
We observed that certain accounts for which the balance had not changed during the year were not analyzed resulting in an audit adjustment to record bad debt expense for an outstanding receivable.

Context:
Account schedules with reconciliations were requested for testing however none were available and no analysis was performed.

Cause:
The balances were created as a result of entries proposed from prior years. The transactions were necessary in prior years due to conversion of certain accounting systems and access to such systems was limited.

Effect:
The condition may lead to inaccurate financial reporting and potential misstatement of the financial statements such that they are not in accordance with US GAAP and could make them susceptible to fraudulent financial reporting

Recommendation:
We recommend that the Organization improve its procedures to reconcile its accounts on a more timely basis.

Response:
Management has implemented new processes to ensure that general ledger accounts are reviewed and analyzed on a regular basis to ensure that reports present financial results accurately.

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El Regreso, Inc.
Schedule of Prior Year's Audit Findings and Questioned Costs
Year Ended June 30, 2019

None.