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

Financial Statements

December 31, 2012 and 2011

With Independent Auditors' Reports

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
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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, 2012 and 2011, 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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, 2012 and 2011, 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.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations*, 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 use to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2013 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 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 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.

Withum Smith + Brown, PC

August 13, 2013

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Statements of Financial Position
December 31, 2012 and 2011

	2012	2011
Assets		
Cash	$ 6,465,344	$ 5,998,391
Cash - residents	108,161	101,879
Due from government agencies, net of allowance for doubtful accounts of $829,820 in each of the years ended 2012 and 2011	3,230,926	2,822,119
Due from related and affiliated organizations, net of allowance for doubtful accounts of $534,116 in each of the years ended 2012 and 2011	2,860,066	1,418,618
Security deposits and other assets	252,876	445,403
Due from insurer	14,514	631,190
Deferred charges - net	600,372	664,157
Property and equipment - net	11,849,034	10,705,865
	$ 25,381,293	$ 22,787,622
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 2,106,418	$ 2,040,672
Accrued vacation	698,784	764,499
Due to residents	108,161	101,879
Loans payable	584,121	69,327
Grant advances	2,294,874	1,636,397
Due to related and affiliated organizations	1,860,385	2,001,824
Loan payable - related party	1,188,000	1,188,000
Reserve for potential contingencies	4,349,527	4,092,080
Mortgage loans payable	5,644,718	6,359,213
Total liabilities	18,834,988	18,253,891
Net assets - unrestricted	6,546,305	4,533,731
	$ 25,381,293	$ 22,787,622

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 Activities
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues		
Government grants and contracts	$ 9,074,379	$ 7,448,796
Program service revenue	19,200,424	17,801,868
Rental income	686,250	577,500
Interest income	6,885	10,217
Other revenues	214,003	1,055,416
	29,181,941	26,893,797
Expenses		
Program services	24,671,906	23,727,339
Management and general	2,497,461	2,310,447
	27,169,367	26,037,786
Changes in net assets - unrestricted	2,012,574	856,011
Net assets - unrestricted - beginning of year	4,533,731	3,677,720
Net assets - unrestricted - end of year	$ 6,546,305	$ 4,533,731

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, 2012 and 2011

	2012			2011		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	$ 9,578,828	$ --	$ 9,578,828	$ 9,555,118	$ --	$ 9,555,118
Payroll taxes and employee benefits	3,016,300	--	3,016,300	2,748,195	--	2,748,195
	12,595,128	--	12,595,128	12,303,313	--	12,303,313
Professional fees and contract service payments	3,584,425	2,317,332	5,901,757	3,756,753	2,113,190	5,869,943
Supplies	406,210	52,784	458,994	338,449	43,979	382,428
Telephone	95,793	41,055	136,848	140,150	60,064	200,214
Rent	1,998,927	--	1,998,927	1,852,591	--	1,852,591
Travel and transportation	136,341	--	136,341	140,861	--	140,861
Food	989,697	--	989,697	962,536	--	962,536
Repairs and maintenance	460,243	--	460,243	339,410	--	339,410
Equipment	160,167	11,054	171,221	267,076	18,432	285,508
Utilities	608,174	38,821	646,995	620,232	39,590	659,822
Insurance	294,645	36,417	331,062	284,737	35,192	319,929
Interest	356,566	--	356,566	394,511	--	394,511
Medical supplies	331,010	--	331,010	358,293	--	358,293
Depreciation and amortization	614,733	--	614,733	532,768	--	532,768
Bad debt expense	1,579,675	--	1,579,675	325,320	--	325,320
Miscellaneous	460,170	--	460,170	1,110,339	--	1,110,339
	$ 24,671,906	$ 2,497,461	$ 27,169,367	$ 23,727,339	$ 2,310,447	$ 26,037,786

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, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Changes in net assets - unrestricted	$ 2,012,574	$ 856,011
Adjustments to reconcile changes in net assets - unrestricted to net cash provided by operating activities		
Revenue recognized from third party repayment of mortgage loans payable	(650,204)	(650,604)
Depreciation and amortization	614,735	532,768
Bad debt expense	1,579,675	325,320
Change in		
Due from government agencies	(1,988,482)	(762,352)
Due from related and affiliated organizations	(1,441,448)	105,904
Security deposits and other assets	192,527	3,762
Due from insurer	616,676	(631,190)
Accounts payable and accrued expenses	65,746	196,336
Accrued vacation	(65,715)	(29,353)
Grant advances	658,477	854,759
Change in reserve for potential contigencies	257,447	(36,503)
Net cash provided by operating activities	1,852,008	764,858
Cash flows from investing activities		
Purchases of property and equipment	(1,694,119)	(1,229,408)
Change in due to related and affiliated organizations	(141,439)	1,040,951
Net cash used by investing activities	(1,835,558)	(188,457)
Cash flows from financing activities		
Proceeds from loans payable	532,596	--
Repayment of loans payable	(17,802)	(16,579)
Repayment of mortgage loans payable	(64,291)	(60,764)
Net cash provided (used) by financing activities	450,503	(77,343)
Net change in cash	466,953	499,058
Cash		
Beginning of year	5,998,391	5,499,333
End of year	$ 6,465,344	$ 5,998,391

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 multicultural day care centers, 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Temporarily restricted net assets are those whose use is temporarily limited by the donor. When a temporary donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. At December 31, 2012 and 2011, the Organization had no temporarily or permanently restricted net assets.

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 unrestricted net assets. Program service fee revenue is reported at the estimated net realizable amounts from patients, third-party payors, 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 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 payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, 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. Self-pay revenue is recorded at published charges with charity care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay revenue.

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 affiliate 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. There was no change in the Organization’s allowance for doubtful accounts from December 31, 2011 to December 31, 2012 as the Organization did not experience a change in payment trends.

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

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.

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.

Deferred Charges
Deferred charges consist of mortgage financing costs. The costs are being amortized using the effective interest method over the life of the mortgage. The amortization period ranges between ten and nineteen years.

Concentration of Labor
During 2012, approximately 75% of the Organizations employees were covered under two different collective bargaining agreements. The collective bargaining agreement that covered the daycare workers is no longer in force after September 2012. The second collective bargaining agreement expired on June 30, 2011. A new memorandum of understanding covering the period July 1, 2011 to June 30, 2015 was agreed to on July 31, 2013 pending ratification by the union.

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 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 the State of New York. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2009. The Organization did not recognize any tax related penalties or interest for the years ended December 31, 2012 and 2011.

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, 2012. 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 qualify 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, 2012 and 2011, the total retirement plan expense amounted to $424,218 and $281,423, respectively.

2. Deferred Charges

Deferred charges consist of the following at December 31:

	2012	2011
Financing costs	$ 866,781	$ 866,781
Less: Accumulated amortization	(266,409)	(202,624)
Deferred charges, net	$ 600,372	$ 664,157

Amortization expense amounted to $63,785 for the years ended December 31, 2012 and 2011, respectively.

Aggregate future amortization expense for the next five years relating to the above deferred finance charges are estimated to be as follows:

Year	Amount
2013	$ 63,780
2014	63,780
2015	62,376
2016	22,847
2017	22,847
Thereafter	364,742
	$ 600,372

3. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Land	$ 12,750	$ 12,750
Buildings	7,700,596	7,700,596
Building improvements	7,064,812	6,979,392
Furniture and equipment	2,674,871	2,413,484
Vehicles	131,280	131,280
Construction in progress	1,568,877	315,565
Software	188,000	94,000
	19,341,186	17,647,067
Less: Accumulated depreciation	(7,492,152)	(6,941,202)
Property and equipment - net	$ 11,849,034	$ 10,705,865

Depreciation expense amounted to $550,950 and $468,985 in 2012 and 2011, respectively.

4. Related Party and Affiliated Transactions

PROMESA is related to Acacia Network, Inc. (“Acacia”), which changed its name from BASICS / PROMESA SYSTEMS, INC. (“Systems”) in June 2011, Promesa Housing Development Fund Corporation, Inc. (“PHDFC”), Promesa Residential Healthcare Facility, Inc. (“CASA”), Promesa Foundation, Inc. (“Foundation”), Promesa Administrative Services Organization, Inc. (“PASO”), East Harlem Council for Community Improvement, Inc. (“EHCCI”), Bronx Addiction Integrated Concepts Systems, Inc. (“BASICS”), BASICS Housing, Inc., General Development Orientation Council, Inc. (“GDOC”), and 1068 Franklin Avenue Housing Development Fund Corporation, Inc, (“1068 HDFC”), Loisaida, Inc. and United Bronx Parents, Inc., all of which are not-for-profit charitable organizations as defined by Internal Revenue Code Section 501(c)(3) and are affiliated members of Acacia. In addition, Acacia owns Promesa Enterprises, Ltd. (“Enterprises”), a for-profit corporation. The above entities share common management.

PASO acts as a common paymaster. In addition, certain administrative payroll and benefits are allocated to PROMESA. For the years ended December 31, 2012 and 2011, allocated costs amounted to $2,317,332 and $2,113,190, respectively. In addition, PROMESA had amounts due from PASO of $219,842 and outstanding advances due to PASO of $106,131 at December 31, 2012 and 2011, respectively.

In December 2011, Acacia entered into a settlement agreement with the New York State Workers' Compensation Board pertaining to Acacia's former membership in the New York Healthcare Facilities Trust (the "Trust"). The Trust had a deficit at the time of its dissolution in 2006. All members of the Trust were responsible for repaying their share of the deficit. Acacia's share was calculated to be approximately $1,055,000. Since PASO serves as the common paymaster for all related party entities, the liability was recorded by PASO and offsetting receivables were recorded from the Organization. For the year ended December 31, 2012 and 2011, allocated costs to the Organization amounted to $14,090 and $605,769, respectively.

Included in due from related and affiliated organizations is $231,425 and $107,113 due from Acacia at December 31, 2012 and 2011, respectively, for allocated costs.

Included in due to related and affiliated organizations is $1,768,638 and $1,218,431 due to CASA at December 31 2012 and 2011, respectively. These charges represent salaries, related costs, and money held on behalf of CASA, as well as rents prepaid by CASA.

Included in due from related and affiliated organizations is $252,776 and $577,500 at December 31, 2012 and 2011, respectively, which represents rent charges by 1068 HDFC. Rent charged by 1068 HDFC amounted to $550,000 for each of the years ended December 31, 2012 and 2011.

Included in due to related and affiliated organizations is $89,311 and $74,375 due to EHCCI at December 31, 2012 and 2011, respectively, which represents advances for purchases of furniture, salaries and related costs.

Included in due from related and affiliated organizations is $2,158,173 and $1,145,946 at December 31, 2012 and 2011, respectively, which represents net advances to and rent charges by PHDFC. Rent charged by PHDFC amounted to $67,843 and $62,943 for the years ended December 31, 2012 and 2011, respectively.

Included in due from related and affiliated organizations is $505,688 and $116,194 due from Foundation at December 31, 2012 and 2011, respectively. These intercompany balances relate to security services paid by PROMESA on behalf of Foundation. The Organization also leases property from Foundation. Rent charges were $159,910 for each of the years ended December 31, 2012 and 2011.

Included in due to related and affiliated organizations is $2,436 and $602,877 due to BASICS at December 31, 2012 and 2011, respectively, which represents salaries and related costs.

Included in due from related and affiliated organizations is $13,027 and $5,981 due from Enterprise, for the years ended December 31, 2012 and 2011, respectively, for allocated costs.

For each of the years ended 2012 and 2011, there is an allowance of $534,116 against balances due from affiliates.

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

	2012	2011
PASO	$ 219,842	$ --
Acacia	231,425	107,113
PHDFC	2,158,173	1,145,946
Foundation	505,688	116,194
1068 HDFC	252,776	577,500
Enterprise	13,027	5,981
Loisaida, Inc.	2,028	--
United Bronx Parents	11,223	--
	3,394,182	1,952,734
Less: Allowance for doubtful accounts	(534,116)	(534,116)
	$ 2,860,066	$ 1,418,618
PASO	$ --	$ (106,131)
EHCCI	(89,311)	(74,375)
BASICS	(2,436)	(602,887)
CASA	(1,768,638)	(1,218,431)
	$ (1,860,385)	$ (2,001,824)

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.

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
2013	$ 836,698
2014	818,882
2015	818,882
2016	818,882
2017	818,882
Thereafter	4,292,000
	$ 8,404,226

5. Mortgage Loans Payable

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

	2012	2011
Dormitory Authority of the State of New York ("DASNY"), interest at 5.47 percent, payable in semiannual installments, due August 2019 (A)	$ 922,500	$ 1,032,500
DASNY, interest at 5.61 percent, payable in semiannual installments, due August 2015 (A)	1,413,241	1,843,077
DASNY, interest at 4.76 percent, payable in annual installments, due February 2028 (A)	2,719,654	2,830,022
Banco Popular, interest at 5.87 percent, payable in monthly installments, maturing in February 2020 (B)	589,323	653,614
Total mortgage loans payable	$ 5,644,718	$ 6,359,213

(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 will have a lien on the Detox center for a period of 20 years commencing with the first date services are 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) 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 will be adjusted on the 5th and 10th anniversary dates of the loan to be fixed for the subsequent five year periods. In no event shall the interest rate for the loan ever be less than 5.75 percent. Subsequent to year end, the interest rate was adjusted to 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
2013	$ 748,773
2014	789,110
2015	823,044
2016	359,711
2017	376,569
Thereafter	2,547,511
Total	$ 5,644,718

6. Loans Payable

During 2011, the Organization secured various loans in relation to the purchase of several vehicles. These loans are for a term of five years with varying maturity dates through 2015 and annual interest rate between 6.49 percent to 8.39 percent. The loans are collateralized by the vehicles. In addition, during 2011 the Organization entered into a loan agreement with a maximum borrowing capacity of $1,500,000 with interest at 3.25 percent in excess of the One Month Libor rate. Monthly interest-only payments are required until the maturity date, at which time all unpaid principal and interest is due. One of the loans matured on May 31, 2013 and the Organization is currently negotiating an extension.

At December 31, 2012 and 2011, the total outstanding on these loans was $584,121 and $69,327, respectively.

The future maturities of the loans payable are as follows:

Year	Amount
2013	$ 551,713
2014	20,530
2015	11,878
	$ 584,121

7. 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, 2012 and 2011, the amount due to residents is $108,161 and $101,879, respectively.

8. 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.

9. Commitments and Contingency

PROMESA has entered into leases for office space and equipment expiring at various dates through 2016 with non-related parties. 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, 2012 and 2011 amounted to $1,998,927 and $1,852,591, respectively.

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

Year	Amount
2013	$ 572,137
2014	528,430
2015	292,284
2016	142,445
2017	154,491
	$1,689,787

Acacia engaged the services of a consulting firm during 2009. The consulting firm's principals consist of the former Acacia chairman and CEO. The consulting agreement is for a term of five years with monthly fees in the amount of $66,000, of which $19,800 is charged to PROMESA. The agreement has been guaranteed by Acacia.

The consulting expense charged to the Organization for each of the years ended December 31, 2012 and 2011 amounted to $237,600, which is included in professional fees and contract service payments.

The aggregate annual consulting commitment allocated to the Organization under the agreement is as follows:

Year	**Amount**
2013	$ 237,600
2014	99,000
	$ 336,600

10. Concentrations

PROMESA receives funding for residents and clients from various third-party payors, e.g., government-funded contracts, Medicaid, 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:

	2012	**2011**
New York State	$ 1,973,336	$ 1,791,918
New York City	$ 151,737	$ 184,139

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 59 and 61 percent for 2012 and 2011, respectively of PROMESA's total revenues:

	2012	**2011**
OASAS	$ 2,513,647	$ 1,525,726
Department of Health	$ 13,785,613	$ 13,797,518
Human Resources Administration	$ 1,040,028	$ 1,006,318

11. Supplemental Disclosure of Cash Flow Information

	2012	**2011**
Cash paid for interest	$ 74,540	$ 81,725
Change in cash – residents	$ 6,282	$ (95,884)
Non-cash investing and financing activities		
Mortgage loans payable repaid by a third party	$ 650,204	$ 650,604

12. Property Damage and Business Interruption Insurance Proceeds

On February 26, 2011, the Organization experienced a fire at the facility located at 311 175th Street, Bronx, New York. The fire started on the fourth floor of the twenty eight bed, licensed, youth residential facility, catering to youth in transition and the treatment of youth suffering from chemical dependency and alcohol abuse. Due to the extensive damage to the building the youth had to be relocated to 1064 Franklin Ave, Bronx, New York, a building owned by BASICS, a related entity, where the youth continue to be located. The Organization has received a total of $531,190 in property damage insurance proceeds to compensate for the replacement cost of the damages to the building of which $200,000 was received in 2011 and $331,190 was received in 2012 and is included in due from insurer at December 31, 2011. The cost of damages to the facility amounted to $330,630, resulting in a net gain of $200,560 which is included in other revenues.

Due to lost revenue associated with reduced census and the related costs of relocating clients served to the BASICS facility, the Organization qualified for business recovery insurance coverage of $300,000. This amount is included in other revenue and due from insurer at December 31, 2011 of which $285,486 was received in 2012. $14,514 was still outstanding at December 31, 2012.

13. Subsequent Events

The Organization has evaluated subsequent events occurring after the statement of financial position date, through the date of August 13, 2013, 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 and State Awards
Year Ended December 31, 2012

	CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services			
Outpatient Early Intervention Services with Respect to HIV Diseases	93.918	H76HA00746	$ 467,963
Social Services Block Grant			
Pass-through from New York City Agency for Child Development - Multi-Cultural Daycare Center	93.575	20120001038	954,263
U.S. Dept. of Health & Human Services - Health Resources & Services Administration via Bronx Community Health Network			
ARRA - Grants to Health Center Programs	93.703		357,023
U.S. Dept. of Health & Human Services - Health Resources & Services Administration via Bronx Community Health Network			
Sec. 330 Grant - Health Centers / Medical Capacity	93.224		275,689
U.S. Dept. of Health & Human Services - Substance Abuse & Mental Health Services Administration Engagement			
Treatment Retention Project	93.243	H9TI19700A	373,939
Treatment Retention Project	93.243	1H79TI023311	261,843
U.S. Dept. of Health & Human Services - Substance Abuse & Mental Health Services Administration			
Ryan White HIV/AIDS Treatment	93.914	11-TCC-835	88,523
U.S. Dept. of Health & Human Services - Substance Abuse			
Pass-through from New York City Agency			
Head Start	93.600	20131407173	212,943
Total U.S. Department of Health and Human Services			2,992,186
U.S. Department of Agriculture			
Child and Adult Care Food Program			
Pass-through from New York State Department of Health	10.558	4023	117,545
U.S. Department of Housing and Urban Development			
Pass-through from New York State Office of Alcoholism and Substance Abuse Services - Shelter Plus Care	14.238	C003848	22,451
Shelter Plus Care	14.238	C003899	317,950
			$ 3,450,132

See Independent Auditors' Report.
See accompanying Note to Schedule of Expenditures of Federal and State Awards

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Note to Schedule of Expenditures of Federal and State Awards
December 31, 2012

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal and state 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 OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See Independent Auditors' Report.

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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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of PROMESA, which comprise the statements of financial position as of December 31, 2012 and 2011, 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 August 13, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered PROMESA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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

August 13, 2013

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Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of PROMESA's major federal programs for the year ended December 31, 2012. PROMESA'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2012.

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 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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Withum Smith+Brown, PC

August 13, 2013

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section 1 – Summary of Auditors' Results

Financial Statements	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting	
Material weaknesses identified?	None noted
Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Non-compliance material to financial statements?	No
Federal Awards	
Internal control over major programs	
Material weaknesses identified?	None noted
Significant deficiencies identified that are not considered to be material weaknesses?	None noted
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(c) of Circular A-133?	None noted

Identification of major program:

CFDA Number	Name of Federal/State Programs
14.238	Shelter Plus Care
93.243	Treatment Retention Project
93.703	ARRA – Grants to Health Center Programs

Dollar threshold used to distinguish between type A and type B programs:	$300,000
Auditee qualified as low-risk auditee?	Yes

Section 2 – Financial Statement Findings

None noted.

Section 3 - Major Federal and State Awards Findings and Questioned Costs

None noted.

The Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. (PROMESA)
Schedule of Prior Year's Audit Findings and Questioned Costs
Year Ended December 31, 2012

Financial Statement Findings

None noted.