



Renewing lives. Reclaiming hope.

## **PROJECT RENEWAL, INC. AND AFFILIATES**

**Consolidated Financial Statements  
(Together with Independent Auditors' Report)  
Years Ended June 30, 2019 and 2018**

**and**

**Single Audit Reports and Schedule  
as Required by the Office of Management and Budget  
Uniform Guidance**

**Year Ended June 30, 2019**

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**PROJECT RENEWAL, INC. AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2019 AND 2018**  
**AND**  
**SINGLE AUDIT REPORTS AND SCHEDULE**  
**AS REQUIRED BY THE OFFICE OF MANAGEMENT AND BUDGET**  
**UNIFORM GUIDANCE**

**YEAR ENDED JUNE 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees of  
Project Renewal, Inc. and Affiliates

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Project Renewal, Inc. and Affiliates (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Project Renewal, Inc. and Affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, during the year ended June 30, 2019, the Corporation adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards (“SEFA”) for the year ended June 30, 2019 for Project Renewal, Inc. as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated 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 November 25, 2019 on our consideration of the Corporation’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 the Corporation’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation’s internal control over financial reporting and compliance.

*Marks Paneth LLP*

New York, NY

November 25, 2019, except for the SEFA as to which the date is March 25, 2020

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2E and 20)	\$ 6,494,893	\$ 7,966,452
Investments (Notes 2F and 6)	92,380	84,222
Accounts and grants receivable, net (Notes 2L and 7)	19,714,952	18,271,555
Contributions receivable, net (Notes 2M and 8)	1,309,041	1,470,347
Rent receivable, net	171,810	179,704
Due from affiliates, net (Note 11)	175,086	120,233
Prepaid expenses	870,427	638,418
Security deposits and other assets	254,890	256,689
Mortgage receivable (Note 12)	12,500,000	12,500,000
Restricted cash (Note 4)	1,816,453	1,361,780
Assets held for others (Note 5)	110,921	439,244
Investments in rental property, net (Note 9)	27,985,613	31,192,515
Property, equipment and leasehold improvements, net (Notes 2J and 10)	56,665,926	30,063,415
<b>TOTAL ASSETS</b>	<b>\$ 128,162,392</b>	<b>\$ 104,544,574</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses (Notes 2L, 5 and 19)	\$ 13,413,004	\$ 11,910,752
Accrued salaries and related liabilities (Note 17)	2,056,146	1,935,213
Accrued interest (Note 13)	3,338,042	2,664,397
Construction accounts payable	1,666,895	902,467
Due to affiliates, net (Note 11)	3,613,121	2,614,368
Deferred revenue / due to funding source (Note 2P)	9,943,832	13,678,861
Deferred developer's fee revenue (Note 2H)	786,750	2,300,000
Deferred rent (Note 2N)	169,632	320,956
Loans payable, net (Notes 13 and 14)	72,706,004	48,914,718
Enforcement note payable (Note 12)	12,500,000	12,500,000
<b>TOTAL LIABILITIES</b>	<b>120,193,426</b>	<b>97,741,732</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 19)		
<b>NET ASSETS</b> (Notes 2D, 15 and 21)		
Without donor restrictions:		
Operating (Note 21)	(385,421)	(2,247,313)
Noncontrolling interest (Notes 2I and 18)	3,620,456	5,624,348
Total without donor restrictions	3,235,035	3,377,035
With donor restrictions (Notes 2D and 15)	4,733,931	3,425,807
<b>TOTAL NET ASSETS</b>	<b>7,968,966</b>	<b>6,802,842</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 128,162,392</b>	<b>\$ 104,544,574</b>

The accompanying notes are an integral part of these consolidated financial statements.

**PROJECT RENEWAL, INC. AND AFFILIATES  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	For the Year Ended June 30,			For the Year Ended June 30,		
	Without Donor Restrictions	With Donor Restrictions	2019 Total	Without Donor Restrictions	With Donor Restrictions	2018 Total
<b>REVENUES AND SUPPORT:</b>						
Government grants (Note 2K)	\$ 70,656,683	\$ -	\$ 70,656,683	\$ 64,999,904	\$ -	\$ 64,999,904
Third party revenue (Note 2K)	4,170,163	-	4,170,163	4,344,749	-	4,344,749
Social purpose ventures (Notes 2K and 16)	7,581,540	-	7,581,540	7,086,934	-	7,086,934
Rental income (Note 2K)	3,216,946	-	3,216,946	3,348,561	-	3,348,561
Special events (net of direct expenses of \$321,882 and \$385,827 for 2019 and 2018, respectively)	1,261,768	-	1,261,768	966,002	-	966,002
Contributions	34,923	2,237,530	2,272,453	319,135	2,057,397	2,376,532
Developer's fee income (Note 2H)	1,513,250	-	1,513,250	-	-	-
Miscellaneous income (Note 11)	953,923	-	953,923	350,461	-	350,461
Net assets released from restrictions (Notes 2D and 15)	929,406	(929,406)	-	1,393,866	(1,393,866)	-
<b>TOTAL REVENUES AND SUPPORT</b>	<u>90,318,602</u>	<u>1,308,124</u>	<u>91,626,726</u>	<u>82,809,612</u>	<u>663,531</u>	<u>83,473,143</u>
<b>EXPENSES (Note 2O):</b>						
<b>Program Services:</b>						
Outreach	391,055	-	391,055	404,299	-	404,299
Treatment and transitional housing	56,130,733	-	56,130,733	51,746,941	-	51,746,941
Medical services	7,896,941	-	7,896,941	8,227,080	-	8,227,080
Employment services	9,327,438	-	9,327,438	8,494,313	-	8,494,313
Permanent housing	8,047,437	-	8,047,437	8,226,625	-	8,226,625
<b>Total program services</b>	<u>81,793,604</u>	<u>-</u>	<u>81,793,604</u>	<u>77,099,258</u>	<u>-</u>	<u>77,099,258</u>
<b>Supporting services:</b>						
Management and general	7,865,102	-	7,865,102	8,081,120	-	8,081,120
Fundraising	801,896	-	801,896	659,360	-	659,360
<b>Total supporting services</b>	<u>8,666,998</u>	<u>-</u>	<u>8,666,998</u>	<u>8,740,480</u>	<u>-</u>	<u>8,740,480</u>
<b>TOTAL EXPENSES</b>	<u>90,460,602</u>	<u>-</u>	<u>90,460,602</u>	<u>85,839,738</u>	<u>-</u>	<u>85,839,738</u>
<b>CHANGE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS FROM NON-CONTROLLING LIMITED PARTNERS</b>	(142,000)	1,308,124	1,166,124	(3,030,126)	663,531	(2,366,595)
Capital contributions from non-controlling limited partners	-	-	-	1,037,814	-	1,037,814
<b>CHANGE IN NET ASSETS</b>	(142,000)	1,308,124	1,166,124	(1,992,312)	663,531	(1,328,781)
Net assets - beginning of year	3,377,035	3,425,807	6,802,842	5,369,347	2,762,276	8,131,623
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,235,035</u>	<u>\$ 4,733,931</u>	<u>\$ 7,968,966</u>	<u>\$ 3,377,035</u>	<u>\$ 3,425,807</u>	<u>\$ 6,802,842</u>

The accompanying notes are an integral part of these consolidated financial statements.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**  
**(With Comparative Totals for June 30, 2018)**

	<u>Program Services</u>					<u>Supporting Services</u>					
	<u>Outreach</u>	<u>Treatment and Transitional Housing</u>	<u>Medical Services</u>	<u>Employment Services</u>	<u>Permanent Housing</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total 2019</u>	<u>Total 2018</u>
Salaries	\$ 249,951	\$ 20,185,652	\$ 4,466,981	\$ 3,365,242	\$ 2,606,966	\$ 30,874,792	\$ 3,996,457	\$ 290,753	\$ 4,287,210	\$ 35,162,002	\$ 34,262,398
Payroll taxes and benefits (Note 17)	62,845	5,075,209	1,122,703	843,511	657,080	7,761,348	1,010,890	73,104	1,083,994	8,845,342	9,334,536
<b>Total salaries and related costs</b>	312,796	25,260,861	5,589,684	4,208,753	3,264,046	38,636,140	5,007,347	363,857	5,371,204	44,007,344	43,596,934
Food and kitchen supplies	-	1,737,599	2,377	4,213,805	84,208	6,037,989	10,388	-	10,388	6,048,377	5,644,190
Client supplies	1,418	1,200,591	162,502	188,767	105,822	1,659,100	-	-	-	1,659,100	1,401,724
Lab fees	264	1,655	87,462	-	-	89,381	-	-	-	89,381	102,090
Office rent and occupancy expense (Note 19)	24,006	8,193,190	206,014	189,972	2,550,473	11,163,655	507,814	-	507,814	11,671,469	11,035,281
Utilities	2,448	877,794	432	17,184	272,912	1,170,770	67,554	-	67,554	1,238,324	1,318,797
Facility maintenance	1,147	2,653,674	43,009	3,189	153,917	2,854,936	17,850	-	17,850	2,872,786	2,396,826
Telephone	3,880	257,832	44,166	16,902	49,787	372,567	75,950	1,048	76,998	449,565	429,743
Office expense	1,255	1,145,079	306,725	96,298	82,883	1,632,240	648,063	146,003	794,066	2,426,306	1,351,293
Staff travel	12	17,409	26,881	11,939	1,018	57,259	73,969	613	74,582	131,841	197,630
Printing	-	7,125	6,741	1,068	1,615	16,549	4,653	21,555	26,208	42,757	41,062
Professional fees	-	357,241	289,942	9,097	399,406	1,055,686	564,907	539,002	1,103,909	2,159,595	1,602,880
Security fees	-	11,012,073	-	-	107,324	11,119,397	-	-	-	11,119,397	9,892,211
Temporary help	15,263	259,625	470,452	53,127	21,738	820,205	47,469	-	47,469	867,674	863,668
Vehicle expense	12,359	182,687	290,373	182,238	6,096	673,753	119,406	-	119,406	793,159	609,277
Insurance	16,182	874,363	213,788	126,400	118,750	1,349,483	148,351	-	148,351	1,497,834	1,411,659
Recruiting	25	1,175	5,630	646	100	7,576	51,911	-	51,911	59,487	242,497
Bad debt expense	-	4,543	-	-	44,324	48,867	-	51,700	51,700	100,567	302,677
Data processing	-	225	-	7,029	50	7,304	330,032	-	330,032	337,336	414,478
Interest expense and amortization of debt issuance costs	-	636,103	-	-	278,410	914,513	-	-	-	914,513	799,919
Depreciation and amortization	-	1,337,011	150,763	1,024	464,242	1,953,040	48,670	-	48,670	2,001,710	2,120,171
Miscellaneous	-	112,878	-	-	40,316	153,194	140,768	-	140,768	293,962	450,558
<b>Total OTPS</b>	78,259	30,869,872	2,307,257	5,118,685	4,783,391	43,157,464	2,857,755	759,921	3,617,676	46,775,140	42,628,631
Direct costs of fundraising events	-	-	-	-	-	-	-	(321,882)	(321,882)	(321,882)	(385,827)
<b>TOTAL EXPENSES</b>	<b>\$ 391,055</b>	<b>\$ 56,130,733</b>	<b>\$ 7,896,941</b>	<b>\$ 9,327,438</b>	<b>\$ 8,047,437</b>	<b>\$ 81,793,604</b>	<b>\$ 7,865,102</b>	<b>\$ 801,896</b>	<b>\$ 8,666,998</b>	<b>\$ 90,460,602</b>	<b>\$ 85,839,738</b>

The accompanying notes are an integral part of these consolidated financial statements.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program Services</u>					<u>Supporting Services</u>			<u>Total 2018</u>	
	<u>Outreach</u>	<u>Treatment and Transitional Housing</u>	<u>Medical Services</u>	<u>Employment Services</u>	<u>Permanent Housing</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		<u>Total Supporting Services</u>
Salaries	\$ 267,634	\$ 19,657,544	\$ 4,839,694	\$ 3,028,430	\$ 2,537,028	\$ 30,330,330	\$ 3,682,073	\$ 249,995	\$ 3,932,068	\$ 34,262,398
Payroll taxes and benefits (Note 17)	72,610	5,333,112	1,313,013	818,643	688,298	8,225,676	1,041,036	67,824	1,108,860	9,334,536
<b>Total salaries and related costs</b>	<b>340,244</b>	<b>24,990,656</b>	<b>6,152,707</b>	<b>3,847,073</b>	<b>3,225,326</b>	<b>38,556,006</b>	<b>4,723,109</b>	<b>317,819</b>	<b>5,040,928</b>	<b>43,596,934</b>
Food and kitchen supplies	-	1,626,049	3,456	3,914,072	82,448	5,626,025	18,165	-	18,165	5,644,190
Client supplies	74	871,118	188,215	145,606	196,711	1,401,724	-	-	-	1,401,724
Lab fees	-	4,005	97,364	-	721	102,090	-	-	-	102,090
Office rent and occupancy expense (Note 19)	25,042	7,483,745	206,502	131,414	2,528,835	10,375,538	659,743	-	659,743	11,035,281
Utilities	2,728	926,544	14,518	12,426	312,390	1,268,606	50,191	-	50,191	1,318,797
Facility maintenance	1,726	2,228,852	44,843	2,862	93,791	2,372,074	24,752	-	24,752	2,396,826
Telephone	4,505	234,048	50,602	13,701	49,931	352,787	75,709	1,247	76,956	429,743
Office expense	388	447,149	278,379	74,766	79,419	880,101	436,816	34,376	471,192	1,351,293
Staff travel	746	26,373	58,589	14,392	4,281	104,381	92,839	410	93,249	197,630
Printing	-	6,937	4,995	2,032	1,211	15,175	2,654	23,233	25,887	41,062
Professional fees	-	109,606	264,588	4,794	66,251	445,239	622,098	535,543	1,157,641	1,602,880
Security fees	-	9,810,815	-	-	81,396	9,892,211	-	-	-	9,892,211
Temporary help	5,088	369,302	270,526	83,039	11,548	739,503	124,165	-	124,165	863,668
Vehicle expense	13,405	163,484	239,147	107,012	25,247	548,295	60,982	-	60,982	609,277
Insurance	10,278	775,521	179,201	130,011	155,296	1,250,307	161,352	-	161,352	1,411,659
Recruiting	75	1,415	41,320	1,971	375	45,156	197,341	-	197,341	242,497
Bad debt expense	-	4,741	-	-	139,281	144,022	143,100	15,555	158,655	302,677
Data processing	-	-	-	8,025	-	8,025	406,453	-	406,453	414,478
Interest expense and amortization of debt issuance costs	-	540,234	-	-	259,685	799,919	-	-	-	799,919
Depreciation and amortization	-	967,525	131,734	1,117	812,045	1,912,421	207,750	-	207,750	2,120,171
Miscellaneous	-	158,822	394	-	100,437	259,653	73,901	117,004	190,905	450,558
<b>Total OTPS</b>	<b>64,055</b>	<b>26,756,285</b>	<b>2,074,373</b>	<b>4,647,240</b>	<b>5,001,299</b>	<b>38,543,252</b>	<b>3,358,011</b>	<b>727,368</b>	<b>4,085,379</b>	<b>42,628,631</b>
Direct costs of fundraising events	-	-	-	-	-	-	-	(385,827)	(385,827)	(385,827)
<b>TOTAL EXPENSES</b>	<b>\$ 404,299</b>	<b>\$ 51,746,941</b>	<b>\$ 8,227,080</b>	<b>\$ 8,494,313</b>	<b>\$ 8,226,625</b>	<b>\$ 77,099,258</b>	<b>\$ 8,081,120</b>	<b>\$ 659,360</b>	<b>\$ 8,740,480</b>	<b>\$ 85,839,738</b>

The accompanying notes are an integral part of these consolidated financial statements.



**PROJECT RENEWAL, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,166,124	\$ (1,328,781)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,001,710	2,120,171
Amortization of debt issuance costs	22,452	22,455
Bad debt expense	100,567	302,677
Capital contributions	-	(1,037,814)
Unrealized gain on investments	(8,158)	(13,308)
Non-cash loan principal repayment	(404,106)	(387,819)
Non-cash loan principal borrowings	24,172,940	8,092,238
Non-cash increase in property and equipment	(25,088,632)	(10,805,835)
Deferred rent	(151,324)	(125,959)
	1,811,573	(3,161,975)
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Restricted cash	(454,673)	(144,650)
Accounts and grant receivables	(1,543,964)	(1,171,524)
Contributions receivable	161,306	(100,990)
Rent receivable	7,894	40,976
Prepaid expenses	(232,009)	(21,486)
Security deposits and other assets	1,799	(9,848)
Assets held for others	328,323	(210,843)
Due to / from affiliates	943,900	(235,437)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,502,252	(589,286)
Accrued salaries and related liabilities	120,933	25,771
Accrued interest	673,645	537,321
Deferred developer's fee revenue	(1,513,250)	-
Deferred revenue / due to funding source	(3,735,029)	5,807,460
<b>Net Cash (Used in) Provided by Operating Activities</b>	<b>(1,927,300)</b>	<b>765,489</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(308,687)	(477,569)
Capital contributions	-	1,037,814
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(308,687)</b>	<b>560,245</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Construction accounts payable	764,428	919,949
<b>Net Cash Provided by Financing Activities</b>	<b>764,428</b>	<b>919,949</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,471,559)</b>	<b>2,245,683</b>
Cash and cash equivalents - beginning of year	7,966,452	5,720,769
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 6,494,893</b>	<b>\$ 7,966,452</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 560,895	\$ 527,033
Loan principal repayment - non-cash	\$ 404,106	\$ 387,819
Loan principal borrowings - non-cash	\$ 24,172,940	\$ 8,092,238
Property and equipment - non-cash	\$ 25,088,632	\$ 10,805,835

The accompanying notes are an integral part of these consolidated financial statements.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 1 — CORPORATION AND NATURE OF ACTIVITIES**

Project Renewal, Inc. and Affiliates (the "Corporation") operate facilities in New York State that offer a variety of services in accessible settings to homeless and formerly homeless people suffering from mental illness, alcoholism, and substance abuse. Project Renewal, Inc. receives substantial grant awards from various Federal, New York State and City agencies. The consolidated financial statements include the following entities:

- A. Project Renewal Housing Development Fund Corporation ("PRI HDFC"), whose sole member is Project Renewal, Inc., provides housing for low-income persons with mental illness and/or chemical dependency in the Bronx, New York, called the Fletcher Place Residence (the "Project").
- B. Washington OMH Corporation ("Washington OMH GP"), is the general partner of Washington Fletcher OMH LP. ("Washington Fletcher"), a limited partnership controlled by PRI HDFC. Washington OMH GP has a 0.01% interest in Washington Fletcher. Washington Fletcher owns investments in real property and the provision of low-income housing through the construction, renovation, rehabilitation, operation and leasing of an apartment complex. The apartment complex is an 80-unit, multifamily rental housing development in the Bronx, New York, for low-income residents. Occupancy commenced in December 2011.
- C. Bronx Boulevard Housing Development Fund Corporation ("Bronx Boulevard HDFC"), whose sole member is Project Renewal, Inc., is developing housing for men with mental illness.
- D. PRI Villa Avenue GP, Inc., the general partner of PRI Villa Avenue L.P., a limited partnership controlled by PRI Villa HDFC., has a 0.01% interest in PRI Villa Avenue L.P. PRI Villa Avenue L.P. owns investments in real property and the provision of low-income housing through the construction, and operation of an apartment complex. The apartment complex is a 56-unit, multifamily rental housing development in the Bronx, New York, for low-income residents. Construction was completed in August 2015 and occupancy commenced in October 2015.
- E. 10 Minerva Place GP, Inc., the general partner of 10 Minerva Place LP., Inc., a limited partnership controlled by 10 Minerva Place HDFC. 10 Minerva Place GP, Inc. has a 0.01% interest in 10 Minerva Place LP. 10 Minerva Place LP. owns investments in real property and the provision of low-income housing through construction and the operation of a 13-story residential building, located in Bronx, New York. The residential building will have approximately 120 dwelling units. Construction has begun and is still in the development stage.
- F. PRI Villa Avenue Housing Development Fund Corporation ("PRI Villa HDFC"), whose sole member is Project Renewal, Inc., developed housing for low income persons with substance and mental illness in Bronx, New York, called Villa Avenue Residence. 2880 Jerome Avenue GP, Inc., the general partner of 2880 Jerome Avenue LP., Inc., a limited partnership controlled by 2880 Jerome Avenue HDFC. 2880 Jerome Avenue GP, Inc., has a 0.01% interest in 2880 Jerome Avenue LP. Construction has not begun and still in the development stage.

Items A through F above are further referred to as ("Housing Affiliates").

Other related entities which are not included:

- A. Project Renewal Fund Inc. ("PRF") a not-for-profit entity that is the sole member of Project Renewal, Inc. and other non-profit entities.
- B. The Corporation shares certain common facilities and management personnel with Manhattan Bowery Management Corporation ("MBMC"), a not-for-profit entity. PRF is the sole member of MBMC.
- C. MRG Partners, L.P. ("MRG"), operates the Geffner House (formally the Holland House), a low-income rental housing project. The general partner is Starting Homes, Inc., a for-profit corporation controlled by a housing development fund corporation that is owned by PRF.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 — CORPORATION AND NATURE OF ACTIVITIES (Continued)**

- D. St. Nicholas House L.P. ("St. Nicholas") operates the St. Nicholas House project for occupancy by low income tenants. The general partner is St. Nicholas House GP Corporation, a for-profit corporation controlled by a housing development fund corporation that is owned by PRF.
- E. North Star Housing, Inc. ("NSH"), a not-for-profit entity develops and manages affordable housing. PRF is the sole member of NSH.

Project Renewal, Inc., PRI HDFC, Bronx Boulevard HDFC and PRI Villa HDFC are exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (the "Code") and from state and local taxes under comparable laws. Washington OMH GP, PRI Villa Avenue GP, and 10 Minerva Place GP and HDFC, are for-profit Corporations subject to Federal income tax and applicable state and local taxes.

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. ***Basis of Accounting*** – The Corporation's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany transactions have been eliminated during consolidation.
- B. ***Principles of Consolidation*** – These financial statements are prepared on a consolidated basis and include the activities for the years ended June 30, 2019 and 2018 of entities controlled by Project Renewal, Inc. through its sole membership in not-for-profit entities or its controlling interest in for-profit entities. The assets, liabilities, and net assets of Washington Fletcher, PRI Villa Avenue L.P., and 10 Minerva Place L.P. have been consolidated into Washington OMH GP, PRI Villa Avenue GP, and 10 Minerva Place GP and HDFC, respectively, due to the controlling influence the general partners have over the limited partnerships. The consolidated entity is collectively referred to as the "Corporation."
- C. ***Use of Estimates*** – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.
- D. ***Net Assets*** – The Corporation maintains its net assets in accordance with the following:
- Without Donor Restrictions - represents resources available for support the Corporation's operations over which the Board of Trustees has discretionary control.
- With Donor Restrictions - represents assets that are subject to donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Net assets with donor restrictions are released from donor restrictions by incurring expenses, thereby satisfying the restricted purposes of providing program services as specified by the donors. Unconditional promises to give that are due in future periods to support the current-period activities are reported as unrestricted support.
- E. ***Cash and Cash Equivalents*** – Cash and cash equivalents consist of highly liquid investments with maturities of three months or less at the time of purchase.
- F. ***Investments and Fair Value Measurements*** – Investments are reported at fair value. Investment income consisting of interest, dividend, realized and unrealized gains or losses is classified as operating revenue and is available to support operations. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 6.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- G. ***Impairment of Long-Lived Assets*** – The Corporation reviews long-lived assets 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 the asset to aggregate future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value. No impairment loss has been recognized during the years ended June 30, 2019 and 2018.
- H. ***Deferred Developer's Fee Revenue*** – Deferred developer's fee revenue refers to fees indirectly received in the form of an investment by the developer in connection with the development and construction of the Fletcher Street Project. Revenue will be recognized as certain milestones are achieved and receipts will be used for the establishment of required reserves.
- I. ***Non-Controlling Limited Partners' Interests*** – Capital contributions from non-controlling limited partners in the consolidated statements of activities represent the capital contributions of the Limited Partnerships allocated to limited partners for that period. Non-controlling limited partners' interests in the consolidated statements of financial position represent the cumulative capital contributions and the limited partners' interest in profits or losses of the Limited Partnerships.
- J. ***Property and Equipment and Investment in Rental Property*** – Property and equipment and investment in rental property are stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease. The Corporation capitalizes all owned property and equipment having a useful life of greater than one year and a cost of \$5,000 or more. There may be instances where certain expenditures for property and equipment are included in the consolidated financial statements as expenses because the cost of these items was reimbursed by certain governmental funding sources and/or the contractual agreement specifies that title to these assets, rests with the funding sources rather than the Corporation.
- K. ***Revenue Recognition*** – The Corporation records receivables and revenue when earned based on established rates or contracts for services provided. Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Corporation records deferred revenue / due to funding source as a liability. Laws and regulations governing Medicaid programs are subject to interpretation. Noncompliance with such laws and regulations could result in fines, penalties and exclusion from Medicaid programs. Revenues from government contracts are subject to audit and negotiations between the Corporation and the government agencies.

Third party revenues are derived from services provided under contracts with national social insurance programs and managed care organizations where the Corporation is reimbursed by an entity other than the beneficiary of the services provided. The revenue is recognized when it is earned.

Social purpose ventures revenues are derived from programs designed to end the cycle of homelessness by preparing formerly homeless individuals to succeed in culinary and food preparation industries. Tuition revenue received in advance is recorded as deferred revenue. All revenue is recognized as it is earned. If a student withdraws during the first week, the tuition is reimbursed in full. The reimbursement rate gradually decreases until the end of the fifth week at which point the student is not entitled to any reimbursement.

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between the Corporation and tenants are operating leases with terms between one and two years.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- L. **Contract Disallowances** – The contractual agreements with various funding sources include provisions for claims and program audits in subsequent years. These audits may result in disallowance and repayment of costs previously reimbursed by the funding sources. Management estimates potential disallowances based on past experiences. Accordingly, management has established a contingency reserve to cover the cost of future disallowances, if any. As of both June 30, 2019 and 2018, the contingency reserve amounted to approximately \$247,600, and is reflected in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.
- M. **Contributions** – Contributions and unconditional promises to give are recorded as support when pledges are made and are classified as net assets without restrictions or with restrictions. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using rates applicable to the years in which the promises are received and consider market and credit risk as applicable. Amortization of the discounts are included in contribution revenue in the consolidated statements of activities.
- N. **Operating Leases** – U.S. GAAP require that the Corporation account for free rent and landlord credits. This accounting treatment is commonly referred to as “straight-lining of rent.” The difference between rent expense, under this method, and the lower rental amounts actually paid to the landlord are reported as a “deferred rent” obligation in the accompanying consolidated statements of financial position. The change in the deferred rent liability is reflected in the accompanying consolidated statements of activities.
- O. **Functional Allocation of Expenses** – The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of functional expenses. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and insurance which are allocated on a square footage basis, as well as salaries, wages and benefits, payroll taxes, professional services, information technology and other expenses, which are allocated mainly on the basis of estimates of time and effort. Expenses that can be identified with a specific program or support service are charged directly to that program or support service.

- P. **Deferred Revenue / Due to Funding Source** – Represents advances received from various funding sources under government contracts for which the Corporation has not yet met the grant conditions or provided the services. Such amounts will be recouped by funding sources in a future fiscal year.
- Q. **Reclassifications** – Certain line items in the June 30, 2018 consolidated financial statements were reclassified to conform to the 2019 presentation. Such reclassifications had no effect on net assets previously reported.
- R. **Recent Accounting Pronouncements** – FASB Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* Topic 958 *Presentation of Financial Statements of Not-for-Profit Entities*, was adopted for the year ended June 30, 2019. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquidity resources and functional expense allocation. As a result of implementing ASU 2016-14, the Corporation reports net assets in two classes (see Note 2D), the methodologies used to allocate expenses by function (see Note 2O) and provides additional information about liquidity (see Note 3). Net assets as of June 30, 2018 were reclassified to conform to the new presentation.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 — LIQUIDITY AND AVAILABILITY**

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents, receivables and line of credit that provides funding for operations and capital expenditures as needed.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Corporation considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures over the next 12 months, the Corporation expects and anticipates collecting sufficient revenue to cover general expenditures.

As of June 30, 2019, financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, included the following:

Cash and cash equivalents	\$ 6,494,893
Investments	92,380
Accounts and grants receivable	19,714,952
Contributions receivable	1,309,041
Rent receivable	171,810
Due from affiliates	<u>175,086</u>
Total	27,958,162
Less those unavailable for general expenditures within one year	
Net assets with donor restrictions	(4,733,931)
Add pledges receivable due in one year	<u>739,261</u>
Total	<u>\$ 23,963,492</u>

To help manage unanticipated liquidity needs, the Corporation has a line of credit of \$3,000,000 that it could draw upon. In addition, the Corporation has access to certain Limited Partnerships' financial assets.

**NOTE 4 — RESTRICTED CASH**

The Corporation receives funding for PRI Villa Avenue, L.P. which is to be used for the operating and replacement reserves of the construction project (Note 13). The funds are related to debt agreements and were deposited into an escrow account held by New York City Housing Development Corporation. At June 30, 2019 and 2018, the remaining balances amounted to \$584,637 and \$649,305, respectively.

In addition, at June 30, 2019 and 2018, the Corporation had \$1,231,816 and \$712,475, respectively, held in escrow accounts for real estate tax, insurance payments and operating reserves.

**NOTE 5 — ASSETS HELD FOR OTHERS**

Assets held for others consist of custodial and other funds required to be maintained in separate accounts for specific purposes or future periods. The corresponding liability is reflected in accounts payable and accrued expenses.

**NOTE 6 — INVESTMENTS AND FAIR VALUE MEASUREMENTS**

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)**

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk (or other parties such as counterparty in a swap) in its assessment of fair value.

Investments in the consolidated statements of financial position, consisted of common stock, are stated at fair value as of June 30, 2019 and 2018, are valued using market prices in active markets in Level 1, and amounted to \$92,380 and \$84,222, respectively.

Investments are subject to market volatility that could substantially change their value in the near term.

Investment activity consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Unrealized gain on investment	\$ <u>8,158</u>	\$ <u>13,308</u>

**NOTE 7 – ACCOUNTS AND GRANTS RECEIVABLE, NET**

Accounts and grants receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ 3,769,755	\$ 3,902,359
Grants Receivable		
Federal	1,901,173	1,376,469
New York State	442,168	261,951
New York City	<u>13,700,235</u>	<u>12,829,155</u>
Total	19,813,331	18,369,934
Less: Allowance for doubtful accounts	<u>(98,379)</u>	<u>(98,379)</u>
Accounts and grants receivable, net	\$ <u>19,714,952</u>	\$ <u>18,271,555</u>

Accounts receivable represent amounts due to the Corporation from other not-for-profit agencies and private companies for services provided by one of the Corporation's social purpose ventures.

At June 30, 2019 and 2018, approximately 70% of grants receivable due from New York City were due from a single agency.

**NOTE 8 — CONTRIBUTIONS RECEIVABLE, NET**

Contributions receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Receivable due within one year	\$ 739,261	\$ 1,313,734
Receivable due in one to five years	<u>756,380</u>	<u>343,213</u>
	1,495,641	1,656,947
Less: Allowance for doubtful accounts	<u>(186,600)</u>	<u>(186,600)</u>
Contributions receivable, net	\$ <u>1,309,041</u>	\$ <u>1,470,347</u>

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 9 — INVESTMENTS IN RENTAL PROPERTY, NET**

Investments in rental property, net consisted of the following as of June 30:

	2019		Total
	Washington OMH GP	PRI Villa Avenue GP	
Land and land improvements	\$ 1,235,040	\$ 1,325,000	\$ 2,560,040
Building and building improvements	20,187,008	13,534,396	33,721,404
Equipment	-	432,076	432,076
Furniture and fixtures	<u>548,600</u>	<u>157,140</u>	<u>705,740</u>
Total	21,970,648	15,448,612	37,419,260
Less: accumulated depreciation	<u>(7,093,497)</u>	<u>(2,340,150)</u>	<u>(9,433,647)</u>
Investment in rental property, net	<u>\$ 14,877,151</u>	<u>\$ 13,108,462</u>	<u>\$ 27,985,613</u>

Investments in rental property consisted of the following as of June 30:

	2018		Total
	Washington OMH GP	PRI Villa Avenue GP	
Land and land improvements	\$ 1,235,040	\$ 1,325,000	\$ 2,560,040
Building and building improvements	21,943,813	13,534,396	35,478,209
Equipment	-	432,076	432,076
Furniture and fixtures	<u>548,600</u>	<u>157,140</u>	<u>705,740</u>
Total	23,727,453	15,448,612	39,176,065
Less: accumulated depreciation	<u>(6,253,402)</u>	<u>(1,730,148)</u>	<u>(7,983,550)</u>
Investment in rental property, net	<u>\$ 17,474,051</u>	<u>\$ 13,718,464</u>	<u>\$ 31,192,515</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$1,450,097 and \$1,392,604, respectively. Estimated useful lives of assets in investments in rental property follow the same lives as property, equipment and leasehold improvements (see Note 10).

**NOTE 10 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET**

Property, equipment and leasehold improvements consisted of the following as of June 30:

	2019	2018	Estimated Useful Lives
Land	\$ 4,616,250	\$ 4,616,250	
Buildings	14,593,568	14,509,676	25-30 Years
Equipment	4,858,579	4,761,101	4-7 Years
Automobiles	2,891,767	2,294,279	5-7 Years
Building and leasehold improvements	1,874,032	1,874,032	7-15 Years
Construction-in-progress	<u>43,598,774</u>	<u>17,223,508</u>	
Total	72,432,970	45,278,846	
Accumulated depreciation and amortization	<u>(15,767,044)</u>	<u>(15,215,431)</u>	
Property and Equipment, net	<u>\$ 56,665,926</u>	<u>\$ 30,063,415</u>	



**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 10 — PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET (Continued)**

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to \$551,613 and \$727,567, respectively.

As of June 30, 2019, construction in progress primarily consisted of approximately \$43.5 million related to construction of Bedford Green House. The expected date of completion is December 2019 and the expected future cost will be approximately \$15 million (see Note 13).

**NOTE 11 — RELATED PARTY TRANSACTIONS**

The Corporation conducts transactions with certain related and other affiliated organizations. A description of these transactions follows:

- A. For each of the years ended June 30, 2019 and 2018, the Corporation charged MBMC rent of \$96,000, and management fees of \$200,000.
- B. During each of the years ended June 30, 2019 and 2018, NSH charged the Corporation \$447,457 for rental expense.

Amounts due (to)/from affiliates are non-interest bearing, payable on demand and consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
MBMC	\$ (2,225,785)	\$ (1,209,859)
NSH	(551,052)	(574,051)
MRG	781,136	766,128
St. Nicholas	<u>(796,439)</u>	<u>(830,458)</u>
Total	(2,792,140)	(1,848,240)
Allowance for doubtful accounts	<u>(645,895)</u>	<u>(645,895)</u>
Total due (to)/from affiliates, net	<u>\$ (3,438,035)</u>	<u>\$ (2,494,135)</u>

**NOTE 12 — MORTGAGE RECEIVABLE AND ENFORCEMENT NOTE PAYABLE**

The Corporation is the sponsor of the Geffner House project, which is operated and owned by MRG. The Corporation has a \$12,500,000 mortgage note receivable from MRG as a result of transferring land to the Geffner House property for use in the project.

This mortgage receivable is subordinated to a \$12,500,000 enforcement note held by the City of New York. The enforcement note may be forgiven if the Corporation operates certain social service programs at the Geffner House site during the term of the agreement. The enforcement note shall not bear interest and matures on December 30, 2026. Once the enforcement note is satisfied, the mortgage receivable shall be forgiven.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 — LOANS PAYABLE**

Loans payable consisted of the following at June 30:

	2019	2018
Washington OMH GP		
New York State Housing Finance Agency (HFA)	\$ 10,965,000	\$ 10,965,000
New York State Homeless Housing and Assistance Corporation (HHAC)	4,238,094	4,238,094
Bronx Boulevard HDFC		
The Community Preservation Corporation (CPC)	8,904,899	9,309,005
PRI Villa Avenue GP		
New York City Housing Preservation and Development (HPD)	4,475,000	4,475,000
NYS Office of Temporary and Disability Assistance (OTDA)	3,231,500	3,231,500
PRI Villa HDFC		
Corporation for Supportive Housing	1,994,679	1,994,679
10 Minerva Place GP		
New York City Housing Development Corporation (HDC)	28,383,250	13,953,034
New York State Homeless Housing and Assistance Corporation (HHAC)	5,858,293	1,168,046
New York City Department of Housing Preservation and Development (HPD)	5,052,477	-
Project Renewal, Inc.		
Deutsche Bank Recoverable Grant Funds	120,000	120,000
Subtotal	73,223,192	49,454,358
Less: amortized debt issuance costs	(517,188)	(539,640)
Total loan payables, net	\$ 72,706,004	\$ 48,914,718

**A. Washington OMH GP**

Construction on the Fletcher Street Project is being financed using the proceeds provided to PRI HDFC of (1) a construction / permanent mortgage loan from the New York State Housing Finance Agency ("HFA") in the amount not to exceed \$14,250,000 to be financed with funds from the proceeds of tax exempt Affordable Housing Revenue Bonds 2009 Series B Bonds, (2) a subordinate loan from HFA in the approximate principal amount of \$200,000 (together with (1) the "HFA Loan"), (3) a building and project loan from New York State Homeless Housing and Assistance Corporation in the principal amount of \$4,632,300 ("HHAC Loan"), and (4) an equity investment in the amount of \$8,132,569 made in connection with the sale of Federal low-income housing tax credits generated by the Project.

As a condition of the HFA Loan, Washington Fletcher secured an irrevocable standby letter of credit from JP Morgan Chase Bank, N.A. Also, as a condition of the HFA Loan, Washington Fletcher was required to enter into an agreement with HFA that regulates the rents and incomes of eligible occupants of the project for a period of at least 30 years.

The construction loan portion of the financing was converted to permanent financing and the letter of credit from JP Morgan Chase Bank, N.A. for the project was released on October 12, 2012.

The project is eligible to receive certain operating subsidies from Washington OMH GP for management and operation of the project and provide special services to tenants. In addition, the Corporation is eligible for debt service subsidies for payments on the HFA loan.

As of June 30, 2019 and 2018, HFA advanced \$10,965,000, of which \$10,765,000 is outstanding on the construction/permanent mortgage loan and \$200,000 is outstanding on the subordinate loan. The HFA mortgage loan bears interest of 2% per year and is payable on July 1, 2041. The HFA subordinate loan bears interest of 1% per year and has a maturity date of July 1, 2041. Total interest expense accrued at June 30, 2019 and 2018 for both loans was \$1,679,921 and \$1,462,621, respectively.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 13 — LOANS PAYABLE (Continued)**

As of June 30, 2019 and 2018, HHAC advanced \$4,238,094 to the Corporation. The HHAC loan bears interest of 1% per year and is payable on December 1, 2041. Total interest expense accrued at June 30, 2019 and 2018 was \$411,182 and \$368,801, respectively.

Washington Fletcher has entered into a commitment with PRI HDFC to receive a loan of \$759,205. The loan has a stated interest rate of 3.5% per annum with the entire principal balance and accrued interest due on September 30, 2039. No amounts have been advanced as of June 30, 2019.

**B. Bronx Boulevard HDFC**

Construction on the Bronx Boulevard project was financed by JP Morgan Chase Bank, N.A. and Contact Fund loans for \$10,222,649 and \$404,747, respectively. The interest rate is 2.75% per annum plus the adjusted LIBOR rate for JP Morgan Chase Bank, N.A. and 1.75% plus prime rate for Contact Fund. Both loans matured on May 3, 2014. The Corporation obtained a six-month extension for both loans, with a new maturity date of November 3, 2014.

In October 2014, the Corporation refinanced its loans with JP Morgan Chase Bank, N.A. and Contact Fund with The Community Preservation Corporation. The new loan has a principal balance of \$10,627,396 and matures on November 1, 2034. The loan has an interest rate of 4.15% per annum, and requires monthly payments of \$77,230, of which \$65,243 is for principal and interest and \$11,987 is for insurance escrow and taxes. At June 30, 2019 and 2018, the outstanding loan balance was \$8,904,899 and \$9,309,005, respectively, and the escrow balance was \$383,112 and \$310,547, respectively.

**C. PRI Villa Avenue GP**

Construction on the PRI Villa Avenue project was financed by (1) New York City Department of Housing Preservation and Development (NYC HPD) in the amount of \$4,475,000, (2) New York State Office of Temporary & Disability Assistance in the amount of \$3,250,000, and (3) an equity investment in the amount of \$8,344,280 made in connection with the sale of Federal low-income housing tax credits generated by the project.

As of June 30, 2019 and 2018, NYC HPD advanced \$4,475,000 to the Corporation. When the conditions outlined in the Building and Project Loan Contract are met, the construction loan will be converted to a permanent mortgage with a maturity date of 60 years from the date of the conversion. The loan is non-interest bearing until the conversion date, at which time interest begins to accrue at a rate of 2.5% per annum through the maturity date. The loan has not yet been converted and the maturity date has been extended to March 21, 2078. As of June 30, 2019 and 2018, there was no accrued interest on this loan.

As of June 30, 2019 and 2018, New York State Office of Temporary & Disability Assistance advanced \$3,231,500 to the Corporation. The loan accrues interest at a rate of 4.5% per annum. No payments of principal are due on the loan until maturity in October 28, 2075. As of June 30, 2019 and 2018, the Corporation accrued interest of \$833,267 and \$575,974, respectively, of which \$206,443 was capitalized in 2016 prior to the completion of the project.

**D. PRI Villa Ave HDFC**

On July 30, 2015, the Corporation closed on the acquisition of two adjoining sites in the Bedford Park area of Bronx, New York: Minerva Place and Jerome Avenue (collectively "Bedford Green House"). The acquisitions were financed by a Pre-development and Acquisition loan from the Corporation for Supportive Housing. Bedford Green House offers over 200 units of supportive and affordable housing for families and singles.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 13 — LOANS PAYABLE (Continued)**

As of June 30, 2016, funding for the construction of Phase 1 Minerva Place totaled \$2,800,000 which accrues interest at 6% per annum and has a maturity date of the earlier of closing of construction financing or August 1, 2017. Funding for the construction of Jerome Avenue totals \$2,500,000 which accrues interest at 6% per annum and has a maturity date of the earlier of closing of construction financing or January 1, 2020. Outstanding principal and accrued interest are due on their respective dates of maturity. During 2017, the Corporation repaid the principal balance, including accrued interest for the outstanding balance relating to Phase I Minerva Place in the amount of \$2,771,854. During fiscal year 2017, the outstanding principal balance for Phase I Minerva Place was paid off. For each of the years ended June 30, 2019 and 2018, the principal balance of Phase II Jerome Avenue was \$1,994,679. As of June 30, 2019 and 2018, the Corporation accrued interest, due upon repayment, of \$413,672 and \$257,001, respectively.

**E. 10 Minerva Place GP**

On June 29, 2017, the Corporation finalized the permanent financing for the construction on the Bedford Green House. The project is being financed using the proceeds provided to 10 Minerva Place HDFC of (1) a construction / permanent mortgage loan from the New York City Housing Development Corporation ("HDC Loan") in the amount not to exceed \$30,000,000 to be financed with funds from the proceeds of tax exempt New York City Housing Development Corporation (HDC), (2) a subordinate loan from HDC in the principal amount of \$6,960,000 ("HDC Subordinate Loan"), (3) a building and project loan from New York City Department of Housing Preservation and Development in the principal amount of \$8,850,000 ("HPD Loan"), (4) a subordinate loan from New York State Homeless Housing and Assistance Corporation ("HHAC Loan") in the principal amount of \$6,222,012 and (5) an equity investment by Bank of America in the amount of \$23,989,019 made in connection with the sale of Federal low-income housing tax credits generated by the Project.

During fiscal 2017, HDC advanced \$3,029,744, of which the principal balances of \$2,044,068 and \$985,676 bear interest at a rate of 2.35% and 5.25%, respectively. This HDC Loan is payable on April 20, 2020 and October 31, 2060. In addition, during fiscal 2017, HDC advanced \$3,636,734 ("HDC Subordinate Loan") to the Corporation. The HDC Subordinate Loan bears interest of 2.85% per year and is payable on October 31, 2060.

During fiscal year 2018, HDC advanced \$4,459,498, of which the principal balances of \$3,008,675 and \$1,450,823 bear interest at a rate of 2.35% and 5.25%, respectively. This HDC Loan is payable on April 20, 2020 and October 31, 2060. In addition, during fiscal 2018, HDC advanced \$2,827,058 ("HDC Subordinate Loan") to the Corporation. The HDC Subordinate Loan bears interest of 2.85% per year and is payable on October 31, 2060. Also, during fiscal 2018, HHAC advances \$1,168,046 (HHAC Loan) to the Corporation. The HHAC Loan bears interest of 1% and payments of interest and principal are deferred until the end of the 30<sup>th</sup> year of the contract compliance period, which is estimated to be 2047.

During fiscal year 2019, HDC advanced \$14,430,216 of which the principal balances of \$9,735,585 and \$4,694,631 bear interest at a rate of 2.35% and 5.25%, respectively. This HDC Loan is payable on April 20, 2020 and October 31, 2060. In addition, during fiscal 2019, HPD advanced \$5,052,477 ("HPD Loan") to the Corporation. The HPD Loan bears interest of 0% per annum plus a servicing fee equal to 0.20% per annum on the outstanding principal amount which shall be payable monthly through and including April 29, 2020, and in no event shall the term of this loan be earlier than the release date of the HDC Loan. Also, during fiscal 2019, HHAC advances \$4,690,247 (HHAC Loan) to the Corporation. The HHAC Loan bears interest of 1% and payments of interest and principal are deferred until the end of the 30<sup>th</sup> year of the contract compliance period, which is estimated to be 2047.

The total estimated maximum borrowings under construction loans is approximately \$58,864,000. The outstanding construction loans payable amounted to \$39,294,020 and 15,121,080 as of June 30, 2019 and 2018, respectively, and is \$46,014,749 as of November 25, 2019.

As a condition of the HDC Loan, 10 Minerva Place GP secured an irrevocable unsecured standby letter of credit from Bank of America, N.A. not to exceed \$30,262,500.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 13 — LOANS PAYABLE (Continued)**

**F. Project Renewal, Inc - Recoverable Grant**

As of June 30, 2017, the Corporation recognized a \$375,000 pledge, of which \$255,000 was recognized as a contribution and \$120,000 was recognized as a recoverable grant, in accordance with the donor's intentions. As of June 30, 2018, the Corporation has received \$40,000 of the total recoverable grant. The recoverable grant will be repaid in three equal installments beginning in fiscal 2020, without interest.

The loan payable balances reported in the accompanying consolidated statements of financial position are presented net of the unamortized balance of debt issuance costs of \$517,188 and \$539,640 as of June 30, 2019 and 2018, respectively. Amortization of these costs is calculated by the straight-line method, which approximates the effective interest method.

Future annual principal payments are as follows for each of the years ending after June 30, 2019 and thereafter:

2020	\$ 2,456,001
2021	39,773,163
2022	497,718
2023	477,079
2024	497,259
Thereafter	<u>29,521,972</u>
Subtotal	73,223,192
Less: unamortized debt issuance costs	<u>(517,188)</u>
Total	<u>\$ 72,706,004</u>

The interest expense and amortization of debt issuance costs for the years ended June 30, 2019 and 2018 amounted to \$914,513 and \$799,919, respectively. Unless material, below market interest loans are not discounted to fair value.

Principal and interest payments pertaining to outstanding loans payable, excluding the recoverable grant, are not cash payments made by the Corporation. Those payments are the responsibility of each government agency as the Corporation meets the obligations of the respective contract.

**NOTE 14 — BANK LINE OF CREDIT**

The Corporation has a \$3,000,000 line of credit with a financial institution expiring on August 1, 2019, and subsequently extended to October 30, 2020. Interest payments on all borrowings are due monthly. Interest is charged at the financial institution's prime rate (5.5% at June 30, 2019) plus 1%. The line of credit is collateralized by all property of the Corporation, MBMC and PRF. There were no outstanding borrowings as of June 30, 2019 and 2018 and November 25, 2019.

**NOTE 15 — NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions were available for the following purposes at June 30:

	<u>2019</u>	<u>2018</u>
Treatment and transitional housing	\$ 76,388	\$ 82,191
Medical	3,258,283	2,036,773
Employment services	1,044,097	1,079,150
Permanent housing	<u>355,163</u>	<u>227,693</u>
	<u>\$ 4,733,931</u>	<u>\$ 3,425,807</u>

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 15 — NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Net assets were released from restrictions during the years ended June 30 by incurring expenses satisfying the restricted purposes as follows:

	<u>2019</u>	<u>2018</u>
Treatment and transitional housing	\$ 5,803	\$ 1,001
Medical	321,596	367,606
Employment services	546,166	632,560
Permanent housing	<u>55,841</u>	<u>392,699</u>
	<u>\$ 929,406</u>	<u>\$ 1,393,866</u>

**NOTE 16 — SOCIAL PURPOSE VENTURE**

The Corporation's Culinary Arts Training Programs offers six months of classroom and internship training in the food service industry to low-income and formerly homeless adults. Students learn basic cooking theory and food preparation in the teaching kitchen. For the years ended June 30, 2019 and 2018, the Corporation's Culinary Arts Training Program I received \$272,202 and \$293,871, respectively, from New York State Education Department. For the years ended June 30, 2019 and 2018, the Corporation's Culinary Arts Training Program II received \$17,908 and \$27,768, respectively, from New York State Education Department.

**NOTE 17 — PENSION PLANS**

The Corporation has a defined contribution pension plan under Section 401(a) of the Code. The Corporation may make discretionary contributions to the plan for eligible employees. There were no pension contributions or expense for the years ended June 30, 2019 and 2018.

In addition, the Corporation has a defined contribution plan under Section 403(b) of the Code. The Corporation made matching contributions amounting to \$329,365 and \$348,250 to this plan for the years ended June 30, 2019 and 2018, respectively.

**NOTE 18 — CHANGE IN NON-CONTROLLING LIMITED PARTNERS' INTERESTS**

	<u>Total</u>	<u>Controlling Interest</u>	<u>Non-Controlling Interest</u>
Balance, June 30, 2017	\$ 5,770,428	\$ (817)	\$ 5,771,245
Net loss	(1,184,829)	(118)	(1,184,711)
Capital contributions	<u>1,037,814</u>	<u>-</u>	<u>1,037,814</u>
Balance, June 30, 2018	5,623,413	(935)	5,624,348
Net loss	(2,004,093)	(201)	(2,003,892)
Capital contribution	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2019	<u>\$ 3,619,320</u>	<u>\$ (1,136)</u>	<u>\$ 3,620,456</u>

**NOTE 19 — COMMITMENTS AND CONTINGENCIES**

A. The Corporation is a defendant in several lawsuits that have arisen in the ordinary course of business. It is management's belief that any settlements that arise from these suits will be within the limits of the Corporation's insurance policies. Therefore, no provision has been made in the accompanying consolidated financial statements.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 19 — COMMITMENTS AND CONTINGENCIES (Continued)**

- B. Management has determined that a portion of its billing to the New York State Office of Medicaid may have been incorrect and overstated in fiscal years 2017 and prior. If found to be accurate, this overstatement may result in monies being returned to New York State. At June 30, 2019 and 2018, approximately \$59,000 and \$616,000 is recorded as due to New York State Office of Medicaid and is included in accounts payable and accrued expenses
- C. The Corporation rents office space at 200 Varick Street, New York under a lease agreement expiring June 30, 2020, with an option to extend the lease for an additional five years. During fiscal 2017, the Corporation entered into lease agreements for shelters at 249 Varet Street in Brooklyn, New York and at 175 Blake Avenue in Bronx, New York, which commenced on September 1, 2016 and February 1, 2017, respectively, and which both expire on June 30, 2021. In addition, the Corporation leases apartments which are subleased to tenants in the supportive housing program. Rent expense amounted to \$11,671,439 and \$11,035,281 for the years ended June 30, 2019 and 2018, respectively, and is included in occupancy expense in the accompanying consolidated financial statements.

Future minimum lease payments are as follows for each of the years ending after June 30, 2019 and thereafter:

2020	\$	7,935,969
2021		5,360,870
2022		4,776,020
2023		4,900,768
2024		4,713,147
Thereafter		<u>6,379,814</u>
	\$	<u>34,066,588</u>

- D. The Corporation believes it has no uncertain tax positions as of June 30, 2019 and 2018 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

**NOTE 20 — CONCENTRATIONS**

Cash and cash equivalents and restricted cash that potentially subject the Corporation to a concentration of credit risk include cash accounts with three banks that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits \$250,000 by approximately \$7,148,000 and \$8,813,000 as of June 30, 2019 and 2018, respectively. This excess includes outstanding checks.

**NOTE 21 — NET OPERATING DEFICIT**

The Corporation has net operating deficits of (\$385,421) and (\$2,247,313) as of June 30, 2019 and 2018, respectively. Contributing to these deficits are changes in net assets without restrictions of (\$142,000) and (\$1,992,312) for the years ended June 30, 2019 and 2018, respectively. In addition, after removing the Corporation’s investment in property and equipment net of related debt, the net operating deficits are significantly higher.

The Housing Affiliates have incurred, and are independently responsible for, a major portion of the net deficit without restrictions. Generally, rental rates permitted in affordable housing projects are designed to sufficiently reimburse project owners for reasonable operating costs and funding of required reserves only. Depreciation, amortization and interest expenses are not reimbursed. Those expenses for the Housing Affiliates amounted to approximately \$2.7 and \$2.6 million for the years ended June 30, 2019 and 2018, respectively.

**PROJECT RENEWAL, INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019 AND 2018**

**NOTE 21 — NET OPERATING DEFICIT (Continued)**

The following are some of the significant initiatives that the Corporation is working on to improve its current financial position:

- Recognition of deferred developer fees due to the Corporation from various projects, within or before the year ending June 30, 2022 of approximately \$2.3 million.
- Analyzing the possibility of monetizing a portion of air rights of one property owned by a related entity in midtown Manhattan that has a potential sales value for this portion of approximately \$3.2 million.
- Evaluating financing a building that the Corporation owns that is fully depreciated and unencumbered by debt whose fair value is significant. This evaluation is also ensuring that the programs operated there will not be put at risk. The Corporation is in discussion with the funding agency to monetize the building that is fully depreciated and unencumbered by debt. This evaluation is also ensuring that programs operated there will not be put at risk.

**NOTE 22 — SUBSEQUENT EVENTS**

Management has evaluated for potential recognition and disclosure events after the date of the consolidated statements of financial position through November 25, 2019, the date the consolidated financial statements were available to be issued.



**PROJECT RENEWAL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>	<u>Amount Provided to Sub-Recipients</u>
Department of Health and Human Services				
Health Center Program Cluster:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Primary Housing Primary Care)	93.224		\$ 3,747,945	\$ -
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		<u>161,925</u>	
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		<u>94,246</u>	
Passed-through New York City Department of Health and Mental Hygiene				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	816 0810 776 B1	<u>56,783</u>	
Block Grants for Community Mental Health Services	93.958	816 1719 210	<u>145,791</u>	
Total Department of Health and Human Services			<u>4,206,690</u>	
Department of Housing and Urban Development				
Continuum of Care Program:				
PRI Transitions	14.267		580,055	
In Homes Now	14.267		570,656	
Bowery Project	14.267		370,696	
HUD Tech	14.267		285,225	
HUD Home	14.267		274,586	
Veterans Housing	14.267		88,898	
HUD In Homes Consolidated			<u>54,243</u>	
Total CFDA 14.267			<u>2,224,359</u>	
Passed-through New York City Department of Homeless Services				
Emergency Solutions Grant Program:				
Emergency Shelter - Kenton Hotel	14.231	CT107120161418004	350,151	
Emergency Shelter - Fort Washington	14.231	CT107201711407788	<u>248,220</u>	
Total CFDA 14.231			<u>598,371</u>	
Passed-through New York State Office of Alcoholism and Substance Abuse Services				
Shelter Plus Care	14.238	NY0357L2T001508	<u>368,500</u>	
Total Department of Housing and Urban Development			<u>3,191,230</u>	
United States Department of Agriculture				
SNAP Cluster:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		<u>119,000</u>	
Total United States Department of Agriculture			<u>119,000</u>	
Department of Labor				
WIOA Cluster:				
WIA Adult Program	17.258		110,732	
Total Department of Labor			<u>110,732</u>	
Total Expenditures of Federal Awards			<u>\$ 7,627,652</u>	<u>\$ -</u>

**PROJECT RENEWAL, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2019**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Project Renewal, Inc. ("PRI") for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of PRI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of PRI.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATES**

The Corporation has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' 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**

The Board of Trustees of  
Project Renewal, Inc. and Affiliates

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 consolidated financial statements of Project Renewal, Inc. and Affiliates (the "Corporation"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 25, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the Corporation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's consolidated 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 Corporation'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.

*Marks Paneth LLP*

New York, NY  
November 25, 2019

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Trustees of  
Project Renewal, Inc.

### **Report on Compliance for Each Major Federal Program**

We have audited Project Renewal, Inc.'s ("PRI") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget Compliance Supplement* that could have a direct and material effect of PRI's major federal program for the year ended June 30, 2019. PRI's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditors' Responsibility***

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

#### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of PRI 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 PRI'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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PRI'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.

### **Purpose of this Report**

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Marks Paneth LLP*

New York, NY  
March 25, 2020

**PROJECT RENEWAL, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2019**

**Section I—Summary of Auditors' Results**

**Financial Statements**

Type of Auditors' report issued: \_\_\_\_\_ Unmodified \_\_\_\_\_

Internal control over financial reporting:

Material weaknesses identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No

**Federal Awards**

Internal control over major program:

Material weaknesses identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported

Type of auditors' report issued on compliance for major program: \_\_\_\_\_ Unmodified \_\_\_\_\_

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes \_\_\_\_\_  No

Identification of major program:

U.S. Department of Health and Human Services:  
CFDA 93.224 - Health Center Program Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \_\_\_\_\_ \$750,000 \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_  Yes \_\_\_\_\_ No

**Section II—Financial Statement Findings**

No matters were reported.

**Section III—Federal Award Findings and Questioned Costs**

No matters were reported.

**PROJECT RENEWAL, INC.  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2019**

**Prior Year Findings:**

There were no findings in the prior year audit.