# START TREATMENT AND RECOVERY CENTERS, INC.
# AND
# SUBSIDIARY

TREATMENT & RECOVERY CENTERS

*The right way to treat people.*

## Consolidated Financial Statements
## and Supplementary Information
## (Together with Independent Auditors' Report)

## Year Ended December 31, 2018

MARKS PANETH

ACCOUNTANTS & ADVISORS

**START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**

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

**YEAR ENDED DECEMBER 31, 2018**

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MARKS PANETH
ACCOUNTANTS & ADVISORS

# INDEPENDENT AUDITORS' REPORT

The Board of Trustees
START Treatment and Recovery Centers, Inc. and Subsidiary

We have audited the accompanying consolidated statement of financial position of START Treatment and Recovery Centers, Inc. ("START") and Affiliated Services and Resources Corporation ("Subsidiary") (collectively, the "Agency") as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 START Treatment and Recovery Centers, Inc. and Subsidiary as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended December 31, 2018, the Agency adopted Accounting Standards Update 2016-14, "Not-for-Profit Entities". Our opinion is not modified with respect to this matter.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules (shown on pages 14-15) are presented for the purposes of additional analysis, rather than to present the financial position and changes in net assets of the subsidiary and are 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 our 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marks Paneth LLP

New York, NY
April 5, 2019

**START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2018**

| | |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents (Notes 2C and 14) | $ 6,161,530 |
| Investments in securities (Notes 2D, 2E, 3, 4 and 12) | 1,925,602 |
| Accounts receivable, net (Notes 2F and 5) | 3,898,124 |
| Prepaid expenses and other assets | 182,040 |
| **Total current assets** | 12,167,296 |
| Investment in joint venture (Note 7) | 26,450,000 |
| Due from related parties (Note 7) | 461,367 |
| Security deposits | 183,711 |
| Property and equipment, net (Notes 2G, 6, 8 and 9) | 9,324,528 |
| **TOTAL ASSETS** | $ 48,586,902 |
| **LIABILITIES** | |
| Accounts payable and accrued expenses | $ 807,487 |
| Accrued salaries, vacation and benefits | 1,387,479 |
| Mortgage payable, current (Notes 9 and 15) | 261,644 |
| Due to funding sources (Note 10) | 821,449 |
| **Total current liabilities** | 3,278,059 |
| Capital advance (Notes 8 and 15) | 5,588,356 |
| Mortgage payable, noncurrent (Notes 9 and 15) | 1,717,040 |
| Deferred rent (Notes 2I and 13B) | 104,506 |
| **TOTAL LIABILITIES** | 10,687,961 |
| **COMMITMENTS AND CONTINGENCIES** (Note 13) | |
| **NET ASSETS** (Note 2B) | |
| Net assets without donor restrictions: | |
| Operations | 30,879,809 |
| Invested in property and equipment | 2,019,132 |
| Board designated - Third Horizon building development fund | 5,000,000 |
| **TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS** | 37,898,941 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 48,586,902 |

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

## START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY
## CONSOLIDATED STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED DECEMBER 31, 2018

| | |
|---|---|
| **OPERATING ACTIVITIES**: | |
| **REVENUE AND SUPPORT** | |
| Revenue | |
| Government contracts and grants (Note 2H) | $ 2,535,884 |
| Medicaid (Note 2H) | 25,033,810 |
| Patient fees | 144,287 |
| Contributions (Note 2F) | 95,286 |
| Special events, net of direct expenses of $98,649 (Note 2J) | 18,019 |
| Investment activity (Note 4) | (33,287) |
| Rental income | 30,000 |
| Other income | 258,283 |
| **TOTAL REVENUE AND SUPPORT** | 28,082,282 |
| **EXPENSES** (Note 2L): | |
| **Program services:** | |
| Clinic operations | 22,914,051 |
| Research operations | 200,582 |
| Other programs | 1,712,590 |
| Total program services | 24,827,223 |
| **Supporting services:** | |
| Management and administration | 3,727,754 |
| Fundraising | 192,583 |
| Total support services | 3,920,337 |
| **TOTAL EXPENSES** | 28,747,560 |
| **CHANGE IN NET ASSETS FROM OPERATIONS** | (665,278) |
| **NONOPERATING ACTIVITIES**: | |
| Gain on disposition of property (Note 7) | 25,556,871 |
| **TOTAL NONOPERATING ACTIVITIES** | 25,556,871 |
| **CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | 24,891,593 |
| Net assets - beginning of year, before prior period adjustments | 20,823,424 |
| Prior period adjustments (Note 15) | (7,816,076) |
| Net assets - beginning of year, as restated | 13,007,348 |
| **NET ASSETS - END OF YEAR** | $ 37,898,941 |

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

**START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | Program Services | | | | Supporting Services | | | |
|---|---|---|---|---|---|---|---|---|
| | Clinic Operations | Research Operations | Other Programs | Total Program Services | Management and Administration | Fundraising | Total Supporting Services | Total |
| **Salaries and related expenses** (Note 2L): | | | | | | | | |
| Salaries | $ 11,715,908 | $ 148,717 | $ 1,294,238 | $ 13,158,863 | $ 2,062,871 | $ 118,713 | $ 2,181,584 | $ 15,340,447 |
| Payroll taxes and other benefits (Note 11) | 2,809,118 | 34,944 | 304,109 | 3,148,171 | 484,715 | 15,250 | 499,965 | 3,648,136 |
| **Total salaries and related expenses** | 14,525,026 | 183,661 | 1,598,347 | 16,307,034 | 2,547,586 | 133,963 | 2,681,549 | 18,988,583 |
| Professional fees (Note 2L) | 1,790,595 | - | 6,000 | 1,796,595 | 406,718 | 46,550 | 453,268 | 2,249,863 |
| Patient costs | 481,243 | 10,769 | 6,488 | 498,500 | 3,212 | - | 3,212 | 501,712 |
| Medical supplies and prescriptive drugs | 647,385 | 110 | - | 647,495 | - | - | - | 647,495 |
| Consumable supplies | 135,002 | 864 | 8,456 | 144,322 | 41,064 | 8,144 | 49,208 | 193,530 |
| Occupancy (Note 13B) | 910,576 | - | 18,374 | 928,950 | - | - | - | 928,950 |
| Real estate taxes | 195,146 | - | - | 195,146 | - | - | - | 195,146 |
| Utilities | 388,026 | - | - | 388,026 | 24,412 | - | 24,412 | 412,438 |
| Telephone | 327,150 | 2,123 | 9,405 | 338,678 | 82,705 | - | 82,705 | 421,383 |
| Outside security services | 81,676 | - | - | 81,676 | 4,685 | - | 4,685 | 86,361 |
| Repairs and maintenance | 503,439 | - | 991 | 504,430 | 69,519 | - | 69,519 | 573,949 |
| Equipment rental | 38,390 | - | - | 38,390 | 25,696 | - | 25,696 | 64,086 |
| Janitorial and maintenance supplies | 74,010 | 1,524 | 2,459 | 77,993 | 6,013 | - | 6,013 | 84,006 |
| Conference and meetings | 86,832 | - | 6,086 | 92,918 | 20,886 | - | 20,886 | 113,804 |
| Staff travel | 3,240 | 395 | 158 | 3,793 | 2,771 | - | 2,771 | 6,564 |
| Staff recruitment and development | 236,147 | 678 | 11,641 | 248,466 | 124,308 | - | 124,308 | 372,774 |
| Insurance | 311,188 | - | 8,183 | 319,371 | 118,876 | - | 118,876 | 438,247 |
| Interest (Notes 2L and 9) | 133,440 | - | - | 133,440 | - | - | - | 133,440 |
| Depreciation and amortization (Notes 2L and 6) | 659,427 | 458 | 28,797 | 688,682 | 46,691 | 3,500 | 50,191 | 738,873 |
| Bad debt expenses | 1,219,868 | - | 6,879 | 1,226,747 | 142,858 | - | 142,858 | 1,369,605 |
| Miscellaneous | 166,245 | - | 326 | 166,571 | 59,754 | 426 | 60,180 | 226,751 |
| Total expenses | $ 22,914,051 | $ 200,582 | $ 1,712,590 | $ 24,827,223 | $ 3,727,754 | $ 192,583 | $ 3,920,337 | $ 28,747,560 |

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

**START TREATEMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Change in net assets | $ 24,891,593 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation and amortization | 738,873 |
| Bad debts | 1,369,605 |
| Gain on transfer of property | (25,556,871) |
| Loss on disposal of property | 6,173 |
| Unrealized loss on investments | 120,161 |
| **Subtotal** | 1,569,534 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in assets: | |
| Accounts receivable | (2,696,782) |
| Prepaid expenses and other assets | 63,115 |
| Due from related parties | (369,103) |
| Security deposits | 352,180 |
| Increase (decrease) in liabilities: | |
| Accounts payable and accrued expenses | (975,805) |
| Accrued salaries, vacation and benefits | 1,387,479 |
| Deferred rent | 104,506 |
| Due to funding sources | 308,643 |
| **Net Cash Used In Operating Activities** | (256,233) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Purchase of securities | (2,844,031) |
| Proceeds from sales of securities | 2,822,653 |
| Purchases of property and equipment | (1,285,995) |
| **Net Cash Used In Investing Activities** | (1,307,373) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | |
| Repayment of mortgages payable | (249,036) |
| **Net Cash Used In Investing Activities** | (249,036) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (1,812,642) |
| Cash and cash equivalents - beginning of year | 8,349,883 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 6,537,241 |
| **Supplemental Disclosure of Cash Flow Information:** | |
| Cash paid during the year for interest | $ 101,375 |
| **Supplemental Disclosure of Non-Cash Financing Activities:** | |
| Capital advance | $ 5,588,356 |
| Mortgage payable | $ 2,227,720 |

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

## NOTE 1 − ORGANIZATION AND NATURE OF ACTIVITIES

START Treatment and Recovery Centers, Inc. ("START") and Subsidiary (collectively "the Agency") is a private, nonprofit corporation established in 1969. The Agency primarily offers substance abuse treatment and rehabilitation services in the boroughs of Brooklyn and Manhattan of New York City. In addition, the Agency performs research in several areas related to substance abuse.

Affiliated Services and Resources Corporation ("ASRC") is a private, nonprofit corporation and wholly-owned subsidiary of START which owns and manages facilities rented to nonprofit corporations.

Both START and ASRC are exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code.

## NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of Accounting:*** The Agency's consolidated financial statements have been prepared using the accrual basis of accounting. The Agency adheres to accounting principles generally accepted in the United States of America ("U.S. GAAP") which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying consolidated financial statements consist of the accounts of START and ASRC (collectively, the "Agency"). All inter-company transactions are eliminated in consolidation.

B. ***Basis of Presentation:*** The Agency maintains its net assets under the following three classes:

- Net assets without donor restrictions – represents resources available for support of the Agency's operations over which the Board of Trustees has discretionary control.

  Board designated fund consists of funds designated by the Board of Trustees which represents a portion of the Agency's net assets without donor restrictions for the development of the Third Horizon treatment facility which is owed by the Agency.

- Net assets with donor restrictions – represents net assets subject to donor-imposed stipulations, including stipulations that will be met either by actions of the Agency or the passage of time, stipulations that they be maintained intact in perpetuity by the Agency. As of December 31, 2018, there are no net assets with donor restrictions.

C. ***Cash and Cash Equivalents:*** Cash equivalents include all highly liquid instruments with maturities of three months or less when acquired.

D. ***Investments*** – Investments are carried at fair value. Net appreciation/(depreciation) in the fair value of investments, which includes realized and unrealized gains and losses on those investments, is reported in the consolidated statements of activities as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law. Cost basis is determined on the date of purchase. Securities received as gifts are recorded at fair value at the date of the gift. Investment securities are exposed to various market risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least possible that changes in risks in the near term could materially affect investment balances.

E. ***Fair Value Measurements*** – Investments are stated at fair value. 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 reported in Note 12.

F. ***Contributions and Accounts Receivables*** – Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. 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 if deemed material to the consolidated financial statements. Conditional promises to give are not included as support until the conditions are substantially met. The Agency's management evaluates the need for an allowance for doubtful accounts applicable to its contributions and accounts receivable based on a combination of factors such as management's estimate of the creditworthiness of its donors, a review of individual accounts outstanding, and the aged basis of the receivables, current economic conditions and historical experience. As of December 31, 2018, the Agency determined that an allowance of approximately $685,000 was necessary for its accounts receivable.

## NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. ***Property and Equipment:*** Property and equipment is stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. The Agency capitalizes property and equipment with a cost of $1,000 or more and a useful life of greater than one year. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the useful life of the asset or the remaining term of the lease. Certain purchases of equipment are expensed by the Agency (rather than capitalized) because the cost of these items were reimbursed by governmental funding sources, where the contractual agreement specifies that title to these assets rests with the governmental funding source rather than the Agency. Under the terms of its grant with its principal governmental funding agency, title to capitalized assets acquired with government contract revenues reverts to that government funding agency, should the Agency cease operations.

H. ***Revenue Recognition:*** The Agency is primarily funded through billings to the State of New York – Department of Health for patient services provided under Title XIX of the Social Security Act of 1985 ("Medicaid") and by the New York State Department of Health ("DOH") – Office of Alcoholism and Substance Abuse Service ("OASAS"). Effective October 1, 2015, Medicaid Managed Care became effective. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payers, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. 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.

Revenue from billings to Medicaid is recorded at the time service is provided. Program revenue under the Agency's OASAS contracts and its federal and state contracts/grants is recognized in an amount sufficient to absorb allowable expenditures including capital items and excluding depreciation, net of all applicable third-party reimbursements, up to the maximum allowable amount under the terms of the contracts/grants. A receivable from the funding agency is recognized to the extent expenses have been incurred but not reimbursed. A liability is recorded when contract advances exceed expenses.

I. ***Deferred Rent:*** The Agency leases real property under operating leases expiring on May 31, 2022 and May 31, 2027 for its offices located at 2191 Third Avenue, New York and 2406-12 Amsterdam, New York, respectively. For the year ended December 31, 2018, the Agency recorded an adjustment to rent expense to reflect its straight-lining policy that amounted to $104,506. Straight-lining of rent gives rise to a timing difference that is reflected as deferred rent in the accompanying consolidated statement of financial position.

J. ***Special Events Direct Costs:*** The direct costs of special events include expenses for the benefit of the donor. For example, meals and facilities rental are considered direct costs of special events.

K. ***Prior Period Activity:*** There are occasions when funding source reimbursements for prior years are adjusted in the current year. Such adjustments may be due to additional monies available over and above original contract amounts, recoupment by funding agencies, audit results, final contract reconciliation by funding agencies, etc.

L. ***Functional Expenses:*** The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited as determined by management. Expenses that can be identified with a specific program are charged directly to the particular program.

The consolidated financial statements report certain categories of expenses that are attributable 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 depreciation and amortization which are allocated on a square footage basis, as well as salaries, benefits, payroll taxes, professional services, interest, insurance and other which are allocated on the basis of estimates of time and effort.

M. ***Use of Estimates:*** The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the consolidated financial statements. Actual results could differ from these estimates.

## NOTE 2 − SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. ***Recent Accounting Pronouncements:*** Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, "Not-for-Profit Entities" was adopted for the year ended December 31, 2018. ASU 2016-14 provides for a number of changes, including the presentation of two classes of net assets and enhanced disclosure on liquid resources and expense allocation. These changes had no impact on the change in net assets for the year ended December 31, 2018.

## NOTE 3 – LIQUIDITY AND AVAILABILITY

The Agency 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 Agency has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, investments and a line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Agency considers all expenditures related to its ongoing program activities as well as the supporting services to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Agency anticipates collecting sufficient revenue to cover general expenditures not covered by restricted resources. Refer to the consolidated statement of cash flows which identifies the sources and uses of the Agency's cash.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position date, comprise the following:

| | |
|---|---|
| Cash and cash equivalents | $ 1,161,530 |
| Accounts receivable | 3,898,124 |
| Investments | 1,925,602 |
| | $ 6,985,256 |

The Agency also has a line of credit available to meet short-term needs. See Note 13C for information about this line of credit.

## NOTE 4 − INVESTMENTS

Investments consist of the following as of December 31, 2018:

| | |
|---|---|
| Fixed income: | |
| US Government securities | $ 82,849 |
| Corporate bonds | 1,062,051 |
| Mutual funds | 751,287 |
| Equity securities – mutual funds | 29,415 |
| | $ 1,925,602 |

Investment activity consists of the following for the year ended December 31, 2018:

| | |
|---|---|
| Interest and dividends | $ 96,433 |
| Realized and unrealized loss on investments | (120,161) |
| Investment fees | (9,559) |
| | $ (33,287) |

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

## NOTE 5 − ACCOUNTS RECEIVABLE

Accounts receivable consist of the following as of December 31, 2018:

| | |
|---|---|
| NYS DOH–Medicaid/Managed Care Organizations | $ 3,082,713 |
| NYC Administration for Children's Services | 902,320 |
| NYS OASAS | 179,174 |
| Patient-Centered Outcomes Research Initiative | 169,494 |
| Jewish Board of Family and Children Services | 161,257 |
| Other receivables | 88,255 |
| Sub-total | 4,583,213 |
| Less – Allowance for doubtful accounts | (685,089) |
| | $ 3,898,124 |

## NOTE 6 − PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31, 2018:

| | | Estimated Useful Lives |
|---|---|---|
| Land | $ 427,590 | |
| Buildings and improvements | 15,623,318 | 25 Years |
| Furniture and equipment | 7,984,177 | 3-10 Years |
| Vehicles | 239,991 | 5 Years |
| Construction in progress | 706,431 | |
| | 24,981,507 | |
| Less: Accumulated depreciation | 15,656,979 | |
| | $ 9,324,528 | |

Depreciation expense amounted to $738,873 for the year ended December 31, 2018.

As of December 31, 2018, the fair market value of the Agency's properties amounted to approximately $40 million based on a comparable sales analysis performed by a licensed broker.

As of December 31, 2018, construction in progress relates to renovation projects at the Third Horizon building and Highbridge clinic. The projects at Third Horizon building and Highbridge clinic are expected to be completed in April 2019 and May 2019, respectively, with expected future costs of approximately $811,000 and $2,519,000, respectively.

## NOTE 7 − RELATED PARTY TRANSACTIONS

In December 2014, START entered into a Contribution Agreement pursuant to which on December 31, 2018 START became an 83% member of a New York Limited Liability Company, Delshah-OTL-START 22 Chapel JV LLC (the "JV") along with a 17% member, DELSHAH/OTL 22 LLC (the "Managing Member"). The JV's purpose is to, solely or through one more subsidiary, own the land located at 22 Chapel Street, Brooklyn, NY (the "land"), construct a new building that will consist of approximately 180 rental units and a separate 14,076 square foot unit (the "START Unit") to be occupied by START upon completion for its administrative offices (the "Project"). The JV is the sole member of 22 Chapel EB5 LLC ("EB5"), a Delaware limited liability company. EB5 is the sole member of another Delaware limited liability company, Delshah-OTL-START 22 Chapel Mezz borrower LLC (the "Mezz Borrower LLC"). The Mezz Borrower LLC is the sole member of another Delaware limited liability company, Delshah-OTL-START 22 Chapel Property Owner LLC (the "Property Owner LLC"). The purpose of the Property Owner LLC is to develop the Project.

## NOTE 7 − RELATED PARTY TRANSACTIONS (Continued)

On December 17, 2014, a contribution agreement and an operating agreement (collectively, the “agreements”) were executed by and between the JV, Managing Member and START (collectively the “Parties”) by which START agreed to transfer and convey title to the land to the JV, or through one or more subsidiary, for a mutually agreed upon fair value in the amount of $24 Million which is START’s capital contribution. The parties amended the agreements in November 2017 and December 2018, by which the fair market value of the land and START’s capital contribution was increased to $26,450,000. On December 31, 2018, pursuant to a bargain and sale deed executed between START and the Property Owner LLC, the title for the land was conveyed to the Property Owner, LLC for $26,450,000. As of the date of the transfer the net book value of the property amounted to $893,129 and accordingly, START recorded a gain in the amount of $25,558,871 and investment in JV of $26,450,000 in the accompanying consolidated financial statements. As of December 31 2018, the outstanding amount due from JV amounted to $461,367.

The estimated cost of the project is $100 Million which is funded through a loan in the amount of $40.5 Million from a Canadian limited partnership evidenced by two promissory notes executed by Mezz Borrower LLC and another loan in the amount of $62 Million from a Bank evidenced by two promissory notes executed by the Property Owner, LLC. The loans are collateralized by mortgages on the land. As a requirement of the above-referenced loans, and following completion and delivery of the START Unit, START has agreed to enter into a five-year lease-back of the START Unit at an annual base rent of $1,217,237 for the first year, with 3% increases each year thereafter. Under the terms of the Operating Agreement of the JV, START is entitled to be reimbursed out of available cash of the JV for all rent and other charges paid by START under such lease prior to any other distribution from the JV to any other member of the JV. START is not a guarantor on the loans and, except for the lease obligation referenced above, no assets of START other than the value of its interest in the JV will be at risk with respect to this Project.

Although START is an 83% member in the JV, the deal is structured in such a way that no individual or entity, when aggregated with its affiliates, owns 10% or more of the direct or indirect beneficial interest in the Property Owner, LLC. Accordingly, control does not rest with START, and therefore, START uses the equity method of accounting to report its interest in the JV.

## NOTE 8 − CAPITAL ADVANCE

In April 2008, the Agency entered into a state aid grant lien agreement (the “Agreement”) with OASAS to fund the rehabilitation of its alcoholism and substance abuse facility located at 937 Fulton Street, Brooklyn, New York. The maximum funding amount was $6,100,000. Pursuant to the Agreement, the capital advance will be refinanced with the proceeds of bonds issued by the Dormitory Authority of the State of New York (“DASNY”) by a mortgage loan closing and OASAS will pay the mortgage directly to DASNY.

As of December 31, 2018, the total advances received amounted to $5,588,356. The rehabilitation project was completed in December 2015.

## NOTE 9 – MORTGAGE PAYABLE

Mortgage payable to the DASNY for the Agency’s Chemical Dependence Treatment Program facility located at 119-121 West 124th Street, New York, New York and secured by a mortgage on the facility. The mortgage bears interest at the rate of 4.71% per annum on the unpaid principal balance and shall be payable to DASNY in 40 semi-annual installments (due February and August 15th each year) in the amount as set forth in the agreement. The mortgage matures February 2025. OASAS provides the Agency with funding to service the required mortgage through operating grants. The outstanding balance as of December 31, 2018 was $1,978,684.

For the year ended December 31, 2018, interest expense amounted to $133,440.

Future annual principal repayments are as follows for the years ended after December 31, 2018:

| | |
|---|---|
| 2019 | $ 261,644 |
| 2020 | 272,677 |
| 2021 | 285,287 |
| 2022 | 299,472 |
| 2023 | 315,234 |
| Thereafter | 544,370 |
| | $ 1,978,684 |

## NOTE 10 – DUE TO FUNDING SOURCES

Due to funding sources includes funds that were received by the Agency under government grants, primarily from OASAS, for which the Agency has not yet met the grant conditions. Should these conditions not be met, these funds would then be due back to the governmental funding sources.

## NOTE 11 − RETIREMENT PLAN

The Agency maintains a qualified defined contribution retirement plan (the "Plan") for all its full-time employees who are at least 21 years of age, have completed one year of service and have worked 1,000 hours or more during the year. The Plan is funded through Agency's annual contributions equal to 7.5 percent of eligible employees' current salaries. Pension expense for the year ended December 31, 2018 amounted to $1,034,956.

## NOTE 12 – 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 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 lowest priority to Level 3 inputs.

In determining fair value, the Agency utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs to the extent possible in its assessment of fair value.

Following is a description of the valuation methodologies used for assets measured at fair value.

**Equities**: Equities are valued at the closing price reported on the active market on which the individual securities are traded.

**Mutual Funds**: Mutual funds are valued at the daily closing price reported in the active market on which the funds are traded. The funds are Net Asset Value ("NAV") and expected to be transacted at that price. The mutual funds held by the Agency are deemed to be actively traded.

**Fixed Income**: Investments are valued at the closing price reported in the active market in which the bonds are traded.

Financial assets carried at fair value at December 31, 2018 are classified in the table as follows:

| | Level 1 | Level 2 | Total |
|---|---|---|---|
| Assets Carried at Fair Value: | | | |
| Fixed Income | | | |
| U.S. Government | $ - | $ 82,849 | $ 82,849 |
| Corporate bonds | - | 1,062,051 | 1,062,051 |
| Total Fixed Income | - | 1,144,900 | 1,144,900 |
| Fixed Income | | | |
| Mutual funds | 751,287 | - | 751,287 |
| Equities | 29,415 | - | 29,415 |
| Total Assets Carried at Fair Value | $ 780,702 | $ 1,144,900 | $ 1,925,602 |

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Change in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning or end of the reporting period depending on when the economic condition occurred affecting the valuation.

## NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

The significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets are evaluated. For the year ended December 31, 2018, there were no transfers in or out of levels 1, 2 or 3.

## NOTE 13 − COMMITMENTS AND CONTINGENCIES

A. Pursuant to the Agency's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of the Agency involving transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances.

B. The Agency is obligated, pursuant to several non-cancelable operating lease agreements, to approximate minimum future annual rentals for each of the years ended after December 31, 2018 as indicated below:

| | |
|---|---|
| 2019 | $ 653,123 |
| 2020 | 673,901 |
| 2021 | 696,890 |
| 2022 | 537,209 |
| 2023 | 424,642 |
| Thereafter | 1,547,618 |
| | $ 4,533,383 |

Rent expense for the year ended December 31, 2018 which is recorded on a straight-line basis, amounted to $1,019,589.

C. The Agency has a revolving line of credit with a financial institution for $250,000. The line of credit balance amounted to $0 as of December 31, 2018. The line expires on December 12, 2019 and is collateralized by the Agency's business assets, and carries interest at one percentage point above the Wall Street Prime Rate (amounting to an interest rate of 6.50% as of December 31, 2018. As of April 5, 2019, no amounts were outstanding.

D. The Agency has been named as a defendant in certain legal actions. Upon review by the Agency's legal counsel, management believes that, if liability is established, all pending claims will be adequately covered by the Agency's insurance coverage.

E. The Agency believes it does not have any uncertain tax positions as of December 31, 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 14 − CONCENTRATIONS

Cash and cash equivalents that potentially subject the Agency to a concentration of credit risk include cash accounts at a bank that exceeded the Federal Deposit Insurance Corporation ("FDIC") insurance limits by approximately $6,119,000 as of December 31, 2018.

## NOTE 15 – PRIOR PERIOD ADJUSTMENTS

Subsequent to the issuance of the prior year consolidated financial statements, the Agency's management discovered that capital advances received from OASAS and a mortgage payable to DASNY were not properly reflected in the consolidated financial statements and, accordingly the beginning net asset balance was overstated by $7,816,076. As a result, for the year ended December 31, 2017, the Agency's net assets balance decreased by $7,816,076 from the balance that was previously reported. A summary of the adjustment to the beginning net assets is below:

| | As previously Reported | As Restated | Adjustment |
|---|---|---|---|
| Capital Advance | $ - | $ 5,588,356 | $ 5,588,356 |
| Mortgage payable | $ - | $ 2,227,720 | $ 2,227,720 |
| Net Assets without donor restriction | $ 20,823,424 | $ 13,007,348 | $ (7,816,076) |

## NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the consolidated statement of financial position through April 5, 2019, the date the consolidated financial statements were available to be issued.

**START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**
**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**
**AS OF DECEMBER 31, 2018**

| | START Treatment and Recovery Centers | Affiliated Services and Resources Corporation | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 6,066,379 | $ 95,151 | $ - | $ 6,161,530 |
| Investments | 1,925,602 | - | - | 1,925,602 |
| Accounts receivable, net | 3,898,124 | - | - | 3,898,124 |
| Prepaid expenses and other assets | 182,040 | - | - | 182,040 |
| **Total current assets** | 12,072,145 | 95,151 | - | 12,167,296 |
| Investment in joint venture | 26,450,000 | - | - | 26,450,000 |
| Due from related parties | 461,367 | - | - | 461,367 |
| Security deposits | 183,711 | 20,040 | (20,040) | 183,711 |
| Property and equipment, net | 9,147,052 | 177,476 | - | 9,324,528 |
| **TOTAL ASSETS** | $ 48,314,275 | $ 292,667 | $ (20,040) | $ 48,586,902 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ 770,989 | $ 36,498 | $ - | $ 807,487 |
| Accrued salaries, vacation and benefits | 1,387,479 | - | - | 1,387,479 |
| Mortgage payable, current | 261,644 | - | - | 261,644 |
| Due to funding sources | 821,449 | - | - | 821,449 |
| **Total current liabilities** | 3,241,561 | 36,498 | - | 3,278,059 |
| Due to related parties | 20,040 | - | (20,040) | - |
| Capital advance | 5,588,356 | - | - | 5,588,356 |
| Mortgage payable, noncurrent | 1,717,040 | - | - | 1,717,040 |
| Deferred rent | 104,506 | - | - | 104,506 |
| **TOTAL LIABILITIES** | 10,671,503 | 36,498 | (20,040) | 10,687,961 |
| **NET ASSETS WITHOUT DONOR RESTRICTIONS** | | | | |
| Operations | 30,801,116 | 78,693 | - | 30,879,809 |
| Invested in property and equipment | 1,841,656 | 177,476 | - | 2,019,132 |
| Board disignated - Third Horizon building development fund | 5,000,000 | - | - | 5,000,000 |
| **TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS** | 37,642,772 | 256,169 | - | 37,898,941 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 48,314,275 | $ 292,667 | $ (20,040) | $ 48,586,902 |

See independent auditors' report.

**START TREATMENT AND RECOVERY CENTERS, INC. AND SUBSIDIARY**
**CONSOLIDATING SCHEDULES OF ACTIVITIES**
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| | START Treatment and Recovery Centers | Affiliated Services and Resources Corporation | Eliminations | Total |
|---|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | | |
| **REVENUE AND SUPPORT** | | | | |
| Revenue | | | | |
| Government contracts and grants | $ 2,535,884 | $ - | $ - | $ 2,535,884 |
| Medicaid | 25,033,810 | - | - | 25,033,810 |
| Patient fees | 144,287 | - | - | 144,287 |
| Contributions | 95,286 | - | - | 95,286 |
| Special events, net of direct expenses $98,649 | 18,019 | - | - | 18,019 |
| Investment activity | (33,287) | - | - | (33,287) |
| Rental income | - | 30,000 | - | 30,000 |
| Other income | 258,280 | 3 | - | 258,283 |
| **TOTAL REVENUE AND SUPPORT** | 28,052,279 | 30,003 | - | 28,082,282 |
| **OPERATING EXPENSES** | | | | |
| **Program services:** | | | | |
| Clinic operations | 22,914,051 | - | - | 22,914,051 |
| Research activities | 200,582 | - | - | 200,582 |
| Other programs | 1,699,214 | 13,376 | - | 1,712,590 |
| Total program services | 24,813,847 | 13,376 | - | 24,827,223 |
| **Support services:** | | | | |
| Management and administration | 3,726,254 | 1,500 | - | 3,727,754 |
| Fundraising | 192,583 | - | - | 192,583 |
| Total support services | 3,918,837 | 1,500 | - | 3,920,337 |
| **TOTAL EXPENSES** | 28,732,684 | 14,876 | - | 28,747,560 |
| **CHANGE IN NET ASSETS FROM OPERATIONS** | (680,405) | 15,127 | - | (665,278) |
| **NONOPERATING ACTIVITIES:** | | | | |
| Gain on disposition of property | 25,556,871 | - | - | 25,556,871 |
| **TOTAL NONOPERATING ACTIVITIES** | 25,556,871 | - | - | 25,556,871 |
| **CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS** | 24,876,466 | 15,127 | - | 24,891,593 |
| Net assets - beginning of year, before prior period adjustments | 20,582,382 | 241,042 | - | 20,823,424 |
| Prior period adjustments | (7,816,076) | - | - | (7,816,076) |
| Net assets - beginning of year, as restated | 12,766,306 | 241,042 | - | 13,007,348 |
| **NET ASSETS - END OF YEAR** | $ 37,642,772 | $ 256,169 | $ - | $ 37,898,941 |

See independent auditors' report.