Promesa Administrative Services Organization, Inc.

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

Promesa Administrative Services Organization, Inc.
December 31, 2018 and 2017

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors,
Promesa Administrative Services Organization, Inc.:

We have audited the accompanying financial statements of Promesa Administrative Services Organization, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Promesa Administrative Services Organization, Inc. as of December 31, 2018 and 2017, and the changes in its net deficiency and its 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 1, in 2018, the Organization 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.

WithumSmith+Brown, PC

September 30, 2019

Promesa Administrative Services Organization, Inc.
Statements of Financial Position
December 31, 2018 and 2017

	2018	2017
Assets		
Cash	$ 3,772,162	$ 2,356,797
Due from affiliates, net	1,037,322	1,236,428
Other assets	--	58,932
Total assets	$ 4,809,484	$ 3,652,157
Liabilities and Net Deficiency		
Liabilities		
Accounts payable	$ 4,015,939	$ 2,908,692
Accrued expenses	1,021,362	982,915
Total liabilities	5,037,301	3,891,607
Net deficiency without donor restrictions	(227,817)	(239,450)
Total liabilities and net deficiency	$ 4,809,484	$ 3,652,157

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

Promesa Administrative Services Organization, Inc.
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018	2017
Support and revenue		
Affiliated service fees	$ 10,416,954	$ 10,361,611
Expenses		
Salaries and fringe benefits	10,228,650	10,089,489
Rent	188,304	184,619
	10,416,954	10,274,108
Other (expense) income		
Bad debt expense	--	(87,500)
Miscellaneous income	11,633	4,024
	11,633	(83,476)
Change in net deficiency without donor restrictions	11,633	4,027
Net deficiency without donor restrictions, beginning of year	(239,450)	(243,477)
Net deficiency without donor restrictions, end of year	$ (227,817)	$ (239,450)

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

Promesa Administrative Services Organization, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net deficiency without donor restrictions	$ 11,633	$ 4,027
Adjustments to reconcile change in net deficiency without donor restrictions to net cash provided by operating activities		
Bad debt expense	--	87,500
Changes in		
Due from affiliates, net	199,106	(131,028)
Due from unaffiliated entity	--	58,492
Other assets	58,932	(5,760)
Accounts payable	1,107,247	1,150,661
Accrued expenses	38,447	140,203
Net cash provided by operating activities	1,415,365	1,304,095
Cash		
Beginning of year	2,356,797	1,052,702
End of year	$ 3,772,162	$ 2,356,797

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies followed in the preparation of the financial statements are summarized as follows:

Organization and Nature of Operations
Promesa Administrative Services Organization, Inc. ("PASO" or the "Organization"), located in the Bronx, NY, was incorporated under the NYS not-for-profit corporation law in 1990. PASO's legal name was changed from Promesa Special Projects Corporation, Inc. effective October 24, 2001 by amendment to the Certificate of Incorporation. Operations began January 1, 2000. Its mission is to assist Acacia Network, Inc. ("Acacia"), and its Affiliates and Associates in the furtherance of their corporate purposes through the provision of supervisory and administrative services. The services are charged to the related benefiting entities.

Financial Statement Presentation
PASO reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions in accordance with the accounting pronouncement on net assets of non-profit organizations. PASO does not have any net assets with donor restrictions at December 31, 2018 and 2017.

Revenue Recognition
PASO recognizes revenues equal to the supervisory and administrative services provided to the various affiliated and unaffiliated organizations. Revenues are recognized as billed which coincides with the incurrence of the expenditures. All entities which receive supervisory and administrative services from PASO are billed accordingly.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures. Significant estimates were made with regards to the allowance for uncollectible receivables, allocation of premiums to related parties for the self-insurance plan, and allocation of overhead expenses. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk
Financial instruments which potentially subject PASO to concentration of credit risk include cash on deposit with a financial institution which, at times during the year, may exceed the $250,000 Federal Deposit Insurance Corporation ("FDIC") insured limit. PASO does not believe any credit risk exists since it has placed these funds in a high quality financial institution which it monitors throughout the year.

The vast majority of PASO's revenue is generated from related party organizations (see Note 3). In addition PASO has significant receivables from related parties, the realization of which is dependent on the entities' continued viability. These related party receivables have been netted against related party payables in the statements of financial position.

Income Taxes
PASO is exempt from Federal, New York State, and New York City income taxes under Section 501(c)(3) of the Internal Revenue Code and New York Estates, Powers and Trust Law and Article 7-A of the Executive Law. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

PASO follows generally accepted accounting principles related to uncertain tax positions which require tax effects from an uncertain tax position to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. If an uncertain tax position meets the more-likely-than-not threshold, the largest amount of tax benefit that is greater than 50 percent likely to be recognized upon ultimate settlement with the taxing authority is recorded.

PASO's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. Management has evaluated the tax positions reflected in PASO's tax filings and does not believe that any significant uncertain tax positions exist. PASO did not record any tax related interest or penalties during the years in question.

PASO files Form 990 information returns in the U.S. federal jurisdiction and CHAR 500 in the State of New York jurisdiction.

Fair Value of Financial Instruments
The carrying amounts of financial instruments including cash, other assets, accounts payable, accrued expenses, due from unaffiliated entity, net and due from affiliates, net approximate their fair value because the expected collection or payment period is relatively short or because the terms are similar to market terms.

Functional Allocation of Expenses
The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Below are functional expenses as reported at December 31, 2018:

	Program	Management and General	Fundraising
Salaries and fringe benefits	$ --	$ 10,228,650	$ --
Rent	--	188,304	--
	$ --	$ 10,416,954	$ --

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

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 are as follows:

	ASU 2016-14 Classifications		
Net Deficiency Classifications	**Net Deficiency Without Restrictions**	**Net Deficiency With Restrictions**	**Total**
Net deficiency			
Unrestricted	$ (239,450)	$ --	$ (239,450)
Temporarily restricted	--	--	--
Permanently restricted	--	--	--
Total net deficiency	$ (239,450)	$ --	$ (239,450)

Recent Accounting Pronouncements Issued Not Yet Adopted

Revenue Recognition – Exchange Transactions

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 *Revenue from Contracts with Customers* (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. Together with subsequent amendments, this created Accounting Standards Codification Topic 606 ("ASC 606"). ASC 606 requires an entity to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the entity expects to receive for those goods or services. ASC 606 also expands disclosure requirements. ASC 606 will be effective for the Organization beginning January 1, 2019. ASC 606 allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. PASO is currently evaluating the impact of adoption of ASC 606. At this time, management believes that ASC 606 will not have a material impact on its financial statements because existing contractual performance obligations, which determine when and how revenue is recognized, are not materially changed under ASC 606.

Leases

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

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

At December 31, 2018, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial assets	
Cash	$ 3,772,162
Due from affiliates, net	1,037,322
Total financial assets and liquidity resources available within one year	$ 4,809,484

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

3. RELATED PARTY TRANSACTIONS

PASO administers Acacia Network, Inc. ("Acacia")'s self-funded health, dental, vision and prescription medical plan for all full time employees of Acacia, its affiliated companies, and their dependents. Included in amounts due to Acacia are certain advances and the excess or deficiency of premiums collected over claims paid on the self-insured employee benefit plan.

Due from Affiliates - Net

Due from entities affiliated through common board members and management consists of the following at December 31:

	2018	2017
Due to Promesa Residential Health Care Facility, Inc.	$ (4,417,070)	$ (5,345,597)
Due from Promesa Foundation, Inc.	77,439	140,418
Due from Promesa Housing Development Fund Corporation, Inc.	3,624,080	2,421,620
Due to Promesa, Inc.	(7,894,336)	(3,743,336)
Due from Acacia Network Housing, Inc.	2,892,014	2,339,163
Due from The Julio A. Martinez Memorial Fund	18,941	17,171
Due from Promesa Enterprises, Inc.	302,991	280,792
Due to Acacia Network, Inc.	(3,062,924)	(995,360)
Due from East Harlem Council for Community Improvement, Inc.	581,795	292,006
Due from Bronx Addiction Services Integrated Concepts Systems, Inc.	2,226,147	1,632,594
Due from South Bronx Community Management, Inc.	1,618,443	1,065,068
Due from United Bronx Parents, Inc.	240,025	214,793
Due from La Casa De Salud, Inc.	322,373	383,975
Due from Loisaida, Inc.	140,322	84,485
Due from Hispanos Unidos de Buffalo, Inc.	148,107	40,674
Due from Audubon Partnership for Economic Development Corporation	21,587	21,181
Due from Community Association of Progressive Dominicans, Inc., net	1,297,689	837,664
Due from Capital District Latinos, Inc.	19,407	14,118
Due from La Rama, Inc.	314	314
Due from Palacio Dorado Puerto Rico Housing, LLC	6,427	6,427
Due from El Regreso Foundation, Inc.	340,319	206,168
Due from Institute for Puerto Rican/Hispanic Elderly, Inc.	1,364,613	866,552
Due from Greenhope Services for Women, Inc.	296,305	137,703
Due from Greenhope Candace House Housing Development Fund Corp	6,869	--
Due from La Liga	18,431	--
Due from Casa Acacia, LLC	28,423	13,956
Due from Sera Security Services, LLC	34,164	16,186
Due from Structured Employment Economic Development Corporation, net	784,427	287,693
	$ 1,037,322	$ 1,236,428

The due from (to) affiliates balances have been recorded at their net realizable values. For each of the years ended December 31, 2018 and 2017, PASO had an allowance for doubtful accounts of $403,900.

In addition, PASO had payables of $3,378,530 and $2,279,553 due to five related parties and three related parties, respectively, included in accounts payable at December 31, 2018 and 2017, respectively.

PASO has two leases with an affiliate for the use of space through 2021 and 2026. The rent expense for the years ended December 31, 2018 and 2017 amounted to $188,304 and $184,619, respectively.

The aggregate minimum annual rental commitment, under the lease for the periods set forth below is as follows:

Year	Amount
2019	$ 194,006
2020	198,856
2021	177,132
2022	176,221
2023	180,627
Thereafter	438,689
	$ 1,365,531

Allocated salaries, fringe benefits and rent were charged to the affiliated entities as follows at December 31:

	2018	2017
Promesa Residential Health Care Facility, Inc.	$ 1,429,142	$ 1,559,431
Promesa Foundation, Inc.	75,873	91,338
Promesa Housing Development Fund Corporation, Inc.	333,633	306,387
Promesa, Inc.	3,553,282	3,708,798
Bronx Addiction Services Integrated Concepts Systems, Inc.	437,330	381,188
Acacia Network Housing, Inc.	1,176,939	1,081,899
The Julio A. Martinez Memorial Fund	30,542	30,327
South Bronx Community Management Company, Inc.	448,259	456,813
United Bronx Parents, Inc.	468,587	564,552
La Casa de Salud, Inc.	410,500	314,421
Loisaida, Inc.	75,516	36,456
Hispanos Unidos de Buffalo, Inc.	53,534	45,426
Audubon Partnership for Economic Development Corporation	288	273
Community Association of Progressive Dominicans, Inc.	396,662	388,699
East Harlem Council for Community Improvement, Inc.	563,140	573,781
Promesa Enterprises, Ltd.	277,196	--
El Regreso Foundation, Inc.	105,099	106,287
Institute for Puerto Rican/Hispanic Elderly, Inc.	324,992	376,117
Greenhope Services for Women, Inc.	141,567	97,507
Structured Employment Economic Development Corporation	114,873	241,911
	$ 10,416,954	$ 10,361,611

4. PENSION PLAN

The Promesa, Inc. Employee Retirement Plan is a multi-employer defined contribution plan covering substantially all employees of PASO and its related parties. Employer contributions are discretionary and are calculated at 5 percent of base salary. Pension expense for PASO amounted to $270,545 and $295,254 for the years ended December 31, 2018 and 2017, respectively. This amount is included in the allocated fringe benefits to the related benefiting organizations.

5. SUBSEQUENT EVENTS

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