Promesa Residential Health Care Facility

Independent Auditor's Report and Financial Statements

December 31, 2018

BKD
CPAs & Advisors

Promesa Residential Health Care Facility
December 31, 2018

Contents

BKD
CPAs & Advisors
655 Third Avenue, Suite 1200 | New York, NY 10017-9115
212.867.4000 | Fax 212.867.9810 | bkd.com

Independent Auditor's Report

Board of Directors
Promesa Residential Health Care Facility
Bronx, New York

We have audited the accompanying financial statements of Promesa Residential Health Care Facility, which comprise the balance sheet as of December 31, 2018, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Promesa Residential Health Care Facility as of December 31, 2018, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The 2017 financial statements, before they were restated for the matters discussed in *Note 15*, were audited by other auditors, and their report thereon, dated July 13, 2018, expressed an unmodified opinion. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

New York, New York
December 12, 2019

Promesa Residential Health Care Facility
Balance Sheet
December 31, 2018

Assets

Current Assets	
Cash and cash equivalents	$ 4,752,663
Accounts receivable (net of allowance for doubtful accounts of $855,000)	2,677,994
Estimated amounts due from third-party payors	66,704
Due from affiliated entities	5,109,410
Prepaid expenses and other assets	217,426
Total current assets	12,824,197
Assets Limited as to Use	
Depreciation reserve fund - cash	170,763
Cash - resident trust funds	78,764
Total assets limited as to use	249,527
Other Assets	
Cash - escrow	4,326
Notes receivable - affiliates	2,790,449
Accrued interest receivable	507,495
Due from Amidacare, Inc.	222,869
Due from affiliated entities	3,088,452
Other assets	182,855
Investment in real estate	5,486,812
Property and equipment, net	12,056,643
Total other assets	24,339,901
Total assets	$ 37,413,625

Promesa Residential Health Care Facility

Balance Sheet (Continued)

December 31, 2018

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued expenses	$ 1,121,624
Accrued payroll and related liabilities	1,320,105
Estimated amounts due to third parties	998,187
Capital lease payable	62,911
Mortgage payable	4,554,029
Loan payable - Adult Day Health Care Program	200,031
Resident trust funds	78,764
Total current liabilities	8,335,651
Long-Term Liabilities	
Capital lease payable	195,610
Loans payable	
Adult Day Health Care Program	653,472
Homeless Housing Assistance Program	4,360,000
Affiliated entities	998,000
Total long-term liabilities	6,207,082
Total liabilities	14,542,733
Net Assets - Without Donor Restrictions	
Operating fund	22,700,129
Reserve for replacement fund	170,763
Total net assets	22,870,892
Total liabilities and net assets	$ 37,413,625

Promesa Residential Health Care Facility
Statement of Operations and Changes in Net Assets
Year Ended December 31, 2018

Operating Revenues	
Net resident service revenues	$ 16,216,523
Prior year revenue adjustments	539,470
Provision for bad debts	(425,015)
Net resident service revenue less provision for bad debts	16,330,978
Other operating revenues	537,247
Total operating revenues	16,868,225
Operating Expenses	
Professional care of patients	7,106,409
Service departments	1,977,997
Administrative	1,921,205
Nondepartmental (including depreciation and amortization of $718,737 and interest of $75,073)	5,480,752
Total operating expenses	16,486,363
Operating Income	381,862
Nonoperating Revenues and Expenses	
Interest income	148,761
Expenses related to investment in real estate (including interest of $162,106)	(452,344)
Rental income	109,000
Depreciation expense	(109,000)
Total nonoperating revenues and expenses	(303,583)
Excess of Revenues Over Expenses	78,279
Net Assets, Beginning of Year, as Previously Reported	28,244,971
Revision - Note 1	(289,148)
Restatement - Note 15	(5,163,210)
Net Assets, Beginning of Year, Revised	22,792,613
Net Assets, End of Year	$ 22,870,892

Promesa Residential Health Care Facility
Statement of Cash Flows
Year Ended December 31, 2018

Operating Activities	
Change in net assets	$ 78,279
Items not requiring (providing) operating cash flows	
Depreciation and amortization	827,737
Provision for bad debts	425,015
Changes in	
Accounts receivable	(941,487)
Estimated amounts due from third-party payors	(56,412)
Due from affiliated entities	855,247
Accrued interest receivable	(130,522)
Prepaid expenses and other assets	(170,655)
Accounts payable and accrued expenses	(23,380)
Accrued payroll and related liabilities	34,952
Estimated amounts due to third parties	(113,969)
Net cash provided by operating activities	784,805
Investing Activities	
Investment in real estate	(16,001)
Proceeds from sale of investments	151,414
Increase in assets limited as to use	(510)
Decrease in cash - escrow	200
Purchase of property and equipment	(756,526)
Net cash used in investing activities	(621,423)
Financing Activities	
Principal payment of loans payable	(184,382)
Principal payments on capital lease	(65,349)
Net cash used in financing activities	(249,731)
Decrease in Cash and Cash Equivalents	(86,349)
Cash and Cash Equivalents, Beginning of Year	4,839,012
Cash and Cash Equivalents, End of Year	$ 4,752,663
Supplemental Cash Flows Information	
Cash paid during the year for interest	$ 187,279
Supplemental Non-Cash Transactions	
Property and equipment acquired through a capital lease	$ 164,383

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Promesa Residential Health Care Facility, Inc. (the RHCF) is a not-for-profit voluntary nursing home company organized under the provisions of Article 28-A of the New York State Public Health Law and the Not-for-Profit Corporation Law. Incorporated in New York State on June 6, 1992, its purpose is to maintain and operate a residential health care facility to provide health care and residential care for adults who test positive for the Human Immunodeficiency Virus (HIV) and are symptomatic or are diagnosed as having contracted Acquired Immune Deficiency Syndrome (AIDS).

The RHCF provided 36,695 days of skilled nursing care for the years ended December 31, 2018.

The facility is supported primarily by patient service fees paid by Medicaid. The RHCF also receives rent from Promesa, Inc., a related company.

The RHCF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The RHCF considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2018, the RHCF's cash accounts exceeded federally insured limits by approximately $3,654,000.

Escrow

In accordance with the terms of its mortgage payable, the RHCF makes monthly deposits into an escrow account for payment of real estate taxes.

Assets Limited as to Use

Assets limited as to use include assets set aside under regulatory requirements for the eventual replacement of assets and payment of mortgages.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the RHCF analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the RHCF analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the RHCF records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Investment in Real Estate

Investment in real estate is reflected at historical cost. The balance represents the cost of land acquisition and any improvements made to it. Investment in real estate is reviewed annually for impairment.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

See *Note 6* for the estimated useful lives for each major depreciable classification of property and equipment.

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The RHCF evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2018.

Guarantee

The RHCF guarantees the debt of an unrelated organization (see *Note 5*). The guaranteed debt does not have a due date. Should the RHCF be obligated to perform under the guarantee agreement, the RHCF may seek reimbursement from the organization of amounts expended under the guarantee.

Net Patient Service Revenue

The RHCF has agreements with third-party payors that provide for payments to the RHCF at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-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 statement of operations and changes in net assets as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met, and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Professional Liability Claims

The RHCF recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

Excess of Revenues Over Expenses

The statement of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Change in Accounting Principle

The RHCF adopted the Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities* (ASU 2016-14). ASU 2016-14 revises the net asset classification scheme to two classes instead of the previous three, requires the presentation of expenses by nature as well as function, requires qualitative disclosures on how a not-for-profit manages its available liquid resources, quantitative disclosures that communicate the availability of financial assets to meet cash needs for general expenditures within one year of the balance sheet and other requirements. Adoption of ASU 2016-14 resulted in changes in presentation of financial statements and related disclosures in notes to the financial statements.

Revision

A revision has been made to the previously presented investment in real estate and opening net assets to reclassify certain expenses previously capitalized to being expensed in prior years. The RHCF has determined this change is not material.

Subsequent Events

Subsequent events have been evaluated through December 12, 2019, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The RHCF recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the RHCF recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the RHCF's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the RHCF records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations and changes in net assets as a component of net patient service revenue.

The RHCF has agreements with third-party payors that provide for payments to the RHCF at amounts different from its established rates. These payment arrangements include:

Medicare: Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services and defined medical education costs are paid based on a cost reimbursement methodology. The RHCF is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the RHCF and audits thereof by the Medicare administrative contractor.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The RHCF is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the RHCF and audits thereof by the Medicaid administrative contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The RHCF has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the RHCF under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended December 31, 2018, respectively, was approximately:

Medicaid	$ 8,846,292
Medicare	18,142
Other third-party payors	7,891,559
Total	$ 16,755,993

Note 3: Concentration of Credit Risk

The RHCF grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2018, is:

Medicaid	14%
Medicare	1%
Other third-party payors	56%
Patient	29%
Total	100%

Note 4: Transactions With Related Parties

Due From Affiliated Entities

Acacia Network, Inc. is the sole member of the RHCF and related through common control.

Acacia Network, Inc. is also the sole member of PROMESA, Inc., Promesa Housing Development Fund Corporation, Inc. (HDFC), Promesa Enterprises, Ltd., Promesa Administrative Services Organization, Inc. (PASO), Promesa Foundation Inc. (Foundation), Corporation for Youth Energy Corps (CYEC), Community Association of Progressive Dominicans, Inc., United Bronx Parents, Inc., Audubon Partnership for Economic Development, Inc., Acacia Network Housing, Inc. (ANH), South Bronx Community Management Corp. (OUB), Loisaida Inc. and The Institute for Puerto Rican/Hispanic Elderly (IPRHE).

The RHCF receives management services from PASO. The total charged to operations for the year ended December 31, 2018 was $1,343,494. In addition, the RHCF has loaned and advanced funds to various related parties. As of December 31, 2018, there was $8,197,862, due from the related parties.

The following are the receivable balances due from affiliates:

PROMESA, Inc.	$ 3,131,794
Promesa Housing Development Fund Corporation, Inc.	1,850,157
Promesa Enterprises, Ltd.	73,895
Promesa Administrative Services Organization, Inc.	4,417,071
Promesa Foundation, Inc.	573,535
Acacia Network, Inc.	1,789,255
Corporation for Youth Energy Corps	181,118
Community Association of Progressive Dominicans, Inc.	615
United Bronx Parents, Inc.	3,214
The Institute for Puerto Rican/Hispanic Elderly	111,396
Loisaida Inc.	6,077
Acacia Network Housing, Inc.	556,658
Audubon Partnership for Economic Development, Inc.	5,000
South Bronx Community Management Corp.	661,287
	13,361,072
Less allowance for doubtful accounts	(5,163,210)
	$ 8,197,862

In 2013, the RHCF loaned approximately $819,000 to HDFC to serve as collateral for housing construction purposes. The total amount is due the latter of 26 months or when construction is completed. As of the date of these financial statements, the HDFC has not repaid the RHCF.

In 2014, the RHCF loaned $30,000 to Acacia Network, Inc. and $41,100 to CYEC for working capital.

In 2015, the RHCF loaned

- $105,000 to Foundation to assist it in purchasing real property
- $429,000 to HDFC for construction
- $140,000 to CYEC for working capital

In 2016, the RHCF loaned

- $160,000 to Acacia Network Inc. for working capital
- $275,000 to OUB for working capital.

In 2017, the RHCF loaned

- $18 to CYEC for working capital
- $31,566 to HDFC for working capital
- $69,963 to ANH for working capital
- $386,287 to OUB for working capital

- $250,000 to IPRHE for working capital of which $150,000 was repaid in 2017

The loans are unsecured and the RHCF is not charging interest on the outstanding balance.

Notes Receivable

In February 2004, PROMESA, Inc. borrowed $900,000 from the RHCF in exchange for an unsecured note receivable. Interest is being charged and accrued at 4 percent, amounting to $36,000 annually. Accrued interest receivable was $291,000 at December 31, 2018. The principal and accrued interest are due on February 28, 2020. Management has determined that no allowance is necessary at December 31, 2018.

In June 2016, the RHCF transferred the property at 1661-1675 Westchester Avenue, Bronx, New York to HDFC in exchange for HDFC paying off the mortgage on the property (*Note 9*). In addition, HDFC issued an unsecured note of $1,890,449 to the RHCF. Beginning in September 2016, interest is charged at 5 percent annually on the amounts outstanding and interest income was $94,522 for the year ended December 31, 2018. Accrued interest receivable was $216,495 at December 31, 2018. The principal and accrued interest are due on September 17, 2021. Management has determined that no allowance is necessary at December 31, 2018.

Note 5: Due From Amidacare

Prior to 2009, the RHCF acquired $442,869 in subvention certificates. Of this amount, $250,000 was purchased with AIDS revolving loan funds provided by DASNY. This loan was forgiven in 2008, and the RHCF wrote down its receivable from Amidacare, Inc. to reflect the $250,000 forgiveness. An additional $30,000 was provided in 2009, with the total balance of $222,869 reflected at December 31, 2018. The RHCF has guaranteed a loan by an entity related to Amidacare, which also has given a subvention to Amidacare in the amount of $750,000. In connection with the guaranteed loan, which has not been recorded as a liability in these financial statements, the RHCF paid interest of $28,620 in 2018.

Note 6: Property and Equipment

Property and equipment at December 31, 2018 consisted of:

		Estimated Useful Lives
Land	$ 114,311	
Land improvements	6,480	15 years
Building, building improvements and fixed equipment	20,400,227	11 - 40 years
Movable equipment	3,246,669	5 - 14 years
Automobiles	113,271	10 years
Building and fixed equipment - homeless housing program	4,360,000	40 years
Construction in progress	344,330	
	28,585,288	
Accumulated depreciation and amortization	(16,528,645)	
	$12,056,643	

Construction in progress costing $344,330, which includes capitalized interest, is subject to capital lease agreements as described in *Note 9*.

Note 7: Professional Liability Claims

The RHCF purchases medical malpractice insurance under an occurrence basis policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the RHCF's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Debt

Mortgages Payable

A. In June 2016, in connection with the purchase of the property at 1140 Pacific Street, Brooklyn, New York, the RHCF assumed a $2,302,202 mortgage from the City of New York Department of Housing Preservation and Development (HPD). Interest is not charged on the amounts outstanding. The mortgage is secured by a first mortgage on the land purchased. No payments were due until the mortgage was set to mature in January 2018, and as of the date of the financial statements, the RHCF was in negotiations with HPD to extend this mortgage. Interest is not being charged on the amounts outstanding while the negotiations are in progress. The balance outstanding at December 31, 2018 was $2,302,202.

B. In June 2016, in connection with the purchase of the property at 1140 Pacific Street, Brooklyn, New York, the RHCF obtained a $2,066,880 mortgage from Banco Popular North America (Banco Popular). Payments of interest only at the greater of 3.81 percent or the 30-day LIBOR plus 2.15 percent, which was 5.298 percent at December 31, 2018 were due monthly. Beginning January 1, 2018, payments of approximately $20,740, including interest at 3.81 percent, were to be due monthly, however, the RHCF was in negotiations with Banco Popular to refinance this mortgage and during that time was allowed to continue making monthly interest only payments at the greater of 3.81 percent or the 30-day LIBOR plus 2.15 percent, which was 5.298 percent at December 31, 2018. The mortgage was secured by a second mortgage on the land purchased. The mortgage was set to mature on December 1, 2027, but was refinanced in May of 2019 into a new mortgage as detailed below. The balance outstanding at December 31, 2018 was $2,066,880.

C. In June 2016, in connection with the purchase of the property at 1140 Pacific Street, Brooklyn, New York, the RHCF obtained a $184,947 mortgage from Banco Popular. Payments of interest only at the greater of 3.81 percent or the 30-day LIBOR plus 2.15 percent, which was 5.298 percent at December 31, 2018 were due monthly. Beginning January 1, 2018, payments of approximately $20,740, including interest at 3.81 percent, were to be due monthly, however, the RHCF was in negotiations with Banco Popular to refinance this mortgage and during that time was allowed to continue making monthly interest only payments at the greater of 3.81 percent or the 30-day LIBOR plus 2.15 percent, which was 5.298 percent at December 31, 2018. The mortgage was set to mature on December 1, 2027, but was refinanced in May of 2019 into a new mortgage as detailed below. The balance outstanding at December 31, 2018 was $184,947.

D. In June 2016, the RHCF obtained a $2,602,430 mortgage commitment for construction costs from Banco Popular. There were no amounts advanced as of December 31, 2018, and as of the date of this report. Payments of interest only at the greater of 3.81 percent or the 30-day LIBOR swap rate plus 2.15 percent, which was 5.298 percent at December 31, 2018, were due monthly until January 1, 2018, on amounts outstanding. Beginning January 1, 2018, when amounts are advanced they will be amortized over a ten-year term and will include interest at 3.81 percent due monthly. The mortgage was secured by a fourth mortgage on the land purchased. The mortgage was set to mature on December 1, 2027, but was included in the refinancing of the mortgages as detailed below.

Subsequent to year end, in May 2019, the RHCF refinanced and consolidated its two outstanding mortgages and mortgage commitment (mortgages B, C and D) with Banco Popular into one new mortgage for $2,251,827. Payments of interest only at the greater of 3.81 percent or the 30-day LIBOR plus 2.15 percent, are due monthly until maturity on December 31, 2019. The mortgage is secured by a second mortgage on the land purchased.

Required principal payments are as follows:

2019	$ 4,554,029

Interest expense was $112,205 in 2018.

Loans Payable

(1) On November 28, 2001, the RHCF obtained a loan for improvements made to the adult day care building. On September 15, 2013, the RHCF extended the loan until January 1, 2023, with monthly payments of $19,154, including principal and interest at 4.62 percent. Until January 2016, the loan was secured by the real property and improvements of the adult day health care treatment center. In 2016, upon disposing of the real property and improvements, the loan was modified to remove the security interest in the property. For the year ended December 31, 2018, total interest expense amounted to $46,453. The balance of the loan at December 31, 2018 was $853,503.

Required principal payments at December 31, 2018 are as follows:

2019	$ 200,031
2020	209,522
2021	219,632
2022	224,318
	$ 853,503

(2) In 2001, the RHCF entered into a forgivable housing loan agreement with New York State Homeless Housing and Assistance Corporation to build a homeless housing facility. The homeless housing facility is run by an affiliated entity. The construction was completed in December 2004. Pursuant to the regulatory agreement, the RHCF must comply with certain compliance requirements and maintain the property as a homeless housing facility for 25 years. At that time, this loan of $4,360,000 will be recorded as grant income.

(3) In June 2016, as part of the RHCF's purchase of the property at 1140 Pacific Street, Brooklyn, New York, the RHCF assumed $998,000 of unsecured loans payable to affiliated entities. The loans were set to mature in September 2017 and as of the date of the financial statements, the RHCF is in negotiations to extend the loans. Interest is charged monthly at 5 percent on the amounts outstanding, and interest expense was $49,900 in 2018. $998,000 was outstanding at December 31, 2018, respectively, and accrued interest payable at December 31, 2018 was $114,291, and has been included in accounts payable and accrued expenses.

Capital Lease

In November 2017, the RHCF obtained a commitment from Signature Financial, LLC totaling $328,766 for the purchase of security cameras. Monthly payments of approximately $6,129, including interest of 4.5 percent, commenced in December 2017, and the lease will mature in November 2022. The total amount advanced as of December 31, 2018 was $328,766 and the balance outstanding at December 31, 2018 was $258,521.

Future payments are as follows:

2019	$ 73,550
2020	73,550
2021	73,550
2022	67,493
	288,143
Less amounts representing interest	29,622
	$ 258,521

The security cameras were installed in 2018 and placed into service in February 2019 and as a result, interest of $14,331 was capitalized to construction in progress in 2018.

Note 9: Rental Income

During December 2003, the RHCF (the landlord) entered into a forty-year noncancelable lease agreement with Promesa HDFC at the annual rental rate of $109,000. In accordance with the agreement, Promesa HDFC was to use and occupy the property to run a homeless housing assistance program (HHAP). The lease expires in November 2043. Commencing July 2010, Promesa, Inc. contracted with the City of New York to operate in HHAP and has assumed the lease from Promesa HDFC.

Future minimum payments are as follows:

2019	$ 109,000
2020	109,000
2021	109,000
2022	109,000
2023	109,000
Thereafter	2,170,917
	$ 2,715,917

Note 10: Functional Expenses

The RHCF provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on related, directly charged expenses and other methods. The following schedule presents the natural classification of expenses by function as follows:

	Long Term Care Services	General and Administrative	Total
Salaries	$ 6,928,621	$ 414,061	$ 7,342,682
Payroll taxes and employee benefits	2,855,179	170,628	3,025,807
Total salaries and related expenses	9,783,800	584,689	10,368,489
Professional fees and contracted services	1,776,026	1,979,653	3,755,679
Leases and rentals	105,579	2,155	107,734
Occupancy	218,834	4,466	223,300
Insurance	203,930	4,162	208,092
Interest	73,572	1,501	75,073
New York State cash receipts assessment	1,029,259	-	1,029,259
Depreciation and amortization	595,362	123,375	718,737
Total expenses	$13,786,362	$ 2,700,001	$16,486,363

Note 11: Liquidity and Availability

The RHCF's financial assets available within one year of the balance sheet date for general expenditure are:

Financial assets at year end	
Cash and cash equivalents	$ 4,752,663
Accounts receivable, net	2,677,994
Estimated retroactive adjustments - due from third parties	66,704
Due from affiliated entities	5,109,410
Financial assets available to meet general expenditures within one year	$ 12,606,771

The RHCF has assets limited as to use for debt service and for repairs. These assets limited as to use, which are more fully described in *Note 1*, are not available for general expenditure within the next year.

Note 12: Pension Plan

The RHCF participates in the affiliated entity's employee retirement plans. The noncontributory defined contribution pension plan covers substantially all eligible employees that are over age twenty-one who have completed one year of service and one thousand hours or more of service. The RHCF contributes an amount equal to 5 percent of compensation if an employee is active as of December 31 each year. Union employees of the RHCF participate in the 1199 SEIU 401(k) plan. The RHCF contributes 5 percent of eligible employees' W-2 wages. Total pension expense for the year ended December 31, 2018 was $302,695.

Note 13: Estimated Liabilities Due to Third Parties and Contingencies

The RHCF is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and DOH. These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General (OIG) and the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit the RHCF. These agencies have the right to audit fiscal as well as programmatic compliance, *i.e.*, clinical documentation and physician certifications, among other compliance requirements. The RHCF has estimated the potential liability for the retroactive adjustments based on information presently available.

Management believes that amounts recorded in the financial statements are adequate and appropriate for such retroactive adjustments.

The RHCF has filed cost reports with CMS in connection with the Medicare program. Final settlements have been received through 2017. No provision for 2018 has been recorded for possible adjustments, since the RHCF does not anticipate any material adjustments based on the cost reports.

Medicaid Reimbursement

A. Commencing January 2012, rates for the RHCF, which is a "specialty facility" or a discrete specialty unit (the RHCF's AIDS beds) are those that were effective January 1, 2009 adjusted for capital but no adjustment for case mix index updates.

   Medicaid per diem rates for the RHCF's skilled nursing facilities effective for the period April 1, 2009 through December 31, 2011 were updated utilizing the 2002 RHCF cost report data. This base year is subject to audit.

B. Reimbursement for capital costs are subject to interpretation and audit. Provisions have been established to recognize potential exposure.

C. The DOH increased nursing facility rates for the purposes of recruitment and retention through March 31, 2009. These rate increases are subject to audit.

D. The DOH has conducted an audit of the RHCF's 1997 base year reporting period. Based on the DOH proposed preliminary audit adjustments, the impact on the base year rate was recalculated and rolled forward through December 31, 2018. The projected impact is recorded in these financial statements. The final audit report has not been issued as of the date of these financial statements.

E. OMIG conducted a payment integrity review in 2018 which resulted in a liability of $68,032, which it is allowing the RHCF to repay in six monthly installments of $10,204, after an initial payment of $6,808, beginning in December 2018.

As of December 31, 2018, $897,286 has been recorded for the above liabilities.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *7*.

Litigation

In the normal course of business, the RHCF is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the RHCF's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The RHCF evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 15: Restatement

In prior years, the RHCF reflected the entire amount due from affiliated entities as fully collectable. In 2018, upon further analysis of the due from affiliated entities, the RHCF determined that many of the amounts due from affiliated entities may no longer be collectable and that an allowance should have been established in prior years. This resulted in a restatement to previously reported net assets and due from affiliated entities as of January 1, 2018 of $(5,163,210). The impact of the restatement for previously reported 2017 net income was $(280,774).

Note 16: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities, and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities. The RHCF is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2020, and any interim periods within annual reporting periods that begin after December 15, 2020. The RHCF is evaluating the impact the standard will have on the financial statements; however, the standard is not expected to have a material impact on the financial statements.

Restricted Cash

Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* clarifies the presentation and disclosure requirements of restricted cash. The ASU requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning-of-period and end-of-period total cash in the statement of cash flows. The amendments apply to all entities with restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230, including not-for-profit (NFP) entities. The ASU requires disclosure of information about the nature of restrictions on cash, cash equivalents and restricted cash balances. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019.

Supplementary Information

Promesa Residential Health Care Facility

Schedule of Operating Expenses

Year Ended December 31, 2018

	Salaries and Wages	Supplies and Expenses	Total
Professional Care of Patients			
Nursing	$ 4,701,177	$ 557,864	$ 5,259,041
Activities	163,236	13,403	176,639
Pharmacy	-	111,067	111,067
Laboratory and radiology	-	5,397	5,397
Psychiatry	108,283	33,870	142,153
Physical therapy	102,976	18,740	121,716
Occupational therapy	88,503	6,142	94,645
Speech therapy	-	1,275	1,275
Medical office	530,525	913	531,438
Social services	419,550	119,690	539,240
Medical records	45,013	958	45,971
Dental	-	77,827	77,827
Total professional care of patients	6,159,263	947,146	7,106,409
Service Departments			
Dietary	91,264	562,935	654,199
Plant maintenance	81,055	205,188	286,243
Transportation	156,825	18,540	175,365
Security	12,159	223,696	235,855
Laundry and linen	-	70,117	70,117
Housekeeping	428,055	128,163	556,218
Total service departments	769,358	1,208,639	1,977,997
Administrative			
Administration	251,928	1,007,818	1,259,746
Finance	162,133	499,326	661,459
Total administrative	414,061	1,507,144	1,921,205
Nondepartmental			
Payroll taxes and employee benefits	-	3,025,807	3,025,807
NYS cash receipts assessment	-	1,029,259	1,029,259
Insurance	-	208,092	208,092
Interest	-	75,073	75,073
Legal fees	-	18,684	18,684
Utilities	-	223,300	223,300
Telephone	-	74,066	74,066
Leases and rentals	-	107,734	107,734
Depreciation and amortization	-	718,737	718,737
Total nondepartmental	-	5,480,752	5,480,752
Total operating expenses	$ 7,342,682	$ 9,143,681	$ 16,486,363