

Long Island FQHC, Inc.

Financial Statements and
Supplementary Information

December 31, 2019 and 2018

Long Island FQHC, Inc.

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Independent Auditors' Report

To the Board of Directors of
Long Island FQHC, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Long Island FQHC, Inc. (LIFQHC), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Long Island FQHC, Inc. as of December 31, 2019 and 2018, the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 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 other 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2020 on our consideration of LIFQHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIFQHC's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

New York, New York
June 23, 2020

Long Island FQHC, Inc.

Balance Sheets

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,750,855	\$ 8,920,843
Patient services receivable, net (Note 2)	3,278,690	5,418,525
Grants receivable	894,070	1,064,712
Delivery System Reform Incentive Payment (DSRIP) receivable	2,392,839	1,250,684
Patient Activation Measure Survey (PAM) contract receivable	260,260	322,369
NYS meaningful use receivable	201,450	379,950
Care management receivable	327,453	312,390
Value based contract receivable	858,882	312,350
Other receivable	276,365	774,803
Prepaid expenses and other current assets	643,989	463,338
	<u>18,884,853</u>	<u>19,219,964</u>
Total current assets	18,884,853	19,219,964
Property and Equipment, Net (Note 4)	13,976,705	10,154,379
Security Deposits	58,379	96,294
	<u>58,379</u>	<u>96,294</u>
Total assets	<u>\$ 32,919,937</u>	<u>\$ 29,470,637</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 5)	\$ 2,323,413	\$ 262,997
Short-term note payable (Note 6)	2,100,000	-
Accounts payable and accrued expenses	1,912,518	2,049,922
Accrued compensation	980,545	799,068
Refundable advances	1,799,832	1,799,832
Due to Co-Applicant and other party (Note 8 and Note 10)	2,485,814	1,892,829
	<u>11,602,122</u>	<u>6,804,648</u>
Total current liabilities	11,602,122	6,804,648
Long-Term Debt, Net of Current Portion (Note 5)	-	2,323,413
	<u>-</u>	<u>2,323,413</u>
Total liabilities	11,602,122	9,128,061
Net Assets		
Net assets without donor restrictions	21,317,815	20,342,576
	<u>21,317,815</u>	<u>20,342,576</u>
Total liabilities and net assets	<u>\$ 32,919,937</u>	<u>\$ 29,470,637</u>

See notes to financial statements

Long Island FQHC, Inc.Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues Without Donor Restrictions		
Net patient service revenues	\$ 22,096,043	\$ 21,141,939
Managed care medical home and bonuses	2,165,606	2,518,713
NYS meaningful use	-	(129,167)
Grant revenue:		
Article VI	5,000,000	5,000,000
WIC grant revenue	1,527,372	1,604,533
Residency grant revenue	3,138,495	2,806,972
Sub-recipient grant revenue	1,025,149	1,053,296
Other grant revenue	561,748	430,590
Other revenue:		
Delivery System Reform Incentive Payment (DSRIP) revenue	1,612,406	1,160,139
Care management revenue	2,852,146	2,032,294
Patient Activation Measure Survey (PAM) contract revenue	248,750	677,168
Other revenue	796,886	564,945
	<u>41,024,601</u>	<u>38,861,422</u>
Expenses		
Salaries and wages	18,722,429	16,280,529
Fringe benefits	4,330,620	4,068,150
Contract labor, providers	7,933,228	8,560,321
Professional services	2,125,499	2,368,405
Supplies	2,304,120	2,275,787
Laboratory, radiology	1,469,693	890,241
Travel, conference and meeting	231,351	280,678
Space costs	2,058,779	2,074,875
Equipment repairs/maintenance	177,165	149,103
Insurance	132,629	159,656
Telecommunications	379,180	369,885
Dues, licensing and subscriptions	552,283	477,069
Printing, publication and postage	146,028	119,967
Recruitment and public information	71,743	91,190
Interest	146,343	119,459
Other	160,081	123,706
	<u>40,941,171</u>	<u>38,409,021</u>
Total operating income before depreciation	83,430	452,401
Depreciation	<u>807,698</u>	<u>788,576</u>
Revenues less than expenses	(724,268)	(336,175)
Capital Restructuring Finance Program (CRFP)	22,906	487,942
Delivery System Reform Incentive Payment (DSRIP)	<u>1,676,601</u>	<u>325,045</u>
Increase in net assets without donor restrictions	975,239	476,812
Net Assets Without Donor Restrictions, Beginning	<u>20,342,576</u>	<u>19,865,764</u>
Net Assets Without Donor Restrictions, Ending	<u>\$ 21,317,815</u>	<u>\$ 20,342,576</u>

See notes to financial statements

Long Island FQHC, Inc.

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Increase in net assets without donor restrictions	\$ 975,239	\$ 476,812
Adjustments to reconcile increase in net assets without donor restrictions to net cash provided by (used in) operating activities:		
Depreciation	807,698	788,576
Capital grants	(1,699,507)	(812,987)
Changes in assets and liabilities:		
Patient services receivable	2,139,835	(1,895,652)
Other receivable	498,438	(684,389)
Delivery System Reform Incentive Payment (DSRIP) receivable	(1,142,155)	452,816
Grants receivable	170,642	888,733
Patient Activation Measure Survey (PAM) contract receivable	62,109	(45,996)
NYS meaningful use receivable	178,500	426,667
Care management receivable	(15,063)	(24,681)
Value based contract receivable	(546,532)	729,759
Prepaid expenses and other current assets	(180,651)	115,200
Security deposits	37,915	(26,548)
Due to Co-Applicant and other party	592,985	(2,620,960)
Accounts payable and accrued expenses	(137,404)	(186,924)
Accrued compensation	181,477	220,649
Refundable advances	-	1,799,832
	<u>1,923,526</u>	<u>(399,093)</u>
Net cash provided by (used in) operating activities		
Cash Flows From Investing Activities		
Purchases of property and equipment	(4,630,024)	(995,722)
	<u>(4,630,024)</u>	<u>(995,722)</u>
Net cash used in investing activities		
Cash Flows From Financing Activities		
Repayment of long-term debt	(262,997)	(251,737)
Proceeds from capital grants	1,699,507	812,987
Proceeds from issuance of short-term note payable	2,100,000	-
	<u>3,536,510</u>	<u>561,250</u>
Net cash provided by financing activities		
Increase (decrease) in cash and cash equivalents	830,012	(833,565)
Cash and Cash Equivalents, Beginning	<u>8,920,843</u>	<u>9,754,408</u>
Cash and Cash Equivalents, Ending	<u>\$ 9,750,855</u>	<u>\$ 8,920,843</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 146,343</u>	<u>\$ 119,459</u>

See notes to financial statements

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

1. Organization

Long Island FQHC, Inc. (LIFQHC) is an independent not-for-profit corporation formed on May 14, 2009 and established by the New York State Department of Health (NYSDOH) on June 15, 2010, as a co-operator of four community health centers and a school-based clinic, previously operated solely by the Nassau Health Care Corporation (NHCC), in order to meet federal governance requirements and obtain designation from the Health Resources and Services Administration (HRSA) as a public entity federally qualified health center (FQHC) "Look Alike" organization. LIFQHC is licensed under Article 28 of the New York State public health law.

As of December 31, 2019, LIFQHC is the co-operator of seven in-scope community health centers in Nassau County.

NHCC is a public benefit corporation created for the purposes of acquiring the health facilities owned by Nassau County, New York (County), operating these facilities more efficiently than the County could and competing with other health care providers in a rapidly changing health care marketplace.

HRSA recognizes two governance models through which the operations of a FQHC can be overseen: the *voluntary model* and the *public-entity model*. In the voluntary model, HRSA requires the governing entity to be a not-for-profit corporation with at least 51 percent of the directors on the board obtaining health care services from the FQHC. In the public entity model, HRSA permits health centers to be co-operated by a public entity, such as a public benefit corporation, in conjunction with an independent not-for-profit FQHC entity, again with at least 51 percent of the directors of the not-for-profit board obtaining care from the FQHC. In the public entity model, the public entity's board and the not-for-profit's FQHC operate under a Co-Applicant Agreement. The Co-Applicant Agreement delineates the rights and responsibilities of each governing board, consistent with the minimum governance requirements set forth by HRSA.

NHCC and LIFQHC executed a Co-Applicant Agreement. LIFQHC, through the Co-Applicant Agreement, was empowered to adopt health center policies, including those on the scope and availability of services, location and hours of services and quality control; approve the annual budget; approve the selection and dismissal of the Executive Director of the FQHC; approve the application for subsequent grants and FQHC recertification; evaluate FQHC activities; and implement a compliance program.

NHCC retained the right to establish personnel policies and procedures to NHCC employees only; provide staff to the current health centers; develop financial and operational management systems; and guide the long range strategic planning process. HRSA granted Look Alike status under the public entity model, and LIFQHC became operational in June 2010. In July of 2011, LIFQHC received grantee status with HRSA as a sub-recipient of Hudson River Healthcare.

2. Significant Accounting Policies

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

Cash and cash equivalents include money market funds. LIFQHC maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. LIFQHC has not experienced any losses in such accounts.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

Patient Services Receivable, Net

Patient services receivable result from the health care services provided by LIFQHC. Patient services receivable are recorded at net realizable value at the transaction price based on standard charges for services provided, reduced by both implicit and explicit price adjustments provided to third-party payors. Sliding fee scale, explicit price concession, is offered to uninsured patients if they are eligible in accordance with LIFQHC's policies, or implicit price concessions if collection is not expected to be collected on the patient portion, and/or implicit price concessions provided to uninsured or underinsured patients, and do not bear interest. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient revenues in the period of the change.

Patient services receivable, net of contractual allowances and discounts, consists of the following:

	2019		
	Gross Receivables	Contractual and Charitable Allowances and Price Concessions	Net Patient Services Receivable
Medicaid	\$ 3,372,594	\$ 2,593,079	\$ 779,515
Medicaid managed care	30,075,212	29,424,343	650,869
Medicare	12,930,120	12,243,360	686,760
Private insurance	9,196,180	8,883,741	312,439
Self-pay	18,481,220	18,480,567	653
	<u>\$ 74,055,326</u>	<u>\$ 71,625,090</u>	2,430,236
NYS Medicaid Wrap, net Safety net payments			284,028
			<u>564,426</u>
Total			<u>\$ 3,278,690</u>

	2018		
	Gross Receivables	Contractual and Charitable Allowances and Price Concessions	Net Patient Services Receivable
Medicaid	\$ 2,411,573	\$ 1,625,082	\$ 786,491
Medicaid managed care	18,848,545	18,159,559	688,986
Medicare	6,032,296	5,632,111	400,185
Private insurance	5,579,377	4,631,251	948,126
Self-pay	9,873,929	9,873,276	653
	<u>\$ 42,745,720</u>	<u>\$ 39,921,279</u>	2,824,441
NYS Medicaid Wrap, net Safety net payments			1,035,425
			<u>1,558,659</u>
Total			<u>\$ 5,418,525</u>

Other Revenue

Other revenue consist of quality incentives and care management payments when earned.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 39 years using a half month convention. Maintenance, repairs and minor renewals are expensed as incurred. Assets are written off when disposed of or fully depreciated as determined by management. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. If long-lived assets are deemed impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds fair value. No impairments were recorded in 2019 and 2018.

Revenue Recognition

Net patient service revenues are recognized at the amount that reflects the consideration to which LIFQHC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, LIFQHC bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by LIFQHC. Revenue for performance obligations satisfied at a point in time are recognized when services are provided and LIFQHC does not believe it is required to provide additional services to the patient.

LIFQHC determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors. Sliding fee scale is offered to uninsured patients if they are eligible in accordance with LIFQHC's policy. LIFQHC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. LIFQHC determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Grant Revenue

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as net assets without donor restriction, in the absence of donor stipulations to the contrary, when placed in service. Cash received in excess of revenue recognized is recorded as refundable advances. Grant and contract receivables are reported at their outstanding unpaid balances. LIFQHC writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Under an executed agreement between NHCC and the County, LIFQHC received \$5,000,000 in 2019 and 2018 in Article VI health center grants. The agreement was originally in effect until December 31, 2014. On December 19, 2016, the agreement was extended to December 31, 2020. The Article VI health center grants are given to LIFQHC as part of the agreement to provide medical services such as HIV screening and tuberculosis testing.

Charity Care

LIFQHC maintains records to identify and monitor the level of charity care that it provides. The costs associated with the charitable care services provided are estimated by applying the cost-to-charge ratio from the most recently filed cost report, to the amount of gross uncompensated charges for the patients receiving charity care net of the Safety Net Payment. Total such costs were \$3,168,991 and \$3,006,249 for the years ended December 31, 2019 and 2018, respectively.

Long Island FQHC, Inc.

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

Refundable Advances

Refundable advances represent amounts received subject to certain conditions. Refundable advances will be recognized as revenue when performance obligations are met.

Revenues Less Than Expenses

The statements of operations and changes in net assets include the determination of revenues less than expenses. LIFQHC considers all of its health care and related activities to be part of normal operations and considers the caption revenues less than expenses to be its performance indicator.

Changes in net assets without donor restrictions, which are excluded from revenues less than expenses, consistent with industry practice, includes contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were used for the purpose of acquiring such assets) and capital contributions.

Income Taxes

LIFQHC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on its exempt income under Section 501(a) of the IRC. LIFQHC accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined that there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

Reclassifications

Certain reclassifications have been made to the 2018 amounts to conform to the current year presentations.

New Accounting Pronouncements

Revenue Recognition

In 2019, LIFQHC adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue From Contracts With Customers (Topic 606)* using the full retrospective approach. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry specific guidance. The core principle under ASU 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 requires enhanced disclosures of revenue arrangements.

LIFQHC applied the full retrospective approach to all contracts when adopting ASU 2014-09. The adoption of the standard did not have an impact on the recognition of net revenues for any periods prior to adoption. LIFQHC determined that there was no impact on net assets as of January 1, 2018 and December 31, 2018 for the adoption of ASC 606. In addition, LIFQHC determined there was no impact on increase in net assets for the adoption of ASC 606 in 2018 or 2019.

The most significant impact of adopting the new standard is within the statements of operations and changes in net assets. Certain patient activity where collection was uncertain, previously included as net patient service revenues and separately reported as the provision for bad debts, no longer meets the criteria for revenue recognition. Accordingly, net patient service revenues have been reduced by the amounts previously reported as the provision for bad debts and accordingly the provision for bad debts has been eliminated. Such patient activity, previously reported as the provision for bad debts in the amount of \$425,959 for the year ended December 31, 2018 is now classified as an implicit price concession.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

Contributions

In 2019, LIFQHC adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. There was no impact on the financial statements as a result of the adoption of this guidance.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about, the nature of the lessee's leasing activities. LIFQHC will be required to adopt the guidance in ASU 2016-02 for years beginning after December 15, 2021. LIFQHC has not yet determined the impact of adoption of ASU 2016-02 on its financial statements.

3. Net Patient Service Revenues

LIFQHC recognizes patient service revenues associated with services provided to patients who have Medicaid, Medicare, Third-Party Payor and Managed Care plans coverage on the basis of contractual rates for services rendered. For uninsured self-pay patients that do not qualify for charity care, LIFQHC recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if negotiated or provided by LIFQHC's policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of LIFQHC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, LIFQHC records a provision for bad debts adjusting the transaction price to the realizable value related to uninsured patients in the period the services are provided.

Patient service revenues, net of charitable and contractual allowances and discounts, consists of the following:

	2019		
	Gross Charges	Contractual and Charitable Allowances and Price Concessions	Net Patient Service Revenues
Medicaid	\$ 1,219,547	\$ 238,543	\$ 981,004
Medicaid managed care	17,193,417	11,264,786	5,928,631
Medicare	9,281,541	6,611,248	2,670,293
Private insurance	5,879,493	4,252,494	1,626,999
Self-pay	9,806,437	8,847,774	958,663
	<u>\$ 43,380,435</u>	<u>\$ 31,214,845</u>	12,165,590
Safety net payment			2,212,834
NYS Medicaid Wrap			<u>7,717,619</u>
Total			<u>\$ 22,096,043</u>

Long Island FQHC, Inc.

Notes to Financial Statements
Years Ended December 31, 2019 and 2018

	2018		
	<u>Gross Charges</u>	<u>Contractual and Charitable Allowances and Price Concessions</u>	<u>Net Patient Service Revenues</u>
Medicaid	\$ 1,178,745	\$ 131,763	\$ 1,046,982
Medicaid managed care	15,405,878	9,537,583	5,868,295
Medicare	6,401,964	4,677,747	1,724,217
Private insurance	4,425,358	3,250,889	1,174,469
Self-pay	9,085,418	8,236,075	849,343
	<u>\$ 36,497,363</u>	<u>\$ 25,834,057</u>	10,663,306
Safety net payment			2,236,770
NYS Medicaid Wrap			8,241,863
Total			<u>\$ 21,141,939</u>

4. Property and Equipment, Net

Property and equipment, net, at cost, consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,095,750	\$ 885,750
Leasehold improvements	4,121,257	3,865,714
Buildings	7,381,750	5,019,250
Furniture and fixtures	378,911	354,142
Movable equipment	646,008	598,069
Fixed equipment	270,800	270,800
Computer equipment	687,790	662,811
Vehicles	27,694	-
Software	61,518	61,518
	<u>14,671,478</u>	<u>11,718,054</u>
Less accumulated depreciation	(2,696,418)	(1,888,720)
Plus construction in progress	2,001,645	325,045
Total	<u>\$ 13,976,705</u>	<u>\$ 10,154,379</u>

5. Long-Term Debt

In connection with the purchases of the Elmont property, LIFQHC entered into a \$1,500,000 mortgage from a financial institution. The mortgage carries a 4.25 percent interest per annum, is for a ten year term and requires monthly interest and principal payments. In connection with the purchase of the Freeport property, LIFQHC also obtained a \$1,500,000 mortgage from a bank for a period of ten years at a rate of 4.40 percent per annum. This mortgage also requires monthly interest and principal payments.

In addition, LIFQHC has a line of credit with the financial institution for \$1,500,000. There are no amounts outstanding on the line of credit as of December 31, 2019 and 2018. The line of credit has a variable interest rate equal to on the one-half percent per annum above the financial institution's prime rate. The line of credit will expire July 31, 2020.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

Long-term debts are as follows as of December 31:

	<u>2019</u>	<u>2018</u>
Mortgage (Elmont)	\$ 1,138,056	\$ 1,270,789
Mortgage (Freeport)	1,185,357	1,315,621
Term Note	<u>2,100,000</u>	<u>-</u>
	4,423,413	2,586,410
Less current maturities	<u>4,423,413</u>	<u>262,997</u>
Total	<u>\$ -</u>	<u>\$ 2,323,413</u>

Scheduled principal repayments per agreement on long-term debt are as follows:

Years ending December 31:	
2020	\$ 2,374,480
2021	287,042
2022	299,883
2023	313,299
2024	327,180
Thereafter	<u>821,529</u>
Total	<u>\$ 4,423,413</u>

The mortgages are secured by the fixed assets of LIFQHC. LIFQHC is required to meet certain financial covenants in accordance with the debt agreements. As of December 31, 2019, LIFQHC was not in compliance with these covenants and therefore, the related debt is all classified as current on the balance sheets.

6. Short-Term Note Payable

During 2019, in connection with the purchase of the Oceanside property, LIFQHC entered into a term note in the amount of \$2,100,000. This note bears interest at 2.38 percent plus the one month LIBOR rate (1.78 percent at December 31, 2019) per annum, requires monthly interest only payments and is due August 2020. Management also plans on paying off the \$2.1 short-term loan as soon as payment is received from New York State, which is owed to LIFQHC, which has been delayed due to COVID-19.

7. Medical Malpractice Claims Coverage

Under the Services Agreement between NHCC and LIFQHC, NHCC provides professional liability insurance covering the medical services provided by staff to patients of LIFQHC. The insurance requirement is limited to claims arising from services rendered during the term of the Services Agreement, whether the claims arise while the Services Agreement is in effect or after it expires or is terminated by either party. The professional liability insurance coverage provided by NHCC to LIFQHC is in the minimum amount of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

LIFQHC maintains its medical malpractice coverage under the Federal Tort Claims Act (FTCA) for services provided by employees. FTCA provides malpractice coverage to eligible Public Health Service-supported programs and applies to the LIFQHC and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice case approved by FTCA coverage. LIFQHC obtains gap insurance for providers annually.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

8. Other Third Party Transactions

An agreement with NHCC provides for fees to be paid by LIFQHC to NHCC in exchange for staffing, ancillary and administrative services in connection with operating the health centers. The annual fee for these services is NHCC's cost. The due to/from third party in the balance sheets has no payment terms and is non-interest bearing. The expenses incurred for staffing and other third party transactions were \$8,043,364 and \$8,658,319 for the years ended December 31, 2019 and 2018, respectively. The expenses incurred for ancillary services were \$4,154,580 and \$4,045,349 for the years ended December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, LIFQHC owed NHCC \$2,485,814 and \$1,892,829, respectively.

9. Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient service previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on LIFQHC, if any, are not presently determinable.

10. Lease Commitments

As of December 31, 2019, LIFQHC has commitments under noncancelable operating leases for real property rental, having initial terms of five years and expiring on various dates. As of December 31, 2019, approximate future minimum rental commitments under noncancelable operating leases are as follows:

Years ending December 31:	
2020	\$ 1,343,015
2021	1,270,002
2022	1,303,845
2023	739,836
2024	<u>383,678</u>
Total	<u>\$ 5,040,376</u>

Rent expense for the years ended December 31, 2019 and 2018 amounted to \$1,404,047 and \$1,359,312, respectively.

In 2015, LIFQHC extended its contract for services agreement initially dated November 1, 2010 with a company. The extension of the agreement expires on December 31, 2020 and may be extended for one additional year. Contracted services expense for the years ended December 31, 2019 and 2018 amounted to \$642,294 and \$641,619, respectively.

11. Functional Expenses

Functional expenses have been recorded and reported based on their nature and functionality of expenditures as they are incurred. Expenses that are allocated based on time and effort include salaries and wages and fringe benefits. The methodology allocation is reviewed by management periodically.

LIFQHC provides healthcare services to individuals within its geographic location.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

Expenses related to providing these services in 2019 and 2018 are as follows:

	2019		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 14,535,735	\$ 4,186,694	\$ 18,722,429
Fringe benefits	3,854,470	476,150	4,330,620
Contract labor, providers	7,933,228	-	7,933,228
Professional services	2,024,681	100,818	2,125,499
Supplies	2,304,120	-	2,304,120
Laboratory, radiology	1,469,693	-	1,469,693
Travel, conference and meeting	231,351	-	231,351
Space costs	2,058,779	-	2,058,779
Equipment repairs/maintenance	177,165	-	177,165
Insurance	132,629	-	132,629
Telecommunications	379,180	-	379,180
Dues, licensing and subscriptions	552,283	-	552,283
Printing, publication and postage	146,028	-	146,028
Recruitment and public information	71,743	-	71,743
Depreciation	807,698	-	807,698
Interest	146,343	-	146,343
Other	160,081	-	160,081
	<u>\$ 36,985,207</u>	<u>\$ 4,763,662</u>	<u>\$ 41,748,869</u>

	2018		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 12,639,891	\$ 3,640,638	\$ 16,280,529
Fringe benefits	3,620,859	447,291	4,068,150
Contract labor, providers	8,560,321	-	8,560,321
Professional services	2,256,066	112,339	2,368,405
Supplies	2,275,787	-	2,275,787
Laboratory, radiology	890,241	-	890,241
Travel, conference and meeting	280,678	-	280,678
Space costs	2,074,875	-	2,074,875
Equipment repairs/maintenance	149,103	-	149,103
Insurance	159,656	-	159,656
Telecommunications	369,885	-	369,885
Dues, licensing and subscriptions	477,069	-	477,069
Printing, publication and postage	119,967	-	119,967
Recruitment and public information	91,190	-	91,190
Depreciation	788,576	-	788,576
Interest	119,459	-	119,459
Other	123,706	-	123,706
	<u>\$ 34,997,329</u>	<u>\$ 4,200,268</u>	<u>\$ 39,197,597</u>

12. Retirement Plan

LIFQHC has a 401K profit sharing plan covering substantially all of its employees. Contributions to the plan are based on percentage of salaries. Pension expense amounted to \$190,730 and \$602,590 for the years ended December 31, 2019 and 2018, respectively. During the year ended December 31, 2018, LI FQHC also made a discretionary profit contribution in the amount of \$261,093. There was no discretionary profit sharing match in 2019. Pension expense is included in fringe benefits expense.

Long Island FQHC, Inc.

Notes to Financial Statements

Years Ended December 31, 2019 and 2018

13. Measure of Operations and Liquidity

The following reflects the LIFQHC's financial assets available within one year of the balance sheets date, reduced by amounts not available for general use because of contractual restrictions for general expenditures.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 9,750,855	\$ 8,920,843
Patient services receivable	3,278,690	5,418,525
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,029,545</u>	<u>\$ 14,339,368</u>

As part of LI FQHC's cash management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Additionally, LIFQHC has a line of credit of \$1.5 million dollars to assist with managing liquidity needs. There was no outstanding balance at the balance sheet date.

14. Concentration of Credit Risk

LIFQHC's primary operations and service area include most communities of Nassau County Long Island, New York. LIFQHC grants credit without collateral to its patients, who are insured under third-party payor arrangements, primarily with Medicare, Medicaid and various commercial insurance companies. The significant concentrations of accounts receivable for services to patients include approximately 63 percent from Medicaid (including Wrap), 25 percent from Medicare and 12 percent from other third-party payors as of December 31, 2019 (64 percent from Medicaid (including Wrap), 11 percent from Medicare and 25 percent from other third-party payors as of December 31, 2018).

15. Subsequent Events

LIFQHC evaluated subsequent events for recognition or disclosure through June 23, 2020, the date the financial statements were available to be issued.

LIFQHC's operations and financial performance will be affected by the recent COVID-19 outbreak which has spread globally and is adversely affecting economic conditions throughout the world. LIFQHC's evaluation of the effects of these events is ongoing as of the date the accompanying financial statements were issued. The pandemic will impact various parts of 2020 operations and financial performance including, but not limited to, additional costs for emergency preparedness, disease control and containment, potential shortages of personnel, supply chain disruption and declines in revenue related to decreases volumes of certain revenue streams. The extent of the impact will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

In April 2020, LIFQHC applied and was approved for a loan pursuant to the Paycheck Protection Program (PPP), administered by the U.S. Small Business Administration. The PPP was authorized in the Coronavirus Aid, Relief and Economic Security (CARES) Act. LIFQHC received the loan proceeds on May 8, 2020. The principal amount of the loan is \$4,286,476 and there are no collateral or guarantee requirements. Under the terms of the PPP, payments will be deferred to December 8, 2020, the loan will bear interest at 1 percent per annum and will mature on May 8, 2022. Subject to certain eligibility and certification requirements under the PPP, some or all of the loan amount may be forgiven; however, the amount and timing of any forgiveness cannot be determined as of the report date.

Long Island FQHC, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Agency	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services				
Affordable Care Act, Teaching Health Center Graduate Medical Education Payments Program	93.530	Not Applicable	Not Applicable	\$ 3,138,495
Pass-through from Hudson River Health Care Health Center Program Cluster: Consolidated Health Centers	93.224	Hudson River Health Care	H80CS00313-13-12	150,000
Pass-through from New York State Department of Health Maternal and Child Health Services Block Grant	93.994	New York State Department of Health	B04MC32560	66,852
Pass-through from United Way of Long Island HIV Emergency Relief Project Grants	93.914	United Way of Long Island	9675	<u>324</u>
Total U.S. Department of Health and Human Services				<u>3,355,671</u>
U.S. Department of Agriculture				
Pass-through from New York State Department of Health Special Supplemental Nutrition Program for Women, Infants, and Children Program	10.557	New York State Department of Health	DOH01-C30434GG-3450000	<u>1,527,372</u>
Total expenditures of federal awards				<u>\$ 4,883,043</u>

See notes to schedule of expenditures of federal awards

Long Island FQHC, Inc.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Long Island FQHC, Inc. (LIFQHC) under programs of the federal government for the year ended December 31, 2019.

The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Since the Schedule presents only a select portion of the operations of LIFQHC, it is not intended to and does not present the financial position, changes in net assets or cash flows of LIFQHC.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented when available.

3. Indirect Cost Rate

LIFQHC has elected to use the 10 percent de-minimus indirect cost rate allowed under the Uniform Guidance for the Special Supplemental Nutrition Program for Women, Infants and Children Program only. The 10 percent de-minimus indirect cost rate was not available to be selected for any other federal grants.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
With *Government Auditing Standards***

To the Board of Directors of
Long Island FQHC, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Long Island FQHC, Inc. (LIFQHC), which comprise the balance sheet as of December 31, 2019, 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, and have issued our report thereon dated June 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LIFQHC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LIFQHC's internal control. Accordingly, we do not express an opinion on the effectiveness of LIFQHC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LIFQHC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

New York, New York
June 23, 2020

**Independent Auditors' Report on Compliance
for the Federal Major Program and Report on
Internal Control Over Compliance
Required by the Uniform Guidance**

To the Board of Directors of
Long Island FQHC, Inc.

Report on Compliance for the Major Federal Program

We have audited Long Island FQHC, Inc.'s (LIFQHC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on LIFQHC's major federal program for the year ended December 31, 2019. LIFQHC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for LIFQHC's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LIFQHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of LIFQHC's compliance.

Opinion on the Major Federal Program

In our opinion, LIFQHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of LIFQHC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LIFQHC's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of its major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LIFQHC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

New York, New York
June 23, 2020

Long Island FQHC, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified? _____ yes X none reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children Program

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

Auditee qualified as low-risk auditee? X yes _____ no

Long Island FQHC, Inc.

Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Summary of Prior Year Audit Findings

No prior year findings.