Long Island FQHC, Inc.

Financial Statements and
Supplementary Information

December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 audit was 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 May 22, 2019 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
May 22, 2019

Long Island FQHC, Inc.

Balance Sheets
December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 8,920,843	$ 9,754,408
Patient services receivable, net (Note 3)	5,418,525	3,522,873
Grant receivables	1,064,712	1,953,445
Delivery System Reform Incentive Payment (DSRIP) receivable	1,250,684	1,703,500
Patient Activation Measure Survey (PAM) contract receivable	322,369	276,373
NYS meaningful use receivable	379,950	806,617
Care Management receivable	312,390	287,709
Value based contract receivable	312,350	1,042,109
Other receivable	774,803	90,414
Prepaid expenses and other current assets	463,338	578,538
Total current assets	19,219,964	20,015,986
Property and Equipment, Net (Note 4)	10,154,379	9,947,233
Security and Escrow Deposits	96,294	69,746
Total assets	$ 29,470,637	$ 30,032,965
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 5)	$ 262,997	$ 251,736
Accounts payable and accrued expenses	2,049,922	2,236,846
Accrued compensation	799,068	578,419
Refundable advances	1,799,832	-
Due to Co-Applicant and other party (Note 7 and Note 9)	1,892,829	4,513,789
Total current liabilities	6,804,648	7,580,790
Long-Term Debt, Net of Current Portion (Note 5)	2,323,413	2,586,411
Total liabilities	9,128,061	10,167,201
Net Assets		
Net assets without donor restrictions	20,342,576	19,865,764
Total liabilities and net assets	$ 29,470,637	$ 30,032,965

See notes to financial statements

	2018	2017
Revenues without donor restrictions		
Net patient service revenues	$ 21,567,898	$ 22,623,157
Provision for bad debts	(425,959)	(511,260)
Net patient service revenues less provision for bad debts	21,141,939	22,111,897
Managed care medical home and bonuses	2,518,713	2,283,872
NYS meaningful use	(129,167)	401,250
Grant revenue:		
Article VI	5,000,000	2,500,000
WIC grant revenue	1,604,533	1,537,983
Residency grant revenue	2,806,972	3,083,009
Sub-recipient grant revenue	1,053,296	1,099,955
Other grant revenue	430,590	208,930
Other revenue:		
Delivery System Reform Incentive Payment (DSRIP) Revenue	1,160,139	1,808,557
Care management revenue	2,032,294	1,671,582
Patient Activation Measure Survey (PAM) contract revenue	677,168	301,331
Other revenue	564,945	678,888
Total revenues	38,861,422	37,687,254
Expenses		
Salaries and wages	16,280,529	14,495,596
Fringe benefits	4,068,150	3,329,090
Contract labor, providers	8,560,321	9,543,034
Professional services	2,368,405	2,700,083
Supplies	2,275,787	1,803,274
Laboratory, radiology	890,241	946,387
Travel, conference and meeting	280,678	245,775
Space costs	2,074,875	1,928,581
Equipment repairs/maintenance	149,103	128,938
Insurance	159,656	115,542
Telecommunications	369,885	735,277
Dues, licensing and subscription	477,069	443,708
Printing, publication and postage	119,967	100,911
Recruitment and public information	91,190	150,934
Interest	119,459	123,554
Other	123,706	146,510
Total expenses	38,409,021	36,937,194
Total operating income before depreciation	452,401	750,060
Depreciation	788,576	651,773
Revenues (less than) in excess of expenses	(336,175)	98,287
Capital Restructuring Finance Program (CRFP)	487,942	2,500,000
Delivery System Report Incentive Payment (DSRIP)	325,045	-
Dental Expanded Capacity Grant	-	33,835
Increase in net assets without donor restrictions	476,812	2,632,122
Net Assets Without Donor Restrictions, Beginning	19,865,764	17,233,642
Net Assets Without Donor Restrictions, Ending	$ 20,342,576	$ 19,865,764

See notes to financial statements

Long Island FQHC, Inc.

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Increase in net assets without donor restrictions	$ 476,812	$ 2,632,122
Adjustments to reconcile increase in net assets without donor restrictions to net cash (used in) provided by operating activities:		
Provision for bad debts	425,959	511,260
Depreciation	788,576	651,773
Capital grants	(812,987)	(2,533,835)
Changes in assets and liabilities:		
Patient services receivable	(2,321,611)	2,062,966
Other receivables	(684,389)	(36,768)
Delivery System Reform Incentive Payment (DSRIP) receivable	452,816	(1,248,253)
Grant receivables	888,733	(841,561)
Patient Activation Measure Survey (PAM) contract receivable	(45,996)	(276,373)
NYS meaningful use receivable	426,667	(154,750)
Care management receivable	(24,681)	430,475
Value based contract receivable	729,759	(1,042,109)
Prepaid expenses and other current assets	115,200	134,754
Security and escrow deposits	(26,548)	(69,746)
Due to Co-Applicant and other party	(2,620,960)	3,026,388
Accounts payable and accrued expenses	(186,924)	448,180
Accrued compensation	220,649	(182,981)
Refundable advances	1,799,832	-
Net cash (used in) provided by operating activities	(399,093)	3,511,542
Cash Flows from Investing Activities		
Purchases of property and equipment	(995,722)	(7,400,831)
Net cash used in investing activities	(995,722)	(7,400,831)
Cash Flows from Financing Activities		
Repayment of long-term debt	(251,737)	(161,853)
Proceeds from capital grants	812,987	2,533,835
Proceeds from issuance of long-term debt	-	3,000,000
Net cash provided by financing activities	561,250	5,371,982
(Decrease) increase in cash and cash equivalents	(833,565)	1,482,693
Cash and Cash Equivalents, Beginning	9,754,408	8,271,715
Cash and Cash Equivalents, Ending	$ 8,920,843	$ 9,754,408
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 119,459	$ 123,564

See notes to financial statements

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, 2018, 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, Long Island FQHC, Inc. 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.

Patient Services Receivable, Net

Patient services receivable result from the health care services provided by LIFQHC. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

For receivables associated with services provided to patients who have third-party coverage, which includes patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, LIFQHC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, LIFQHC records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the billed rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. LIFQHC had not changed their financial assistance policy in 2018. LIFQHC does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Patient services receivable, net of allowance for doubtful accounts and contractual allowances and discounts, consists of the following:

	2018		
	Gross Receivables	Contractual and Charitable Allowances	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
	$ 42,745,720	$ 39,921,279	2,824,441
NYS Medicaid Wrap, net			1,035,425
Safety net payments			1,558,659
Total			$ 5,418,525

	2017		
	Gross Receivables	Contractual and Charitable Allowances	Net Patient Services Receivable
Medicaid	$ 2,099,150	$ 1,120,689	$ 978,461
Medicaid managed care	8,457,234	8,377,307	79,927
Medicare	1,062,852	933,460	129,392
Private insurance	1,642,830	1,180,044	462,786
Self-pay	1,992,824	1,992,172	652
	$ 15,254,890	$ 13,603,672	1,651,218
NYS Medicaid Wrap, net			1,193,544
Safety net payments			678,111
Total			$ 3,522,873

Net Patient Service Revenues

Net patient service revenues is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other patient service revenues are recorded at published charges with contractual allowances deducted to arrive at patient services, net. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

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 $3,006,249 and $1,721,505 for the years ended December 31, 2018 and 2017, respectively.

Other Receivables

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

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 2018 and 2017.

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 the NHCC and the County, LIFQHC received $5,000,000 in 2018 and $2,500,000 in 2017 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.

LIFQHC receives funding under the Capital Restructuring Financing Program ("CRFP") from the New York State Department of Health. The contract period under the CRFP is April 1, 2015 through March 31, 2020. LIFQHC received $2,500,000 during 2017 under the CRFP and used part of the funding in addition to issuing new debt (see Note 5) to purchase two existing properties for $5,905,000 and certain renovations during 2017 (see Note 4).

Refundable Advances

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

Revenues (Less Than) in Excess of Expenses

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

Changes in net assets without donor restrictions, which are excluded from revenues (less than) in excess of 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 and is exempt from federal income taxes on its exempt income under Section 501(a) of the Internal Revenue Code. 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 2018 and 2017. LIFQHC does not perform any activities that would be subject to unrelated business income tax; therefore, it has not filed Form 990-T, *Exempt Organization Business Income Tax Return*.

Reclassifications

Certain reclassifications have been made to the 2017 amounts to conform to the current year presentations.

New Accounting Pronouncements

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. LIFQHC will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2018. The LIFQHC has not yet determined the impact of adoption of ASU No. 2014-09 on its financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 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 No. 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 retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2019. LIFQHC has not yet determined the impact of adoption of ASU No. 2016-02 on its financial statements.

Financial Statements

In 2018, the LIFQHC adopted FASB's ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The LIFQHC adopted ASU No. 2016-14, and has applied the changes retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. This disclosure has been presented for 2018 only, as allowed by ASU No. 2016-14. The new standard changes the following aspects of the financial statements:

- The unrestricted net asset class has been renamed Net Assets Without Donor Restrictions;
- The financial statements include a disclosure about liquidity and availability of resources (Note 12).
- The functional expense disclosure for 2018 and 2017 includes expenses reported by both nature and function (Note 10).

Contributions

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the 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. ASU 2018-08 is effective for the LIFQHC for the fiscal years beginning after December 15, 2018. Management is currently evaluating the impact that ASU 2018-08 on LIFQHC's 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 related to uninsured patients in the period the services are provided.

Patient service revenues, net of provision for bad debts (charitable allowances) and contractual allowances and discounts, consists of the following:

	2018		
	Gross Charges	Contractual and Charitable Allowances	Net Patient Service Revenues
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
	$ 36,497,363	$ 25,834,057	10,663,306
Safety net payment			2,236,770
NYS Medicaid Wrap			8,241,863
Total			$ 21,141,939

	2017		
Medicaid	$ 1,893,879	$ 371,320	$ 1,522,559
Medicaid managed care	14,235,103	8,199,563	6,035,540
Medicare	3,532,811	1,852,971	1,679,840
Private insurance	1,881,243	608,085	1,273,158
Self-pay	7,498,922	6,731,585	767,337
	$ 29,041,958	$ 17,763,524	11,278,434
Safety net payment			3,432,359
NYS Medicaid Wrap			7,401,104
Total			$ 22,111,897

4. Property and Equipment, Net

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

	2018	2017
Land	$ 885,750	$ 885,750
Leasehold improvements	3,865,714	3,348,898
Buildings	5,019,250	5,019,250
Furniture and fixtures	354,142	347,940
Movable equipment	598,069	524,796
Fixed equipment	270,800	267,700
Computer equipment	662,811	580,995
Software	61,518	-
	11,718,054	10,975,329
Less accumulated depreciation	(1,888,720)	(1,100,144)
Plus construction in progress	325,045	72,048
Total	$ 10,154,379	$ 9,947,233

Total interest costs incurred in 2018 were $119,459.

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 during 2017. The mortgage carries a 4.25 percent interest per annum and is for a 10 year term. In addition there is a line of credit with the financial institution for an additional $1,500,000. An amount of $1,425,485 was withdrawn during 2017 on the line of credit, which was subsequently paid off during 2017 when the CRFP funds were received. There are no amounts outstanding on the line of credit as of December 31, 2018. The line of credit has a variable interest rate equal to one-half percent per annum above the financial institution's prime rate. The line of credit is being subsequently renewed (see footnote 14).

Also during 2017 LIFQHC in connection with the purchase of the Freeport property, LIFQHC obtained a $1,500,000 mortgage from a bank for a period of ten years at a rate of 4.40 percent per annum.

Long-term debts are as follows at December 31:

	2018	2017
Mortgage (Elmont)	$ 1,270,789	$ 1,397,935
Mortgage (Freeport)	1,315,621	1,440,212
	2,586,410	2,838,147
Less current maturities	262,997	251,736
Total	$ 2,323,413	$ 2,586,411

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

Years ending December 31:		
2019	$	262,997
2020		274,480
2021		287,042
2022		299,883
2023		313,299
Thereafter		1,148,709
Total	$	2,586,410

The mortgages are secured by the fixed assets of LIFQHC. LIFQHC is required to meet certain covenants in accordance with the debt agreements.

6. 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 PHS-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 who work at non-scope locations.

7. 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 sheet has no payment terms and is non-interest bearing. The expenses incurred for staffing were $8,658,319 and $9,644,934 for the years ended December 31, 2018 and 2017, respectively. The expenses incurred for ancillary and administrative services (including contract services disclosed in Note 9) were $4,045,349 and $3,837,265 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, LIFQHC owed NHCC $1,892,829 and $4,513,789, respectively.

8. 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.

9. Lease Commitments

At December 31, 2016, LIFQHC has commitments under noncancelable operating leases for real property rental, having initial terms of five years and expiring on various dates. At December 31, 2018, approximate future minimum rental commitments under noncancelable operating leases are as follows:

Years ending December 31:	
2019	$ 1,486,247
2020	1,491,469
2021	1,423,652
2022	1,457,495
2023	898,864
Thereafter	542,706
Total	$ 7,300,433

Rent expense for the years ended December 31, 2018 and 2017 amounted to $1,359,312 and $1,409,354, respectively.

In 2015, LIFQHC extended its contract for services agreement initially dated November 1, 2010 with a company. The extension of the agreement is effective February 1, 2015 and expiring on December 31, 2019. Contracted services expense for the years ended December 31, 2018 and 2017 amounted to $641,619 and $1,366,038, respectively.

10. Functional Expenses

Functional expenses have been recorded and reported based on their nature and functionality of expenditures as they are incurred. The methodology allocation is reviewed by Management periodically.

LIFQHC provides health care services to individuals within its geographic location. Expenses related to providing these services in 2018 and 2017 approximate the following:

	2018		
	Health care 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	2,260,714	112,339	2,368,405
Supplies	2,275,787	-	2,275,787
Laboratory, radiology	890,241	-	890,241
Travel, conference, 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 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
	$ 35,001,977	$ 4,200,268	39,197,597

	2017		
	Health care services	**General and administrative**	**Total**
Salaries and wages	$ 11,390,744	$ 3,104,852	$ 14,495,596
Fringe benefits	2,826,417	502,673	3,329,090
Contract labor, providers	9,543,034	-	9,543,034
Professional services	2,531,955	168,128	2,700,083
Supplies	1,803,274	-	1,803,274
Laboratory, radiology	946,387	-	946,387
Travel, conference, meeting	245,775	-	245,775
Space costs	1,928,581	-	1,928,581
Equipment repairs/maintenance	128,938	-	128,938
Insurance	115,542	-	115,542
Telecommunications	735,277	-	735,277
Dues and subscriptions	443,708	-	443,708
Printing, publication and postage	100,911	-	100,911
Recruitment and public information	150,934	-	150,934
Depreciation	651,773	-	651,773
Interest	123,554	-	123,554
Other	146,510	-	146,510
	$ 33,813,314	$ 3,775,653	37,588,967

11. 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 $602,590 and $541,034 for the years ended December 31, 2018 and 2017, respectively. Pension expense has been included in fringe benefits expense.

12. 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.

Cash and cash equivalents	$ 8,920,843
Patient services receivable	5,418,525
Financial assets available to meet cash needs for general expenditures within one year	$ 14,339,368

Additionally, LIFQHC has a line of credit of $1.5 million dollars. There was no outstanding balance at the Balance Sheet Date.

13. 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 64 percent from Medicaid (including Wrap), 11 percent from Medicare, and 25 percent from other third party payors at December 31, 2018 (76 percent from Medicaid (including Wrap), 5 percent from Medicare, and 16 percent from other third party payors at December 31, 2017).

14. Subsequent Events

LIFQHC evaluated subsequent events for recognition or disclosure through May 22, 2019, the date the financial statements were available to be issued. The line of credit is being renewed with the same financial institution under similar terms and is expected to be finalized in June 2019.

Long Island FQHC, Inc.

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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	$ 2,806,972
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 Block Grant School Based Health Contract # C32406GG	93.994	Not Applicable	B04MC32560	73,125
Total U.S. Department of Health and Human Services				3,030,097
U.S. Department of Agriculture:				
Special Supplemental Nutrition Program for Women, Infants, and Children Program	10.557	New York State Department of Health	DOH01-C30434GG-3450000	1,604,533
Total expenditures of federal awards				$ 4,634,630

See notes to schedule of expenditures of federal awards

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, 2018.

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, 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, and have issued our report thereon dated May 22, 2019.

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
May 22, 2019

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, 2018. 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, 2018.

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
May 22, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: 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:

CFDA Number(s)	Name of Federal Program or Cluster
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

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.