

Long Island FQHC, Inc.

Consolidated Financial Statements

December 31, 2022 and 2021

Long Island FQHC, Inc.

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Long Island FQHC, Inc. and subsidiary (LIFQHC), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of LIFQHC as of December 31, 2022 and 2021, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of LIFQHC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As disclosed in Note 2 to the consolidated financial statements, in 2022, LIFQHC adopted new accounting guidance related to the accounting for leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about LIFQHC's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 LIFQHC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about LIFQHC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Iselin, New Jersey
May 24, 2023

Long Island FQHC, Inc.

Consolidated Balance Sheets

December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 18,855,387	\$ 22,061,793
Patient services receivable, net (Note 2)	3,342,654	2,238,960
Grants receivable	4,991,184	3,333,294
Care management receivable	167,162	117,358
Value based contract receivable	254,888	300,000
Other receivable	545,415	312,778
Prepaid expenses and other current assets	781,209	646,052
Total current assets	28,937,899	29,010,235
Property and Equipment, Net (Note 4)	20,748,875	17,507,574
Right-of-Use Assets, Finance Lease	155,032	-
Right-of-Use Assets, Operating Lease	7,325,667	-
Security Deposits	122,969	58,379
Total assets	<u>\$ 57,290,442</u>	<u>\$ 46,576,188</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 5)	\$ 467,595	\$ 449,941
Accounts payable and accrued expenses	2,816,668	2,747,450
Accrued compensation	2,111,633	1,957,010
Refundable advances	6,658,659	6,846,171
Current portion of finance lease obligations	52,556	-
Current portion of operating lease obligations	914,189	-
Due to co-applicant and other party (Note 7 and Note 9)	458,524	246,940
Total current liabilities	13,479,824	12,247,512
Long-Term Finance Lease Obligations, Net of Current Portion	102,674	-
Long-Term Operating Lease Obligations, Net of Current Portion	6,509,537	-
Long-Term Debt, Net of Current Portion (Note 5)	4,383,551	4,851,146
Total liabilities	24,475,586	17,098,658
Net Assets		
Net assets without donor restrictions	32,814,856	29,477,530
Total liabilities and net assets	<u>\$ 57,290,442</u>	<u>\$ 46,576,188</u>

See notes to financial statements

Long Island FQHC, Inc.Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	2022	2021
Revenues Without Donor Restrictions		
Net patient service revenues	\$ 27,409,985	\$ 25,164,928
Managed care medical home and bonuses	2,315,908	2,613,574
NYS meaningful use	-	119,000
Grant revenue:		
Article VI	5,000,000	5,000,000
WIC grant revenue	1,634,892	1,468,086
Residency grant revenue	3,215,577	3,494,394
Sub-recipient grant revenue	1,053,296	1,723,106
Other grant revenue	5,642,286	5,090,739
Other revenue:		
Care management revenue	2,883,901	2,732,434
Other revenue	1,786,090	666,332
Total revenues	50,941,935	48,072,593
Expenses		
Salaries and wages	23,024,308	21,147,001
Fringe benefits	6,149,101	5,105,609
Contract labor, providers	7,026,092	8,184,620
Professional services	2,751,643	2,370,384
Supplies	3,207,329	2,540,851
Laboratory, radiology	964,345	1,253,837
Travel, conference and meeting	200,363	75,253
Space costs	1,682,816	1,369,993
Equipment repairs/maintenance	196,642	226,863
Insurance	264,455	176,237
Telecommunications	495,887	480,785
Dues, licensing and subscriptions	520,306	437,571
Printing, publication and postage	97,527	129,633
Recruitment and public information	521,228	274,794
Interest	169,895	185,042
COVID-19 expenses	-	5,505
Other	192,710	155,860
Total expenses	47,464,647	44,119,838
Total operating income before depreciation	3,477,288	3,952,755
Depreciation	1,340,363	1,040,927
Revenues in excess of expenses	2,136,925	2,911,828
Capital Grant Revenue	1,235,107	2,100,000
Delivery System Reform Incentive Payment (DSRIP)	9,058	681,321
Cumulative Effect of Change In Accounting Standard (Topic 842)	(43,764)	-
Increase in net assets without donor restrictions	3,337,326	5,693,149
Net Assets Without Donor Restrictions, Beginning	29,477,530	23,784,381
Net Assets Without Donor Restrictions, Ending	\$ 32,814,856	\$ 29,477,530

See notes to financial statements

Long Island FQHC, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities		
Increase in net assets without donor restrictions	\$ 3,337,326	\$ 5,693,149
Adjustments to reconcile increase in net assets without donor restrictions to net cash flows from operating activities		
Depreciation	1,340,363	1,040,927
Amortization of finance lease right-of-use assets	10,328	-
Capital grants	(1,244,165)	(2,781,321)
Changes in assets and liabilities:		
Change in operating lease assets and liabilities	98,059	-
Patient services receivable	(1,103,694)	907,704
Other receivable	(232,637)	(93,886)
Grants receivable	(1,505,442)	1,268,711
NYS meaningful use receivable	-	144,500
Care management receivable	(49,804)	49,096
Value based contract receivable	45,112	224,883
Prepaid expenses and other current assets	(135,157)	(36,137)
Security deposits	(64,590)	-
Due to co-applicant and other party	211,584	(538,293)
Accounts payable and accrued expenses	(130,782)	(317,424)
Accrued compensation	154,623	462,008
Refundable advances	(187,512)	984,869
Net cash flows from operating activities	<u>543,612</u>	<u>7,008,786</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(4,381,664)</u>	<u>(781,159)</u>
Net cash flows from investing activities	<u>(4,381,664)</u>	<u>(781,159)</u>
Cash Flows From Financing Activities		
Repayment of long-term debt	(449,941)	(432,980)
Repayment of finance lease obligations	(10,130)	-
Proceeds from capital grants	<u>1,091,717</u>	<u>2,781,321</u>
Net cash flows from financing activities	<u>631,646</u>	<u>2,348,341</u>
(Decrease) increase in cash and cash equivalents	(3,206,406)	8,575,968
Cash and Cash Equivalents, Beginning	<u>22,061,793</u>	<u>13,485,825</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 18,855,387</u></u>	<u><u>\$ 22,061,793</u></u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u><u>\$ 169,895</u></u>	<u><u>\$ 185,042</u></u>
Supplemental Disclosure of Noncash Investing Activities		
Property and equipment included in accounts payable and accrued expenses	<u><u>\$ 200,000</u></u>	<u><u>\$ -</u></u>
Supplemental Disclosure of Noncash Financing Activities		
Assets acquired under finance leases	<u><u>\$ 164,151</u></u>	<u><u>\$ -</u></u>

See notes to financial statements

1. Organization

Long Island FQHC, Inc. 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.

On November 2, 2022, 400 Oak Street LLC (Oak Street) a limited liability company was incorporated under the Limited Liability Company Law of the State of New York. Oak Street is wholly owned by Long Island FQHC and therefore consolidated in the consolidated financial statements. (collectively referred to as LIFQHC). The purpose of Oak Street is to purchase an office building and move the organization's operations. An operating agreement was established between Long Island FQHC, Inc. and Oak Street on January 4, 2023. As of December 31, 2022, Oak Street only recorded a \$705,000 cash escrow account and had no operations as of the year ended December 31, 2022.

As of December 31, 2022, LIFQHC is the co-operator of six in-scope community health centers and three school based 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% 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% 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. As of December 31, 2022, LIFQHC is not working with a new Co-Applicant Agreement with NHCC, but continues to work with NHCC on a month to month basis.

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.

Long Island FQHC, Inc.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Long Island FQHC, Inc. and Oak Street. All significant intercorporate transactions and balances have been eliminated.

Use of Estimates

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

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. 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, were concentrated within the following:

	2022	2021
Medicaid	4 %	7 %
Medicaid managed care	10	17
Medicare	6	7
Private insurance	5	10
NYS Medicaid Wrap, net	8	24
Safety net payments	63	31
Other	4	4
	<u>100 %</u>	<u>100 %</u>

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 2022 and 2021.

Lease Obligations and Right-of-Use Assets

LIFQHC evaluates at contract inception whether a lease exists and recognizes a lease obligation and right-of-use (ROU) asset for all leases with a term greater than 12 months. Leases are classified as either finance or operating. All lease liabilities are measured at the present value of the future lease payments using a discount rate. The future lease payments used to measure the lease liability include fixed payments, as well as the exercise price of any options to purchase the underlying asset that have been deemed reasonably certain of being exercised, if applicable. Future lease payments for optional renewal periods that are not reasonably certain of being exercised are excluded from the measurement of the lease liability. For all leases, the ROU asset is initially derived from the measurement of the lease liability and adjusted for certain items, such as initial direct costs and lease incentives received. ROU assets are subject to long-lived impairment testing.

Operating lease expense is recognized on a straight-line basis over the lease term and is included within space costs in the consolidated statements of operations and changes in net assets. For financing leases amortization expense is recorded for the ROU asset and interest expense is recorded for the lease liability. The lease term for operating and financing leases is determined based on the date LIFQHC acquires control of the leased premises through the end of the lease term.

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 2022 and 2021 in Article VI health center grants. On May 6, 2021, the agreement was extended to December 31, 2025. 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.

Other Revenue

Other revenue consist of care management revenue as well as other types of revenue. Care management revenue is recognized at the amount that reflects the consideration to which LIFQHC expects to be entitled in exchange for the related service. Generally, LIFQHC bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Also included within other revenue is 340B program revenue, which is recognized when the performance obligation is satisfied, and contribution income, which is recorded at fair value on the date they are received as unconditional promises to give.

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 \$3,911,704 and \$3,876,888 for the years ended December 31, 2022 and 2021, respectively.

Refundable Advances

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

Intermediate Measure of Operations

LIFQHC uses total operating income before depreciation as an intermediate measure of net assets that are available to support current and future programs and services.

Revenues in Excess of Expenses

The consolidated statements of operations and changes in net assets include the determination of revenues 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 in excess of expenses to be its performance indicator.

Changes in net assets without donor restrictions, which are excluded from revenues 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), capital contributions and cumulative effect of change in accounting standard.

Income Taxes

Long Island FQHC, Inc. 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. Oak Street is a Limited Liability Company and all income and loss is passed through to its members.

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 2022 and 2021.

New Accounting Pronouncements

Effective January 1, 2022, LIFQHC adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* and all related amendments using the modified retrospective approach. LIFQHC's 2021 consolidated financial statements continue to be accounted for under the FASB's Topic 840 and have not been adjusted.

ASU No. 2016-02 requires lessees to recognize the assets and liabilities that arise from leases on the consolidated balance sheet. At lease inception, leases are classified as either finance leases or operating leases with the associated right-of-use asset and lease liability measured at the net present value of future lease payments. Operating lease right-of-use assets are expensed on a straight-line basis as lease expense over the noncancelable lease term. Lease expense for LIFQHC's finance leases is comprised of the amortization of the right-of-use asset and interest expense recognized based on the effective interest method. At the date of adoption, LIFQHC recorded operating lease right-of-use assets and lease liabilities of \$8,172,600 and \$8,255,719, respectively, and finance lease right-of-use assets and lease liabilities of \$164,151. LIFQHC had a cumulative adjustment of (\$43,764) to net assets upon the adoption of Topic 842 related to its leases that existed at the date of adoption.

The new standard provides for several optional practical expedients. Upon transition to Topic 842, the Company elected:

- The package of practical expedients permitted under the transition guidance which does not require LIFQHC to reassess prior conclusions regarding whether contracts are or contain a lease, lease classification and initial direct lease costs.

The new standard also provides for several accounting policy elections, as follows:

- When the rate implicit in the lease is not determinable, rather than use the LIFQHC's incremental borrowing rate, LIFQHC elected to use a risk-free discount rate for the initial and subsequent measurement of lease liabilities for all asset classes.
- LIFQHC elected not to apply the recognition requirements to all leases with an original term of 12 months or less, for which LIFQHC is not likely to exercise a renewal option or purchase the asset at the end of the lease; rather, short-term leases will continue to be recorded on a straight-line basis over the lease term.
- LIFQHC elected to account for its copy machines leases using the portfolio approach; as such, leases that have similar commencement dates, length of terms, renewal options or other contract terms have been combined into a lease portfolio whereby the resulting accounting at the portfolio level does not differ materially from that at the individual lease level.

Additional required disclosures for Topic 842 are contained in Note 10.

Long Island FQHC, Inc.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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 implicit price concessions 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:

	2022		
	Gross Charges	Contractual and Charitable Allowances and Price Concessions	Net Patient Service Revenues
Medicaid	\$ 1,425,252	\$ 209,376	\$ 1,215,876
Medicaid managed care	20,788,640	13,043,484	7,745,156
Medicare	6,869,739	4,289,050	2,580,689
Private insurance	6,581,266	4,351,818	2,229,448
Self-pay	9,217,385	8,348,251	869,134
	<u>\$ 44,882,282</u>	<u>\$ 30,241,979</u>	14,640,303
Safety net payment			2,592,735
NYS Medicaid Wrap			10,176,947
Total			<u>\$ 27,409,985</u>

	2021		
	Gross Charges	Contractual and Charitable Allowances and Price Concessions	Net Patient Service Revenues
Medicaid	\$ 1,958,483	\$ 140,129	\$ 1,818,354
Medicaid managed care	17,914,181	11,258,283	6,655,898
Medicare	6,065,176	4,102,872	1,962,304
Private insurance	6,751,073	4,186,559	2,564,514
Self-pay	9,529,768	8,720,941	808,827
	<u>\$ 42,218,681</u>	<u>\$ 28,408,784</u>	13,809,897
Safety net payment			2,271,745
NYS Medicaid Wrap			9,083,286
Total			<u>\$ 25,164,928</u>

Long Island FQHC, Inc.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

4. Property and Equipment, Net

Property and equipment, net, consists of the following:

	2022	2021
Land	\$ 1,568,250	\$ 1,358,250
Leasehold improvements	6,562,351	6,857,804
Buildings	12,398,532	11,165,400
Furniture and fixtures	637,231	395,932
Movable equipment	1,334,512	995,942
Fixed equipment	274,177	274,177
Computer equipment	802,611	800,410
Vehicles	428,917	27,694
Software	61,518	61,518
	24,068,099	21,937,127
Less accumulated depreciation	(6,134,251)	(4,875,922)
Plus construction in progress	2,815,027	446,369
Total	\$ 20,748,875	\$ 17,507,574

LIFQHC has begun the process of construction for a satellite location in Hempstead, NY. At December 31, 2022, LIFQHC had commitments outstanding of approximately \$7.4 million related to current construction projects with one vendor.

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% 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% per annum. This mortgage also requires monthly interest and principal payments. In connection with the purchase of the Roosevelt property, LIFQHC also obtained a \$3,780,000 mortgage from a bank for a period of ten years at a rate of 2.75% per annum. This mortgage also requires monthly interest and principal payments.

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

	2022	2021
Mortgage (Elmont)	\$ 703,965	\$ 854,973
Mortgage (Freeport)	758,043	906,917
Mortgage (Roosevelt)	3,389,138	3,539,197
	4,851,146	5,301,087
Less current maturities	(467,595)	(449,941)
Total	\$ 4,383,551	\$ 4,851,146

Long Island FQHC, Inc.

Notes to Consolidated Financial Statements
December 31, 2022 and 2021

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

Years ending December 31:	
2023	\$ 467,595
2024	485,583
2025	505,080
2026	524,986
2027	294,794
Thereafter	<u>2,573,108</u>
Total	<u>\$ 4,851,146</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, 2022, LIFQHC was in compliance with these covenants.

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 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.

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 co-applicant and others in the consolidated balance sheets has no payment terms and is noninterest bearing. The expenses incurred for staffing and other third party transactions were \$7,126,001 and \$8,076,924 for the years ended December 31, 2022 and 2021, respectively. The expenses incurred for ancillary services were \$5,323,023 and \$4,433,004 for the years ended December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, LIFQHC owed NHCC \$458,524 and \$246,940, respectively.

8. Contingencies and Uncertainties

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. Commitments

LIFQHC extended its contract for administrative services agreement initially dated November 1, 2010 with Solutions 4 Community Health, Inc. through December 31, 2023. Contracted services expense for the years ended December 31, 2022 and 2021 amounted to \$661,862 and \$636,816, respectively.

10. Right-of-Use Assets and Lease Obligations

LIFQHC is obligated under the terms of several noncancelable finance and operating leases for equipment and medical office spaces.

Lessee**Leases, Prior to January 1, 2022**

Rent expense for medical office space operating leases was included in space costs and aggregated \$944,989 for the year ended December 31, 2021.

Leases, January 1, 2022 and After

Right-of-use assets represent LIFQHC's right to use an underlying asset for the lease term, while lease liabilities represent LIFQHC's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of LIFQHC's leases include options to renew to terminate the lease. The exercise of lease renewal or early termination options is at LIFQHC's sole discretion. LIFQHC regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, LIFQHC includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, LIFQHC uses the rate implicit in the lease, or if not readily available, LIFQHC uses a risk-free rate based on U.S. Treasury note or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with LIFQHC's long-lived asset policy. LIFQHC reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

LIFQHC made significant assumptions and judgments in applying the requirements of Topic 842. In particular, LIFQHC:

- Evaluated whether a contract contains a lease, by considering factors such as whether LIFQHC obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights.
- Determined whether contracts contain embedded leases.
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases.
- Determined for leases that contain a residual value guarantee, whether a payment at the end of the lease term was probable and, accordingly, whether to consider the amount of a residual value guarantee in future lease payments.
- Allocated consideration in the contract between lease and nonlease components;

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LIFQHC does not have any leasing transactions with related parties.

The following table summarizes the lease right-of-use assets and lease liabilities as of December 31, 2022:

Right-of-use assets:	
Operating leases	\$ 7,325,667
Finance leases	<u>155,032</u>
Total right-of-use assets	<u>\$ 7,480,699</u>
Lease liabilities:	
Current operating lease liabilities	\$ 914,189
Current finance lease liabilities	52,556
Long-term operating lease liabilities	6,509,537
Long-term finance lease liabilities	<u>102,674</u>
Total lease liabilities	<u>\$ 7,578,956</u>

Below is a summary of expenses incurred pertaining to leases during the year ended December 31, 2022:

Finance lease expense:	
Amortization of right-of-use assets	\$ 9,120
Interest on lease liabilities	1,209
Operating lease expense	<u>980,822</u>
Total lease expense	<u>\$ 991,151</u>

Weighted average remaining lease term (in years):	
Operating leases	6.21
Finance leases	2.83

Weighted average discount rate:	
Operating leases	2.11 %
Finance leases	4.48 %

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The table below summarizes LIFQHC's scheduled future minimum lease payments for years ending after December 31, 2022:

	Operating Leases	Finance Leases
Years ending December 31:		
2023	\$ 1,115,314	\$ 58,440
2024	647,124	58,440
2025	663,300	48,700
2026	679,872	-
2027	688,272	-
Thereafter	5,123,058	-
Total lease payments	8,916,940	165,580
Less present value discount	1,493,214	10,350
Total lease liabilities	7,423,726	155,230
Less current portion	914,189	52,556
Long-term lease liabilities	\$ 6,509,537	\$ 102,674

The following table includes supplemental cash flow and noncash information related to the leases for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from operating leases	\$ 926,528
Financing cash flows from finance leases	10,130

Right-of-use assets obtained in exchange for lease liabilities:

Operating leases	7,149,099
Finance leases	164,151

Lessor

LIFQHC has various sub-lease agreements for medical space under which we are the lessor. These leases meet the criteria for operating lease classification. Lease income associated with these leases is not material.

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.

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Expenses related to providing these services in 2022 and 2021 are as follows:

	2022		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 22,144,245	\$ 880,063	\$ 23,024,308
Fringe benefits	5,579,836	569,265	6,149,101
Contract labor, providers	7,026,092	-	7,026,092
Professional services	2,706,987	44,656	2,751,643
Supplies	3,207,329	-	3,207,329
Laboratory, radiology	964,345	-	964,345
Travel, conference and meeting	200,363	-	200,363
Space costs	1,682,816	-	1,682,816
Equipment repairs/maintenance	196,642	-	196,642
Insurance	264,455	-	264,455
Telecommunications	495,887	-	495,887
Dues, licensing and subscriptions	520,306	-	520,306
Printing, publication and postage	97,527	-	97,527
Recruitment and public information	521,228	-	521,228
Depreciation	1,340,363	-	1,340,363
Interest	169,895	-	169,895
Other	192,710	-	192,710
	<u>\$ 47,311,026</u>	<u>\$ 1,493,984</u>	<u>\$ 48,805,010</u>
	2021		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 18,980,566	\$ 2,166,435	\$ 21,147,001
Fringe benefits	4,519,525	586,084	5,105,609
Contract labor, providers	8,184,620	-	8,184,620
Professional services	2,288,257	82,127	2,370,384
Supplies	2,540,851	-	2,540,851
Laboratory, radiology	1,253,837	-	1,253,837
Travel, conference and meeting	75,253	-	75,253
Space costs	1,369,993	-	1,369,993
Equipment repairs/maintenance	226,863	-	226,863
Insurance	176,237	-	176,237
Telecommunications	480,785	-	480,785
Dues, licensing and subscriptions	437,571	-	437,571
Printing, publication and postage	129,633	-	129,633
Recruitment and public information	274,794	-	274,794
Depreciation	1,040,927	-	1,040,927
Interest	185,042	-	185,042
COVID-19 expenses	5,505	-	5,505
Other	155,860	-	155,860
	<u>\$ 42,326,119</u>	<u>\$ 2,834,646</u>	<u>\$ 45,160,765</u>

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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 \$734,668 and \$657,281 for the years ended December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, included in pension expense is a discretionary profit contribution in the amounts of \$367,195 and \$327,310, respectively. Pension expense is included in fringe benefits expense.

13. Measure of Operations and Liquidity

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

	2022	2021
Cash and cash equivalents	\$ 18,855,387	\$ 22,061,793
Patient services receivable	3,342,654	2,238,960
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 22,198,041</u>	<u>\$ 24,300,753</u>

As part of LIFQHC'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.

14. Concentration of Credit Risk

LIFQHC's primary options 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.

15. Provider Relief Funds

In March 2020, the CARES Act created a Provider Relief Fund (PRF) to provide financial support for healthcare providers. In accordance with the terms and conditions of PRF, LIFQHC could apply the funding against lost revenues and eligible expenses not reimbursed from other sources. LIFQHC did not receive PRF payments in 2022 and received PRF payments of approximately \$178,000 in 2021.

LIFQHC incurred lost revenues of approximately \$178,000 in 2022 and \$494,000 in 2021 in accordance with the terms of the respective funding sources. These amounts were recognized and included in other grant revenue in the accompanying consolidated statements of operations and changes in net assets.

Refundable advances include approximately \$178,000 as of December 31, 2021 of amounts received which LIFQHC has determined the recognition criteria was not met as of year-end.

LIFQHC's methodology for calculating lost revenues was the difference between 2020 budgeted patient care revenues compared to actual patient care revenues in 2021 and 2020. The majority of the funding received is subject to future reporting and audit requirements. Noncompliance with the terms and conditions of the funding sources could result in repayment of some or all of the support, which can be subject to government review and interpretation. An estimate of the possible effects of these matters cannot be made as of the date these consolidated financial statements were issued.

16. Subsequent Events

LIFQHC evaluated subsequent events for recognition or disclosure through May 24, 2023, the date the consolidated financial statements were available to be issued.