

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION AND AUDIT  
REPORTS AND SCHEDULES RELATED TO THE  
UNIFORM GUIDANCE

Brooklyn Health, Inc.  
Year Ended December 31, 2019  
With Report of Independent Auditors

Ernst & Young LLP



Brooklyn Health, Inc.

Consolidated Financial Statements and Supplementary Information  
and Audit Reports and Schedules Related to the Uniform Guidance

Year Ended December 31, 2019

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## Report of Independent Auditors

The Board of Trustees  
Brooklyn Health, Inc.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Brooklyn Health, Inc. and its member corporations and other affiliated entities (Brooklyn Health), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brooklyn Health, Inc. and its member corporations and other affiliated entities as of December 31, 2019 and 2018, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Adoption of ASU No. 2016-02, *Leases***

As discussed in Note 2 to the consolidated financial statements, Brooklyn Health, Inc. and its member corporations and other affiliated entities changed its method of accounting for leases as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2016-02, *Leases*, effective January 1, 2019. Our opinion is not modified with respect to this matter.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to April 29, 2020. The accompanying Schedule of Expenditures of Federal Awards for the year ended December 31, 2019, as required by Title 2 U.S. *Code of Federal Regulations* 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated April 29, 2020, on our consideration of Brooklyn Health’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 solely 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 effectiveness of Brooklyn Health’s 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 Brooklyn Health’s internal control over financial reporting and compliance.

*Ernst + Young LLP*

April 29, 2020, except for our report on the schedule of expenditures of federal awards for which the date is September 30, 2020.

## Brooklyn Health, Inc.

### Consolidated Statements of Financial Position

	December 31	
	2019	2018
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 49,455	\$ 24,182
Investments	3,720	3,056
Assets limited as to use, current portion <i>(Note 5)</i>	5,762	5,775
Accounts receivable:		
Patient care	48,232	47,552
Other receivables, net	30,629	10,334
Total accounts receivable, net	78,861	57,886
Current portion of estimated receivable due from third-party payors	3,608	9,381
Other current assets	7,942	7,147
Total current assets	149,348	107,427
Estimated receivable due from third-party payors, net of current portion	6,493	7,448
Assets limited as to use, net of current portion <i>(Note 5)</i>	22,291	21,950
Property, buildings and equipment, net <i>(Note 6)</i>	92,470	89,566
Right-of-use assets – operating leases <i>(Note 9)</i>	42,056	–
Other non-current assets	103,860	88,745
Total assets	\$ 416,518	\$ 315,136
<b>Liabilities and net assets</b>		
Current liabilities:		
Short-term borrowings <i>(Note 7)</i>	\$ 22,799	\$ 18,987
Current portion of long-term debt and finance lease obligations <i>(Note 8)</i>	5,898	6,710
Accounts payable and accrued expenses	59,465	43,296
Accrued salaries and related liabilities	22,876	22,884
Current portion of right-of-use liabilities – operating leases <i>(Note 9)</i>	5,544	–
Current portion of professional insurance liabilities <i>(Note 12)</i>	9,404	8,045
Total current liabilities	125,986	99,922
Long-term debt and finance lease obligations, net of current portion <i>(Note 8)</i>	17,394	38,615
Other non-current liabilities	42,274	41,947
Professional insurance liabilities, net of current portion <i>(Note 12)</i>	37,505	34,549
Right-of-use liabilities – operating leases, net of current portion <i>(Note 9)</i>	38,139	–
Estimated liability due to third-party payors	4,055	4,087
Total liabilities	265,353	219,120
Commitments and contingencies <i>(Notes 2, 7, 8, 9, 10, 11, and 12)</i>		
Net assets:		
Net assets without donor restrictions	135,746	83,749
Net assets with donor restrictions	15,419	12,267
Total net assets	151,165	96,016
Total liabilities and net assets	\$ 416,518	\$ 315,136

*See accompanying notes.*

Brooklyn Health, Inc.

Consolidated Statements of Operations

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Revenue</b>		
Net patient service revenue <i>(Note 2)</i>	\$ 397,816	\$ 402,426
Gain from sale of Maynard Building <i>(Note 6)</i>	84,221	–
Other revenue <i>(Note 13)</i>	36,561	45,392
Total revenue	<u>518,598</u>	<u>447,818</u>
<b>Expenses</b>		
Salaries and wages	227,371	221,183
Employee benefits	64,135	64,496
Medical supplies	52,918	51,158
Contract services and other	86,494	78,724
Insurance	16,396	11,806
Depreciation and amortization	14,014	15,693
Interest and amortization of deferred financing fees	4,045	4,366
Total expenses	<u>465,373</u>	<u>447,426</u>
Excess of revenue over expenses	53,225	392
Lease transitional adjustment	(1,228)	–
Net assets released from donor restrictions related to long-lived assets	–	782
Increase in net assets without donor restrictions	<u>\$ 51,997</u>	<u>\$ 1,174</u>

*See accompanying notes.*

Brooklyn Health, Inc.

Consolidated Statements of Changes in Net Assets

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total Net Assets</b>
	<i>(In Thousands)</i>		
Net assets at January 1, 2018	\$ 82,575	\$ 12,662	\$ 95,237
Excess of revenue over expenses	392	–	392
Contributions and other items	–	1,442	1,442
Net assets released from restrictions	782	(1,322)	(540)
Investment loss, net	–	(515)	(515)
Change in net assets	<u>1,174</u>	<u>(395)</u>	<u>779</u>
Net assets at December 31, 2018	83,749	12,267	96,016
Excess of revenue over expenses	<b>53,225</b>	–	<b>53,225</b>
Lease transitional adjustment	<b>(1,228)</b>	–	<b>(1,228)</b>
Contributions and other items	–	<b>1,734</b>	<b>1,734</b>
Net assets released from restrictions	–	<b>(592)</b>	<b>(592)</b>
Investment income, net	–	<b>2,010</b>	<b>2,010</b>
Change in net assets	<u><b>51,997</b></u>	<u><b>3,152</b></u>	<u><b>55,149</b></u>
Net assets at December 31, 2019	<u><b>\$ 135,746</b></u>	<u><b>\$ 15,419</b></u>	<u><b>\$ 151,165</b></u>

*See accompanying notes.*

## Brooklyn Health, Inc.

### Consolidated Statements of Cash Flows

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 55,149	\$ 779
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	14,014	15,693
Amortization of deferred financing costs	128	425
Gain on disposal of property, buildings, and equipment	(9)	(32)
Change in net unrealized gains and losses and realized gains and losses on assets limited as to use and investments	(2,566)	1,238
Gain from sale of Maynard Building	(84,221)	—
Lease transitional adjustment	1,228	—
Donor restricted contributions	—	(782)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(680)	4,207
Other receivables and other assets	(16,205)	(8,372)
Accounts payable and accrued expenses	12,345	(10,090)
Accrued salaries and related liabilities	(8)	88
Professional insurance liabilities	4,315	3,136
Estimated amounts due from/to third-party payors, net	6,696	(3,617)
Other non-current liabilities	9,245	4,688
Net cash (used in) provided by operating activities	<u>(569)</u>	<u>7,361</u>
<b>Investing activities</b>		
Net change in assets limited as to use and investments	855	1,771
Net proceeds from the sale of Maynard Building	65,204	8,918
Acquisitions of property, buildings, and equipment	(22,158)	(11,816)
Net cash provided by (used in) investing activities	<u>43,901</u>	<u>(1,127)</u>
<b>Financing activities</b>		
Net proceeds from short-term borrowings	3,812	3,035
Donor restricted contributions	—	782
Payments on long-term debt and finance lease obligations	(22,590)	(7,287)
Net cash used in financing activities	<u>(18,778)</u>	<u>(3,470)</u>
Net increase in cash, cash equivalents and restricted cash	24,554	2,764
Cash, cash equivalents and restricted cash, beginning of year	26,777	24,013
Cash, cash equivalents and restricted cash, end of year	<u>\$ 51,331</u>	<u>\$ 26,777</u>

*See accompanying notes.*

Brooklyn Health, Inc.

Consolidated Statements of Cash Flows (continued)

	<b>Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Reconciliation of cash, cash equivalents and restricted cash at end of year to the statements of financial position</b>		
Cash and cash equivalents	\$ 49,455	\$ 24,182
Investments: restricted cash and cash equivalents	120	94
Assets limited as to use: restricted cash and cash equivalents	1,756	2,501
Total cash, cash equivalents and restricted cash	<u>\$ 51,331</u>	<u>\$ 26,777</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	<u>\$ 4,219</u>	<u>\$ 3,907</u>
<b>Supplemental disclosure of noncash investing and financing activities</b>		
Equipment acquired through finance lease obligations	<u>\$ 128</u>	<u>\$ 501</u>
Property, buildings, and equipment financed with long-term debt	<u>\$ –</u>	<u>\$ 4,987</u>

*See accompanying notes.*

# Brooklyn Health, Inc.

## Notes to Consolidated Financial Statements

December 31, 2019

### 1. Organization

The Brooklyn Hospital Center (the “Hospital”) is an acute care, voluntary, not-for-profit hospital. The Hospital was incorporated under New York State not-for-profit corporation law for the purpose of providing health care services primarily to residents of Brooklyn, New York. The Hospital is a membership corporation, with at least five members pursuant to its bylaws. The members elect the Hospital’s Board of Trustees.

The Hospital is an academic affiliate of The Icahn School of Medicine at Mount Sinai and a clinical affiliate of the Mount Sinai Hospital.

The Brooklyn Hospital Foundation, Inc. (the “Foundation”), a subsidiary of the Hospital, is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the “Code”), whose main purpose is to solicit contributions on behalf of the Hospital. Ashland Place Houses, Inc. (“Ashland”), a not-for-profit corporation under Section 501(c)(3) of the Code formed for real estate purposes, is a subsidiary of the Foundation. In addition, Parkventures, Inc. is an inactive for-profit corporation and a subsidiary of the Foundation and B/C Financial Services Corporation is an inactive subsidiary of Parkventures, Inc.

The following professional corporations are affiliates of the Hospital and are controlled by the Hospital (collectively referred to as the “PCs”) for the purpose of operating faculty practices:

- Active - Brooklyn Hospital Radiology, P.C.; TBHC Medical Services, P.C.; TBHC Emergency Medicine, P.C.; TBHC Physician Services, P.C.; TBHC Medical Testing Services, P.C.; TBHC Pediatric Services, P.C.; Brooklyn Hospital Women’s Healthcare Medical Providers, P.C.
- Inactive - Brooklyn Hospital ECG Medical Services, P.C.; TBHC Anesthesiology Services, P.C.; TBHC Radiation Oncology, P.C.; and Brooklyn Hospital Nuclear Medicine, P.C.

In December 2013, Metropolis Assurance Company Ltd. (“Metropolis”) was formed. Metropolis is an exempt captive insurance company incorporated in the Cayman Islands, whose main purpose is to act as a captive insurance company. Operations began January 1, 2014 (see Note 12).

Brooklyn Health, Inc. (“BHI”), formed in July 2016, is a not-for-profit corporation under Section 501(c)(3) of the Code, whose main purpose is to support the Hospital and other corporations affiliated with BHI.

# Brooklyn Health, Inc.

## Notes to Consolidated Financial Statements (continued)

### 1. Organization (continued)

Brooklyn Health Medical Group, P.C. (“BHMG”), a not-for-profit corporation under Section 501(c)(3) of the Code, was formed to establish a clinically integrated healthcare delivery system with BHI and the Hospital by (i) providing high quality health care in a non-discriminatory manner to members of the community and otherwise supporting the charitable purposes and mission of BHI, the Hospital, and related charitable entities through an ambulatory care network including primary and/or specialty care and/or urgent care practices, (ii) providing administrative services and supervision to the Hospital, and teaching the Hospital’s medical residents and students in compliance those laws and regulations applicable to the Hospital, as well as the Hospital’s contractual and other obligations to institutions and other organizations.

The accompanying consolidated financial statements include the accounts of BHI and its subsidiaries described above, including the Hospital, the Foundation, Metropolis, BHMG and the PCs (collectively, “Brooklyn Health”). All significant intercompany transactions and account balances have been eliminated in consolidation.

### 2. Summary of Significant Accounting Policies

#### *Recently Adopted Accounting Standards:*

In January 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. (“ASU”) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires entities to classify gains and losses from certain equity investments within its performance indicator. The adoption of this ASU in 2019 did not have an impact on the recognition of income related to Brooklyn Health’s equity investments.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires the rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the statements of financial position, including both finance leases (formerly referred to as capital leases) and operating leases. ASU 2016-02 requires expanded disclosures related to lease agreements to help the financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease primarily depend on its classification as a finance or operating lease.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Brooklyn Health adopted ASU 2016-02 effective January 1, 2019, following the modified retrospective method of application. As such, the 2018 consolidated financial statement amounts and disclosures have not been adjusted to reflect the provisions of the new standard. There was no cumulative-effect impact to the 2018 consolidated net assets as a result of the adoption. Brooklyn Health has made the transition-specific election to apply the package of practical expedients which allows for the carryforward of historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. Additionally, for operating leases entered into prior to January 1, 2019, Brooklyn Health has elected to utilize the operating leases' initial lease term to determine the discount rate used to initially measure the liability. Certain transitional adjustments were made as a result of adopting ASU 2016-02 which were not considered significant and are included in lease transitional adjustment in the accompanying 2019 consolidated statement of operations. Certain other accounting policy elections and quantitative and qualitative information pertaining to the adoption of ASU 2016-02 are described in Note 9.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Brooklyn Health adopted ASU 2016-18 using a retrospective transition method.

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*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). Brooklyn Health adopted ASU 2018-08 effective on January 1, 2019. The standard was applied on a modified prospective basis to agreements that were not completed as of the effective date and to agreements entered into after the effective date. The adoption of ASU 2018-08 did not have a material impact on Brooklyn Health's consolidated financial statements.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

##### *Recent Accounting Pronouncements Not Yet Adopted:*

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The standard aligns the requirement for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the standard. ASU 2018-15 requires an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense by determining which project stage an implementation activity relates to and the nature of the costs. ASU 2018-15 also requires the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. The amendments in ASU 2018-15 also require the entity (customer) to present the expense related to the capitalized implementation costs in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity (customer) is also required to present the capitalized implementation costs in the consolidated balance sheet in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 is effective for Brooklyn Health for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted, including adoption in any interim period. Either retrospective or prospective adoption is permitted. Brooklyn Health is in the process of evaluating the impact of ASU 2018-15 on its consolidated financial statements.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

*Use of Estimates:* The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated allowances to accounts receivable for services to patients, and liabilities, including estimated payables to third-party payors and professional insurance liabilities, and disclosure of contingent assets and liabilities at the date the consolidated financial statements were issued. Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

*Reclassifications:* For purposes of comparison, certain reclassifications have been made to the accompanying 2018 consolidated financial statements to conform to the 2019 presentation. These reclassifications have no effect on the excess of revenues over expenses or net assets for the year ended December 31, 2018.

*Cash and Cash Equivalents:* Cash equivalents include all highly liquid amounts invested in accounts with depository institutions which are readily convertible to known amounts of cash with original maturities of three months or less. Brooklyn Health does not hold any money market funds with significant liquidity restrictions that would require the funds to be excluded from cash equivalents.

Amounts within restricted cash include cash and cash equivalents held within investments and assets limited as to use and represent funds set aside based on management's policy or contractual arrangements.

*Investments:* Investments consist of cash equivalents and mutual funds held by the Foundation. All investments are carried at fair value based on quoted market prices (see Note 15).

*Assets Limited as to Use:* Assets classified as assets limited as to use represent cash and investment securities whose use is restricted for specific purposes under internal designation or terms of agreements. Brooklyn Health reports investments in equity securities with readily determinable fair values and all investments in debt securities at fair value based on quoted market prices (see Note 15).

Investment income or loss (including unrealized and realized gains or losses on investments, interest, and dividends) is included in other revenue in the accompanying consolidated statements of operations, unless the income or loss is temporarily or permanently restricted by explicit donor stipulations.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

*Investment in Limited Liability Company:* Brooklyn Health accounts for its investment in HF Management Services, LLC, a limited liability company (the “LLC”), under the equity method of accounting. Through December 31, 2014, the LLC was the sole member of Senior Health Partners, Inc. (“SHP”). Effective January 1, 2015, the LLC distributed its ownership interest in SHP to the LLC’s owners, which then exchanged their interests in SHP with Healthfirst, Inc. (“HFI”) in exchange for subvention certificates. In connection with this transaction, the assets and liabilities of SHP were marked to fair value as of January 1, 2015. As a result of these transactions, Brooklyn Health received subvention certificates in the amount of approximately \$5.5 million. Repayment of the subvention certificates may be made by HFI from time to time, subject to certain financial conditions and regulatory approvals. The subvention certificates are included in other non-current assets in the accompanying consolidated statements of financial position.

For the years ended December 31, 2019 and 2018, Brooklyn Health recorded its equity in the income of the LLC of approximately \$4.3 million and \$2.4 million, respectively, and distributions received from the LLC of approximately \$2.2 million and \$1.5 million, respectively. Brooklyn Health’s membership equity in the LLC at December 31, 2019 and 2018 is approximately \$14.8 million and \$16.9 million, respectively.

Additionally, Brooklyn Health participates as a member in certain managed care insurance entities affiliated with the LLC and HFI (the “Healthfirst Programs”). Under health care services agreements with these entities, certain payments due to Brooklyn Health as a health care provider to insured enrollees are retained by the Healthfirst Programs as additional capital contributions. Brooklyn Health may be entitled to have its retained payments repaid in the future upon the dissolution of an entity in the Healthfirst Programs or similar circumstances, or with the approval of the Healthfirst Programs’ governing board, subject to any restrictions by the State of New York, as detailed in such agreements. Total accumulated retained payments at December 31, 2019 and 2018 are approximately \$42.1 million and \$39.7 million, respectively, and are reported within other non-current assets in the accompanying consolidated statements of financial position.

*Accounts Receivable and Net Patient Service Revenue:* Net patient service revenue is reported at the amount that reflects the consideration to which Brooklyn Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration in determination of transaction price.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Brooklyn Health uses a portfolio approach as a practical expedient to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient and outpatient revenue. Based on historical collection trends and other analyses, Brooklyn Health believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Brooklyn Health's initial estimate of the transaction price for services provided to patients subject to revenue recognition is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to Brooklyn Health's standard charges. Brooklyn Health determines the transaction price associated with services provided to patients who have third-party payor coverage on the basis of contractual or formula-driven rates for the services rendered (see description of third-party payor payment programs below). The estimates for contractual allowances and discounts are based on contractual agreements, Brooklyn Health's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, Brooklyn Health determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Brooklyn Health's historical collection experience for applicable patient portfolios.

Under Brooklyn Health's charity care policy, a patient who has no insurance or is under-insured and is ineligible for any government assistance program has his or her bill reduced to (1) the lesser of charges or a derivative of the Medicaid diagnostic-related group for inpatient and (2) a derivative of the Medicare fee-for-service rates for outpatient. Other specific services, such as maternity, have discounted rates based on costs incurred. Patients who meet Brooklyn Health's criteria for free care are provided care without charge; such amounts are not reported as revenue.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Generally, Brooklyn Health bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Net patient service revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Brooklyn Health. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Brooklyn Health believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in Brooklyn Health's outpatient clinics. Brooklyn Health measures the performance obligation from admission into Brooklyn Health or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or the completion of the outpatient visit.

As substantially all of its performance obligations relate to contracts with a duration of less than one year, Brooklyn Health is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period for patients who remain admitted at that time (in-house patients). The performance obligations for in-house patients are generally completed when the patients are discharged, which for the majority of Brooklyn Health's in-house patients occurs within days or weeks after the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to net patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in Brooklyn Health's estimates of implicit price concessions, discounts, contractual adjustments or other reductions to expected payments for performance obligations satisfied in prior years were not significant. Portfolio collection estimates are updated periodically based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay (determined on a portfolio basis when applicable) are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018 was not significant.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Brooklyn Health has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, lines of business and timing of when revenue is recognized. Tables providing details of these factors are presented below.

Net patient service revenue by payor is as follows (in thousands):

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Medicare, including managed care	\$ <b>161,264</b>	\$ 163,606
Medicaid, including managed care	<b>137,134</b>	136,351
Commercial carriers and health maintenance organizations	<b>98,593</b>	101,455
Self-pay	<b>825</b>	1,014
	<b>\$ 397,816</b>	\$ 402,426

Deductibles and copayments under third-party payment programs which are the patients' responsibility are included within the third-party payor amounts above.

Net patient service revenue by line of business is as follows (in thousands):

	<b>Year Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Inpatient services	\$ <b>250,118</b>	\$ 271,508
Outpatient services	<b>93,046</b>	75,443
Emergency department	<b>19,692</b>	18,833
Physician services	<b>34,960</b>	36,642
	<b>\$ 397,816</b>	\$ 402,426

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Patient accounts receivable are comprised of the following components (in thousands):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Patient receivables	\$ 44,151	\$ 43,690
Contract assets	4,081	3,862
	<b>\$ 48,232</b>	<b>\$ 47,552</b>

Contract assets are related to in-house patients who were provided services during the reporting period but were not discharged as of the reporting date and for which Brooklyn Health does not yet have the right to bill.

*Third-Party Payment Programs:* Brooklyn Health has agreements with third-party payors that provide for payment for services rendered at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

*Medicare Payments:* Hospitals are paid for most Medicare patient services under national prospective payment systems and other methodologies of the Medicare program for certain other services. Federal regulations provide for adjustments to current and prior years' payment rates, based on industry-wide and Brooklyn Health-specific data.

*Non-Medicare:* In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Payments to hospitals for Medicaid, workers' compensation and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments. Outpatient services also are paid based on a statewide prospective system. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services ("CMS"), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until Brooklyn Health is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

*Other Third-Party Payors:* Brooklyn Health also has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to Brooklyn Health under these agreements includes prospectively determined rates per discharge or days of hospitalization and discounts from established charges.

Additionally, the Healthfirst Programs compensate and share risk with Brooklyn Health in accordance with the terms of health care services agreements. The agreements provide for an allocation to Brooklyn Health's risk-sharing pool based on a percentage of the premium revenue received by the Healthfirst Programs under capitated payment arrangements for enrolled participants assigned to Brooklyn Health based on the primary care physician selected by the participant. The majority of the Healthfirst Programs' premium revenue is derived from the Medicaid and Medicare programs and is subject to annual rate setting and various retroactive and retrospective provisions. In the event health care service costs incurred by Brooklyn Health, as determined in accordance with specified contractual payment methodologies, are in excess of the risk-sharing pool allocation, Brooklyn Health shares the risk for costs up to stop-loss reinsurance thresholds. Revenue earned under the Healthfirst Programs was approximately 21% of Brooklyn Health's net patient service revenue for each of the years ended December 31, 2019 and 2018.

Brooklyn Health has appealed certain items in audited cost reports. The outcome of these appeals is uncertain and, therefore, potential revenue associated with these appeals is not included within the accompanying consolidated statements of operations.

Revenue from the Medicare and Medicaid programs accounted for approximately 75% of Brooklyn Health's net patient service revenue for each of the years ended December 31, 2019 and 2018.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of or revisions to health care reform that has been enacted by the federal and state governments, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on Brooklyn Health.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

Settlements with third-party payors for cost report filings and retroactive adjustments due to ongoing and future audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Brooklyn Health's historical settlement activity (for example, cost report final settlements or repayments related to recovery audits), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the years ended December 31, 2019 and 2018.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Brooklyn Health believes that it is in compliance with all applicable laws and regulations in all material respects and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that could have a material adverse effect on the accompanying consolidated financial statements. Noncompliance with such laws and regulations could result in fines, penalties, and exclusion from such programs.

*Net Assets without Donor Restrictions:* Net assets that are not subject to donor-imposed restrictions may be expended for any purpose in performing the primary objectives of Brooklyn Health. These net assets may be used at the discretion of Brooklyn Health's management and Board of Trustees.

*Net Assets with Donor Restrictions:* Net assets with donor restrictions are subject to stipulations imposed by donors, primarily for health and program services. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Brooklyn Health, or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of operations.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 2. Summary of Significant Accounting Policies (continued)

Certain net assets with donor restrictions within Brooklyn Health's endowment funds are to be maintained in perpetuity. Brooklyn Health follows the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") as they relate to these restricted contributions and net assets. Brooklyn Health has interpreted NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. Brooklyn Health classifies as net assets with donor restrictions the original value of the gifts donated to the endowment and the original value of subsequent gifts to the endowment. Accumulated earnings of the endowment are used in accordance with the direction of the applicable donor gift.

The remaining portion of the endowment fund is classified as net assets with donor restrictions until the amounts are appropriated for expenditure in accordance with a standard of prudence prescribed by NYPMIFA.

Brooklyn Health considers several factors in making a determination to appropriate or accumulate endowment funds, including but not limited to the following: the duration and preservation of the fund; the purposes of Brooklyn Health and the endowment fund; general economic conditions; the possible effects of inflation and deflation; and the investment and spending policies of Brooklyn Health.

Changes in endowment assets for the years ended December 31, 2019 and 2018 are summarized in the following table (in thousands):

Endowment assets at January 1, 2018	\$ 10,754
Investment return:	
Investment income	217
Net depreciation (realized and unrealized)	<u>(732)</u>
Total investment return	<u>(515)</u>
Endowment assets at December 31, 2018	10,239
Investment return:	
Investment income	<b>310</b>
Net appreciation (realized and unrealized)	<b><u>1,700</u></b>
Total investment return	<b><u>2,010</u></b>
Endowment assets at December 31, 2019	<b><u><u>\$ 12,249</u></u></b>

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **2. Summary of Significant Accounting Policies (continued)**

*Property, Buildings, and Equipment:* Property, buildings, and equipment are recorded at cost or, if donated, at appraised or fair value at time of donation. Assets acquired under finance leases are recorded at the present value of the lease payments at the inception of the lease. Depreciation and amortization are determined by use of the straight-line method over the estimated useful lives of the assets or the lesser of the estimated useful life of the asset or lease term (ranging from 1 to 39 years). Such amortization is included in depreciation and amortization in the accompanying consolidated financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. The carrying amount of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in operations.

*Inventory:* Inventory, included in other current assets in the accompanying consolidated statements of financial position, is stated at the lower of cost (first-in, first-out method) or net realizable value. Inventory is used in the provision of patient care and is not held for sale.

*Deferred Financing Costs:* Deferred financing costs are included as a deduction to long-term debt in the accompanying consolidated statements of financial position and are amortized using the effective interest method over the term of the related debt.

*Performance Indicator:* The consolidated statements of operations include excess of revenue over expenses as the performance indicator.

*Tax Status:* BHI, the Hospital, the Foundation, BHMG, Ashland and the PCs, excluding the inactive PCs, are Section 501(c)(3) organizations exempt from Federal income taxes on related income under Section 501(a) of the Code. The organizations are also exempt from New York State and City income taxes. Metropolis is not subject to taxes on income or gains in the Cayman Islands. Currently, there are no direct taxes imposed on income in the Cayman Islands and, additionally, in 2014 Metropolis received a tax exemption certificate that extends for 20 years from the Cayman Islands, in the event that taxes are imposed in the Cayman Islands at a future date.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 3. Liquidity and Availability

The table below represents financial assets available for general expenditures within one year at December 31:

	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
Financial assets at year-end:		
Cash and cash equivalents	\$ <b>49,455</b>	\$ 24,182
Accounts receivables	<b>78,861</b>	57,886
Investments	<b>3,720</b>	3,056
Assets limited as to use	<b>28,053</b>	27,725
Total financial assets	<b>160,089</b>	112,849
Less amounts not available to be used within one year:		
Assets with donor restrictions	<b>15,419</b>	12,267
Assets under debt agreement with third parties	<b>7,195</b>	6,238
Assets designated for self-insurance	<b>8,609</b>	11,248
Financial assets not available to be used within one year	<b>31,223</b>	29,753
Financial assets available to meet general expenditures within one year	<b>\$ 128,866</b>	\$ 83,096

Brooklyn Health has certain donor restricted assets which are available for general expenditures within one year in the normal course of operations. Accordingly, these assets have been included in the table above for financial assets to meet general expenditures within one year.

#### 4. Concentrations of Credit Risk

At December 31, 2019 and 2018, Brooklyn Health has substantially all of its cash deposited in one financial institution and amounts deposited exceed federal depository insurance limits. Investments in money market funds are not guaranteed by the U.S. government.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 4. Concentrations of Credit Risk (continued)

Brooklyn Health is located in Brooklyn, New York. Brooklyn Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Concentrations of gross accounts receivable from patients and third-party payors were as follows:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Medicare, including managed care	<b>41%</b>	34%
Medicaid, including managed care	<b>33</b>	35
Commercial carriers and health maintenance organizations	<b>20</b>	23
Self-pay	<b>6</b>	8
	<b>100%</b>	100%

#### 5. Assets Limited as to Use

Assets limited as to use are required to be maintained for the following purposes (in thousands):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Assets under debt agreement with third parties:		
Mortgage reserve fund ( <i>Note 8</i> )	<b>\$ 6,809</b>	\$ 5,852
Debt service funds	<b>386</b>	386
	<b>7,195</b>	6,238
Temporarily restricted ( <i>Note 2</i> )	<b>5,122</b>	3,112
Permanently restricted ( <i>Note 2</i> )	<b>7,127</b>	7,127
Designated for self-insurance ( <i>Note 12</i> )	<b>1,521</b>	5,375
Designated and held by Metropolis ( <i>Note 12</i> )	<b>7,088</b>	5,873
	<b>28,053</b>	27,725
Less current portion of assets limited as to use	<b>5,762</b>	5,775
Assets limited as to use, net of current portion	<b>\$ 22,291</b>	\$ 21,950

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 5. Assets Limited as to Use (continued)

The required balance of the mortgage reserve fund for each year through the maturity of the related outstanding debt is as follows (in thousands):

2020	\$	5,954
2021		5,954
2022		5,954
2023		5,954
2024		4,875
2025		1,970

Investment return included in other revenue in the accompanying consolidated statements of operations for the years ended December 31, 2019 and 2018 consists of the following (in thousands):

	<u>2019</u>		<u>2018</u>
Interest and dividend income	\$ 256	\$	397
Net realized gains	247		487
Change in net unrealized gains and losses on investments	619		(993)
Total investment return	<u>\$ 1,122</u>	<u>\$</u>	<u>(109)</u>

Investment return related to net assets with donor restrictions totaled approximately \$2.0 million and (\$0.5 million) in 2019 and 2018, respectively.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 6. Property, Buildings, and Equipment

A summary of property, buildings, and equipment and accumulated depreciation and amortization is as follows (in thousands):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Land	\$ 823	\$ 895
Buildings and improvements	<b>111,468</b>	131,387
Fixed equipment	<b>90,693</b>	87,206
Movable equipment	<b>192,354</b>	195,334
	<b>395,338</b>	414,822
Less accumulated depreciation and amortization	<b>319,654</b>	329,852
	<b>75,684</b>	84,970
Construction-in-progress	<b>16,786</b>	4,596
Total	<b>\$ 92,470</b>	\$ 89,566

Substantially all property, buildings, and equipment have been pledged as collateral under various debt agreements (see Note 8).

In December 2017, Ashland executed an agreement to sell certain property adjacent to Brooklyn Health's primary campus (the "Maynard Building") for approximately \$95.0 million, prior to certain charges aggregating \$5.4 million. Upon regulatory approval in September 2018 from the Attorney General of New York, the initial \$9.5 million deposit was paid to Ashland (net of closing costs of approximately \$0.6 million) and was included in other non-current liabilities in the accompanying consolidated statement of financial position at December 31, 2018. The sale and closing of the Maynard Building was completed in August 2019. The carrying value of assets sold was approximately \$5.4 million and a net gain of approximately \$84.2 million is recorded as gain on sale of Maynard Building in the accompanying consolidated statement of operations for the year ended December 31, 2019. At closing, a portion of the purchase price was accepted in the form of a promissory note in the amount of \$20.0 million. At December 31, 2019, approximately \$18.7 million remains payable to the Hospital and is included in other receivables within the consolidated statement of financial position. Full payment of the promissory note is expected in August 2020.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 7. Short-Term Borrowings

On November 22, 2017, Brooklyn Health refinanced the previous line of credit agreement in connection with other debt restructuring activities (see Note 8(b)). Interest on the line of credit agreement is payable at LIBOR plus 3.75% (approximately 5.55% and 6.30% at December 31, 2019 and 2018, respectively). The outstanding balance under the arrangement was approximately \$22.8 million and \$19.0 million at December 31, 2019 and 2018, respectively. The revolving line of credit has a first priority security interest in Brooklyn Health's accounts receivable and a second priority security interest in substantially all of Brooklyn Health's property. Under the revolving line of credit agreement, Brooklyn Health is required to maintain certain financial covenants. In addition, Brooklyn Health is required to maintain certain financial ratios and other financial conditions to obtain approval to incur additional debt above specified levels.

Brooklyn Health maintains a stand-by letter of credit totaling approximately \$5.0 million at December 31, 2019 and 2018. No draw-downs have been made under the letter of credit agreements.

#### 8. Long-Term Debt

A summary of long-term debt and obligations under finance leases is as follows (in thousands):

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
FHA Section 241 insured mortgage note <sup>(a)</sup>	\$ 18,559	\$ 21,135
Term loans <sup>(b)</sup>	–	17,833
Financing agreement – Epic fees <sup>(c)</sup>	4,089	4,841
Finance leases, payable at varying amounts of interest and principal through 2021, secured by the financed equipment	1,279	2,581
	<b>23,927</b>	46,390
Less deferred financing costs, net of accumulated amortization	635	1,065
Less current portion	5,898	6,710
Non-current portion	<b>\$ 17,394</b>	\$ 38,615

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-Term Debt (continued)

- (a) On March 25, 1999, the Dormitory Authority of the State of New York (“DASNY”) issued Federal Housing Administration (“FHA”) Insured Mortgage Hospital Revenue Bonds, Series 1999 in the amount of approximately \$73.8 million. Simultaneously, Brooklyn Health executed a mortgage approximating \$51.5 million, payable in monthly installments of approximately \$0.3 million, representing principal and interest, at 5.29% scheduled through August 1, 2026. The mortgage is secured by certain of Brooklyn Health’s property and equipment. The FHA mortgage was final-endorsed by the FHA on May 17, 2012.

In December 2012, the DASNY bonds were defeased and refinanced through the issuance of Government National Mortgage Association securities by a commercial lender. In connection therewith, DASNY assigned Brooklyn Health’s mortgage to the commercial lender. The mortgage continues to be insured under FHA. This transaction resulted in a reduction in the interest rate of the mortgage loan, effective December 18, 2012, to a fixed rate of 2.01% over the remaining term. All other material terms of the mortgage remained the same.

Pursuant to the mortgage agreement and related documents, Brooklyn Health is required to maintain certain debt service funds, including a mortgage reserve fund (see Note 5). In addition, Brooklyn Health is required to maintain certain financial ratios and financial conditions. In the event these ratios or conditions are not met, Brooklyn Health may be required to obtain approval to engage in certain transactions. At December 31, 2019, Brooklyn Health was in compliance with the financial covenants.

- (b) Effective October 31, 2014, Brooklyn Health refinanced an existing revolving line of credit agreement and term loan. The refinanced agreement resulted in the extinguishment of the prior term loan and the issuance of a \$6.0 million term loan (the “Term Loan”). The Term Loan was scheduled to be due on October 31, 2019, with principal and interest payable at LIBOR plus 2.75%.

Effective November 22, 2017, Brooklyn Health refinanced its existing revolving line of credit agreement (see Note 7) and the Term Loan. The refinanced agreement resulted in the repayment of the prior Term Loan (outstanding balance of \$7.5 million at time of repayment) and the issuance of a \$20.0 million term loan (the “2017 Loan”). The 2017 Loan was payable in monthly installments of \$166,667, plus interest at LIBOR plus 4.5% (approximately 7.0% at December 31, 2018). The Term Loan was paid in full in August 2019 with proceeds from the sale of the Maynard Building.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-Term Debt (continued)

- (c) During 2018, Brooklyn Health financed its purchase of certain initial fees associated with the development of internally used software, totaling approximately \$5.0 million. The financing arrangement included monthly installments of approximately \$25,000 through October 2019, approximately \$179,000 commencing August 2019 through November 2019, approximately \$196,000 commencing December 2019 through July 2021, and various decreasing monthly installments through July 2022, at which time any remaining balance is due.

Required principal payments applicable to long-term debt and finance leases (excluding interest) for each of the next five years subsequent to December 31, 2019 are as follows (in thousands):

2020	\$	5,898
2021		4,740
2022		2,775
2023		2,791
2024		2,848
Thereafter		4,875

#### 9. Leases

As described in Note 1, Brooklyn Health adopted ASU 2016-02 effective January 1, 2019. Brooklyn Health leases certain property and equipment under finance and operating leases. Leases are classified as either finance or operating leases based on the underlying terms of the agreement and certain criteria, such as the term of the lease relative to the useful life of the asset and the total lease payments to be made as compared to the fair value of the asset, among others. Finance leases result in an accounting treatment similar to an acquisition of the asset.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **9. Leases (continued)**

For leases with initial terms greater than a year (or initially, greater than one year remaining under the lease at the date of adoption of ASU 2016-02), Brooklyn Health records the related right-of-use assets and liabilities at the present value of the lease payments to be paid over the life of the related lease. Brooklyn Health's leases may include variable lease payments and renewal options. Variable lease payments are excluded from the amounts used to determine the right-of-use assets and liabilities unless the variable lease payments depend on an index or rate or are in substance fixed payments. Lease payments related to periods subject to renewal options are also excluded from the amounts used to determine the right-of-use assets and liabilities unless Brooklyn Health is reasonably certain to exercise the option to extend the lease. The present value of lease payments is calculated by utilizing the discount rate stated in the lease, when readily determinable. For leases for which this rate is not readily available, Brooklyn Health has elected to use a risk-free discount rate determined using a period comparable with that of the lease term. Brooklyn Health has made an accounting policy election not to separate lease components from non-lease components in contracts when determining its lease payments for its asset classes, as permitted by ASU 2016-02. As such, Brooklyn Health accounts for the applicable non-lease components together with the related lease components when determining the right-of-use assets and liabilities. Brooklyn Health has made an accounting policy election not to record leases with an initial term of less than a year as right-of-use assets and liabilities.

Upon the adoption of ASU 2016-02, operating leases with a present value of approximately \$13.6 million and \$14.9 million were recorded as right-of-use assets and liabilities, respectively, at January 1, 2019.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 9. Leases (continued)

The following schedule summarizes information related to the lease assets and liabilities as of and for the year ended December 31, 2019 (in thousands):

Lease cost for the year ended December 31, 2019:

Finance lease cost:	
Amortization of right-of-use asset	\$ 675
Interest on lease liabilities	73
Operating lease cost	6,694
Total lease cost	\$ 7,442

Right-of-use assets and liabilities as of December 31, 2019:

Right-of-use assets – finance leases	\$ 2,843
Lease liability – finance leases	1,279
Right-of-use assets – operating leases	42,056
Lease liability – operating leases	43,683

Other information:

Cash paid for amounts included in the measurement of lease liabilities  
(year ended December 31, 2019):

Operating cash flows from finance leases	\$ 83
Operating cash flows from operating leases	6,376
Financing cash flows from finance leases	1,517

Right-of-use assets obtained in exchange for new finance lease liabilities (year ended December 31, 2019)	128
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Right-of-use assets obtained in exchange for new operating lease liabilities (year ended December 31, 2019)	33,490
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Weighted-average remaining lease term – finance leases (in months)	16.77
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Weighted-average remaining lease term – operating leases (in months)	105.37
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Weighted-average discount rate – finance leases	3.61%
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Weighted-average discount rate – operating leases	2.40%
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## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 9. Leases (continued)

For finance leases, right-of-use assets are reported as property, buildings and equipment and lease liabilities are reported as long-term debt in the accompanying consolidated statements of financial position. For operating leases, right-of-use assets are reported as right-of-use asset – operating leases and lease liabilities are reported as right-of-use liabilities – operating leases in the accompanying consolidated statement of financial position.

The following table reconciles the undiscounted lease payments to the lease liabilities recorded on the accompanying consolidated statement of financial position at December 31, 2019 (in thousands):

	<b>Finance leases</b>	<b>Operating leases</b>
2020	\$ 1,111	\$ 6,533
2021	264	5,476
2022	–	5,471
2023	–	5,379
2024	–	5,254
Thereafter	–	20,555
Total lease payments	1,375	48,668
Less imputed interest	96	4,985
Total lease obligation	1,279	43,683
Less current portion	1,021	5,544
Long-term portion	\$ 258	\$ 38,139

#### 10. Retirement Benefits

For employees not covered by multiemployer union plans, Brooklyn Health maintains a defined contribution pension plan. The defined contribution plan offers base and matching contributions paid by Brooklyn Health for eligible employees meeting certain criteria. Base contributions for eligible employees are at the discretion of Brooklyn Health, determined annually. Matching contributions are computed at 1% of base salary if the employee voluntarily contributes at least 2% of the employee's salary to the plan. Expense under the defined contribution plan totaled approximately \$0.7 million and \$0.3 million in 2019 and 2018, respectively.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 10. Retirement Benefits (continued)

The Hospital participates in two noncontributory defined benefit multiemployer pension plans that cover substantially all union employees. The Hospital's contributions to such plans are based upon rates required under the respective union contracts. Information at December 31, 2019 regarding the Hospital's share of accumulated plan benefits and plan net assets for these multiemployer union plans is not presently available. Total pension expense under these plans amounted to approximately \$12.0 million and \$10.7 million for the years ended December 31, 2019 and 2018, respectively and are reported within employee benefits in the accompanying consolidated statements of operations.

In relation to the two multiemployer defined benefit pension plans that cover the Hospital's union-represented employees, the risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Hospital chooses to stop participating in some of its multiemployer plans, the Hospital may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Hospital's participation in these plans for the years ended December 31, 2019 and 2018 is outlined in the table below. The information included in this table is as follows:

- The "EIN/Pension Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan numbers.
- The Pension Plan Protection Act of 2006 ("PPA") zone status is based on information that the Hospital received from the plans and is certified by the plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. Unless otherwise noted, the most recent PPA zone status available in 2019 and 2018 is for the plan's year-end at December 31, 2018 and 2017, respectively.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 10. Retirement Benefits (continued)

- The “FIP/RP Status Pending/Implemented” column indicates plans for which a financial improvement plan (“FIP”) or a rehabilitation plan (“RP”) is either pending or has been implemented.
- The column “Surcharge Imposed” indicates whether the Hospital was required to pay a surcharge to the plan.
- The last column lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

The number of employees covered by the Hospital’s multiemployer plans did not change significantly from 2018 to 2019. Contribution rates required to be paid to the plans have increased from 2018 to 2019. The Hospital was not identified in its plans’ 2018 Forms 5500 as providing more than 5% of total plan contributions.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending Implemented	Contributions of Brooklyn Health		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2019	2018		2019	2018		
<i>(In Thousands)</i>								
The New York State Nurses Association Pension Plan (NYSNA)	EIN 13-6604799 Plan 001	<b>Green</b>	Green	No	\$ 4,707	\$ 4,663	No	12/31/2022
1199 SEIU Health Care Employees Pension Fund	EIN 13-3604862 Plan 001	<b>Green</b>	Green	No	<b>7,300</b>	6,022	No	9/30/2021

#### 11. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against Brooklyn Health. Such lawsuits and claims are either specifically covered by insurance, accrued for in Brooklyn Health’s consolidated financial statements, or are not deemed material. While the outcome of these lawsuits cannot be determined at this time, management, based on advice from legal counsel, believes that any loss which may arise from these actions will not have a material adverse effect on the accompanying consolidated financial statements.

At December 31, 2019 and 2018, approximately 73% of Brooklyn Health’s employees are covered by collective bargaining agreements. Collective bargaining agreements covering such employees are set to expire at various dates through December 2022.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **12. Professional Insurance Liabilities**

All of Brooklyn Health's outstanding malpractice exposures as of September 30, 2005 were settled as part of a bankruptcy plan of reorganization which became effective in October 2007. Effective October 1, 2005, Brooklyn Health is self-insured at the primary layer for professional liability exposures and maintains a self-insurance trust for funding such exposures accruing on or after that date. The total estimated undiscounted professional liabilities for exposure since October 1, 2005, including amounts for asserted claims and for incidents that have been incurred but not yet reported, as of December 31, 2019 and 2018 aggregated approximately \$38.7 million and \$38.2 million, respectively. The actuarially determined present value of the professional liabilities for this period is approximately \$34.9 million and \$34.6 million at December 31, 2019 and 2018, respectively, based on a discount rate of 3.0% at December 31, 2019 and 2018. Professional liabilities are discounted based on the expected timing of the actuarially estimated future payments under the program using an interest rate expected to be earned on related invested assets during such future periods. These estimates are reviewed and updated on an annual basis. As of December 31, 2019 and 2018, the self-insurance trust fund applicable to the self-insured period had a balance of approximately \$1.5 million and \$5.4 million, respectively.

Beginning in April 2008, Brooklyn Health has maintained professional liability excess coverage from commercial carriers. Estimated excess professional liability insurance recovery receivables and the related insurance claims liability totaled approximately \$39.0 million and \$28.4 million at December 31, 2019 and 2018, respectively, and are recorded within other non-current assets and liabilities in the accompanying consolidated statements of financial position. In addition, Brooklyn Health maintains a commercial comprehensive general liability policy.

Metropolis began operations effective January 1, 2014 and provides professional liability coverage to certain of Brooklyn Health's employed physicians. Metropolis provides coverage on an occurrence basis and purchases reinsurance at a specified attachment point. At December 31, 2019 and 2018, the undiscounted liability totaled approximately \$10.9 million and \$8.7 million, respectively, and is reported in the accompanying consolidated statements of financial position. The actuarially determined present value of approximately \$12.0 million and \$8.0 million, respectively, based on a discount rate of 3.0% in each year. As of December 31, 2019 and 2018, the investments held by Metropolis had a balance of approximately \$7.1 million and \$5.9 million, respectively.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 12. Professional Insurance Liabilities (continued)

The estimates for professional liabilities are based upon complex actuarial calculations which utilize factors such as historical claim experience for Brooklyn Health and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

Professional liability claims have been asserted against Brooklyn Health by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. There are known incidents that have occurred through December 31, 2019, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients since October 1, 2005. It is the opinion of Brooklyn Health's management, based on prior experience and the advice of legal counsel and consulting actuaries, that any loss which may arise from these claims will not have a material adverse effect on its consolidated financial position or results of operations.

#### 13. Other Revenue

Other revenue consists of the following for the years ended December 31, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Grant revenue	\$ 7,792	\$ 8,570
Rental income	2,230	1,819
Investment return <i>(Note 5)</i>	1,122	(109)
Undergraduate medical education income	7,232	7,902
Equity income in LLC	4,327	2,365
MLMIC demutualization	101	13,197
Cafeteria sales	1,254	1,444
Contributions	1,379	1,238
Net assets released from restrictions used for operations	592	540
Delivery System Reform Incentive Payment income	6,331	4,648
Retail pharmacy cost sharing	2,450	3,014
Other	1,751	764
	<b>\$ 36,561</b>	<b>\$ 45,392</b>

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **13. Other Revenue (continued)**

In the last quarter of 2018, Medical Liability Mutual Insurance Company (“MLMIC”) was acquired by National Indemnity Company, a subsidiary of Berkshire Hathaway Inc. As a result of the acquisition, MLMIC’s legal structure converted from a mutual to a joint-stock insurance company. The cash consideration resulting from the conversion was paid out to eligible policyholders (policyholders with policies in effect from July 15, 2013 through July 14, 2016 (or their designees)). As a result of the demutualization, Brooklyn Health received approximately \$13.2 million in 2018. In 2019, Brooklyn Health received approximately \$0.1 million as certain disputed claims related to the MLMIC proceeds were resolved.

The State distributes federally-funded amounts through a payment mechanism referred to as the Delivery System Reform Incentive Payment (“DSRIP”) program. The DSRIP program is a five-year program intended to promote community-level collaborations to focus on health system reform and enhancing the value provided by the health care system. DSRIP funding is available to certain hospitals and providers participating in networks (referred to as Performing Provider Systems, “PPS”) that are able to establish performance improvement activities in certain predefined clinical improvement areas. The PPS in which Brooklyn Health participates has submitted plans for clinical improvement projects in order to be eligible for payments under the DSRIP program. Brooklyn Health received funding of approximately \$8.2 million and \$3.0 million during the years ended December 31, 2019 and 2018, respectively, and recognized approximately \$6.3 million and \$4.6 million in other revenue for the years ended December 31, 2019 and 2018, respectively, for amounts received under the DSRIP program. Certain payments under the DSRIP program are subject to meeting specified performance criteria and other requirements which may be evaluated in future periods.

#### **14. Charity Care, Other Uncompensated Services, and Community Service**

Brooklyn Health maintains documentation to identify and monitor the level of charity care it provides. This documentation includes, but is not limited to, the amount of charges forgone for services furnished to individuals with limited resources, either fully or in part, which may be discounted under certain sliding fee schedule arrangements, or deemed ultimately uncollectible. In addition, Brooklyn Health provides outpatient clinic and emergency services to other indigent patients under the Medicaid program, which pays hospitals at levels less than the costs of the services provided.

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **14. Charity Care, Other Uncompensated Services, and Community Service (continued)**

Since the collection of amounts determined to qualify as charity care is not pursued, such services are not reported as patient revenue. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing Brooklyn Health's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. The estimated cost of charity care and other uncompensated care provided approximated \$63.3 million and \$55.2 million for the years ended December 31, 2019 and 2018, respectively.

The NYSDOH Hospital Indigent Care Pool (the "Pool") was established to help hospitals subsidize the cost of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended December 31, 2019 and 2018, Brooklyn Health recorded approximately \$10.0 million and \$9.9 million, respectively, in Pool distributions and paid approximately \$2.3 million and \$2.4 million, respectively, for the 1% assessment.

#### **15. Fair Value Measurements**

Brooklyn Health utilizes various methods of calculating fair value of its financial assets and liabilities, when applicable. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from Brooklyn Health's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated).

Brooklyn Health uses a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

*Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

*Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Brooklyn Health, Inc.

Notes to Consolidated Financial Statements (continued)

**15. Fair Value Measurements (continued)**

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Brooklyn Health uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

The following table presents the financial instruments carried at fair value as of December 31, 2019, by caption on the consolidated statements of financial position based upon the fair value hierarchy defined above (in thousands):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 49,455	\$ —	\$ —	\$ 49,455
Investments:				
Cash and cash equivalents	120	—	—	120
Equity mutual funds	2,235	—	—	2,235
Fixed income mutual funds	1,365	—	—	1,365
Total investments	<u>3,720</u>	—	—	<u>3,720</u>
Assets limited as to use:				
Cash and cash equivalents	1,756	—	—	1,756
U.S. treasury securities	3,070	—	—	3,070
U.S. governmental agencies securities	—	3,434	—	3,434
Corporate bonds	—	859	—	859
Equity mutual funds	9,260	—	—	9,260
Fixed income mutual funds	9,674	—	—	9,674
Total assets limited as to use	<u>23,760</u>	<u>4,293</u>	—	<u>28,053</u>
Total assets at fair value	<u>\$ 76,935</u>	<u>\$ 4,293</u>	<u>\$ —</u>	<u>\$ 81,228</u>

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### 15. Fair Value Measurements (continued)

The following table presents the financial instruments carried at fair value as of December 31, 2018, by caption on the consolidated statements of financial position based upon the fair value hierarchy defined above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 24,182	\$ —	\$ —	\$ 24,182
Investments:				
Cash and cash equivalents	94	—	—	94
Equity mutual funds	1,771	—	—	1,771
Fixed income mutual funds	1,191	—	—	1,191
Total investments	3,056	—	—	3,056
Assets limited as to use:				
Cash and cash equivalents	2,501	—	—	2,501
U.S. Treasury securities	5,834	—	—	5,834
U.S. governmental agencies securities	—	4,285	—	4,285
Corporate bonds	—	3,025	—	3,025
Equity mutual funds	7,516	—	—	7,516
Fixed income mutual funds	4,564	—	—	4,564
Total assets limited as to use	20,415	7,310	—	27,725
Total assets at fair value	\$ 47,653	\$ 7,310	\$ —	\$ 54,963

Fair value for Level 1 assets is based upon quoted market prices. Level 2 assets consist of certain fixed income securities for which the fair value at each year end is estimated based on quoted prices and other valuation considerations (e.g., credit quality and prevailing interest rates).

#### 16. Functional Expenses

The costs of health care and supporting services activities have been summarized in the consolidated statements of operations. The expense analysis in the tables below (in thousands) presents the natural classification detail of expense by function for the years ended December 31, 2019 and 2018. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or support function. The expenses that are allocated

Brooklyn Health, Inc.

Notes to Consolidated Financial Statements (continued)

**16. Functional Expenses (continued)**

include salaries, wages, and employee benefits, which are allocated based on estimated time spent on program, fundraising, or general and administrative tasks. Other costs are classified in each functional category based on the underlying purpose of each transaction.

	<b>Health Care and Related Services</b>		<b>Management and General Fundraising</b>		<b>Total</b>
<b>2019</b>					
Salaries and wages	\$ 192,020	\$ 35,301	\$ 50	\$ 227,371	
Employee benefits	54,167	9,958	10	64,135	
Medical supplies	52,862	56	–	52,918	
Contract services and other	72,589	13,769	136	86,494	
Insurance	13,850	2,546	–	16,396	
Depreciation and amortization	11,887	2,127	–	14,014	
Interest and amortization of deferred financing fees	3,417	628	–	4,045	
Total expenses	<u>\$ 400,792</u>	<u>\$ 64,385</u>	<u>\$ 196</u>	<u>\$ 465,373</u>	

	<b>Health Care and Related Services</b>		<b>Management and General Fundraising</b>		<b>Total</b>
<b>2018</b>					
Salaries and wages	\$ 186,794	\$ 34,340	\$ 49	\$ 221,183	
Employee benefits	54,472	10,014	10	64,496	
Medical supplies	51,103	55	–	51,158	
Contract services and other	66,068	12,532	124	78,724	
Insurance	9,973	1,833	–	11,806	
Depreciation and amortization	13,311	2,382	–	15,693	
Interest and amortization of deferred financing fees	3,688	678	–	4,366	
Total expenses	<u>\$ 385,409</u>	<u>\$ 61,834</u>	<u>\$ 183</u>	<u>\$ 447,426</u>	

## Brooklyn Health, Inc.

### Notes to Consolidated Financial Statements (continued)

#### **17. Subsequent Events**

Subsequent events have been evaluated through April 29, 2020, which is the date the consolidated financial statements were issued. Other than disclosed below, no subsequent events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Due to the global viral outbreak caused by Coronavirus Disease 2019 (“COVID-19”) in 2020, there have been resulting effects which could negatively impact the financial condition of organizations throughout the United States. In response, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) to provide emergency assistance to organizations affected by the pandemic. The CARES Act provides advances, grants, loans, and tax deferrals that will allow these organizations to continue operations until the pandemic has subsided.

The ultimate impact of these matters to Brooklyn Health and its financial condition is presently unknown. The accompanying consolidated financial statements do not reflect the effects of these subsequent events.

Supplementary Information and  
Audit Reports and Schedules Related  
to the Uniform Guidance

Brooklyn Health, Inc.

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

<b>Federal Department/Program Title/Pass-Through Entity</b>	<b>CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>			
WIC Special Supplemental Nutrition Program for Women, Infants, and Children (Pass-through State of New York Department of Health)	10.557	DOH01-C30432GG-3450000	\$ 25,066,376
Total U.S. Department of Agriculture			<u>25,066,376</u>
<b>U.S. Department of Housing and Urban Development</b>			
Supplemental Loan Insurance Multifamily Rental Housing (Federal Housing Administration Section 241 Insured Mortgage)	14.151		21,135,000
Total U.S. Department of Housing and Urban Development			<u>21,135,000</u>
<b>U.S. Department of Health and Human Services</b>			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		1,115,057
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924		41,337
Immunization Cooperative Agreements (Pass-Through City of New York Department of Health and Mental Hygiene)	93.268	N/A	1,105,342
National Bioterrorism Hospital Preparedness Program (Pass-Through Fund for Public Health in New York, Inc.)	93.889	17-BKHC-01_AMD 2	34,300
Coordinated Services and Access to Research for Women, Infants, Children, and Youth (Pass-Through The Research Foundation of State University of New York)	93.153	5H12HA288510500, 5H12HA288510400	87,625
Total U.S. Department of Health and Human Services			<u>2,383,661</u>
Total Expenditures of Federal Awards			<u>\$ 48,585,037</u>

See accompanying notes.

# Brooklyn Health, Inc.

## Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Brooklyn Health, Inc. and its member corporations and other affiliated entities (Brooklyn Health) and is presented on the accrual basis of accounting. The information on 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* (the Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements of Brooklyn Health. For purposes of the Schedule, federal awards include any assistance provided by a federal agency directly or indirectly in the form of grants, contracts, cooperative agreements, loan and loan guarantees, or other non-cash assistance.

Pass-through programs received by Brooklyn Health may include, in addition to federal funds, support from other sources. The Schedule reflects only those expenditures that have been supported by federal funds. Determinations as to the level of federal funding have been made based on communications of funding levels provided by the pass-through agencies. In certain circumstances, the funding levels communicated are estimated and subject to finalization upon the completion of the budget period for the program.

Direct and indirect costs are charged to awards in accordance with cost principles contained in the U.S. Department of Health and Human Services *Cost Principles for Hospitals* at 45 CFR, Part 75 Appendix IX, for awards subject to the Uniform Guidance. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The Uniform Guidance provides for a 10% de minimis indirect cost rate election; however, Brooklyn Health did not make this election and uses a negotiated indirect cost rate, when applicable.

### **2. Vaccines for Children Program**

During the year ended December 31, 2019, Brooklyn Health participated in the City of New York Department of Health and Mental Hygiene Vaccines for Children Program (CFDA 93.268) through the provision of vaccinations. The U.S. Department of Health and Human Services, the federal agency that sponsors this program has determined that the vaccines administered are considered “property in lieu of money” and, therefore, should be reported as federal awards received by Brooklyn Health for purposes of presentation in the Schedule.

## Brooklyn Health, Inc.

### Notes to Schedule of Expenditures of Federal Awards (continued)

#### 3. Food and Nutritional Awards

During the year ended December 31, 2019, Brooklyn Health participated in the State of New York Department of Health, Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) through the provision of nutritional counseling and distribution of food vouchers. The U.S. Department of Agriculture, the federal agency that sponsors the WIC program under CFDA number 10.557, has determined that WIC food vouchers are considered “property in lieu of money” and, therefore, should be reported as federal awards received by the Brooklyn Health for the purposes of presentation in the Schedule.

The amount reported as federal awards in the Schedule for the WIC program represents the federally funded value of food vouchers redeemed in the amount of \$19,901,279 plus administrative costs of \$5,165,097 for the year ended December 31, 2019. As New York State funds are commingled with federal funds, percentages were applied to determine the total amount of federal funds to be reported above. These percentages were supplied by the New York State Department of Health as follows:

	<u>Federal Percentage</u>
Administrative costs	96.9%
Food costs	100%

#### 4. U.S. Department of Housing and Urban Development Mortgage Insurance Program

Brooklyn Health has a mortgage loan insured under the provisions of the U.S. Department of Housing and Urban Development – Federal Housing Administration (FHA) Section 241 mortgage insurance program. The U.S. Department of Housing and Urban Development (HUD) has determined that the mortgage insurance program is to be considered a federal award for purposes of compliance with the Uniform Guidance. At December 31, 2019 and January 1, 2019, the outstanding balance of the loan was \$18,559,000 and \$21,135,000, respectively.

Pursuant to the FHA mortgage agreement and related documents, Brooklyn Health is, among other compliance requirements, required to maintain certain debt service funds, including a mortgage reserve fund. In addition, Brooklyn Health is required to maintain certain financial ratios and financial conditions. In the event these ratios or conditions are not met, Brooklyn Health may be required to obtain approval to engage in certain transactions. As described in Note 8 to the consolidated financial statements, Brooklyn Health is in compliance with the financial covenants.



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## Report of Independent Auditors 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*

The Board of Trustees  
Brooklyn Health, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States 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 Brooklyn Health, Inc. and its member corporations and other affiliated entities (Brooklyn Health), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of operations, 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 April 29, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Brooklyn Health'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 Brooklyn Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Brooklyn Health'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 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 Brooklyn Health’s financial statements are free of 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.

*Ernst + Young LLP*

April 29, 2020



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## Report of Independent Auditors on Compliance for The Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

The Board of Trustees  
Brooklyn Health, Inc.

### **Report on Compliance for The Major Federal Program**

We have audited Brooklyn Health, Inc. and its member corporations and other affiliated entities', (Brooklyn Health) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Brooklyn Health's major federal program for the year ended December 31, 2019. Brooklyn Health's major federal program is identified in the summary of auditor's 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.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for Brooklyn Health'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; 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 the major federal program occurred. An audit includes examining, on a test basis, evidence about Brooklyn Health'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 Brooklyn Health's compliance.

### ***Opinion on The Major Federal Program***

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

### **Report on Internal Control Over Compliance**

Management of Brooklyn Health 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 Brooklyn Health'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 its major federal program 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 Brooklyn Health'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 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.

*Ernst + Young LLP*

September 30, 2020

Brooklyn Health, Inc.

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2019

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified, with emphasis-of-matter paragraph for change in accounting

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 auditor’s 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

Brooklyn Health, Inc.

Schedule of Findings and Questioned Costs (continued)

**Section I – Summary of Auditor’s Results (continued)**

Identification of major federal programs:

<b>CFDA Number</b>	<b>Name of Federal Program</b>
14.151	U.S. Department of Housing and Urban Development - Supplemental Loan Insurance Multifamily Rental Housing (Federal Housing Administration Section 241 Insured Mortgage)

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,457,551

Auditee qualified as low-risk auditee?

       Yes        X   No

**Section II – Financial Statement Findings**

There are no matters that are required to be reported.

**Section III – Federal Award Findings and Questioned Costs**

There are no matters that are required to be reported.

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# The Brooklyn Hospital Center

*Keeping Brooklyn healthy.*

Brooklyn Health, Inc.

## Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2018

**Finding Reference Number:** 2017-001

**Program CFDA Number:** N/A

**Program Name:** Financial Statement Finding

**Condition:**

The 2016 consolidated financial statements of The Brooklyn Hospital Center and Subsidiaries (the Hospital) contained an error in the estimation of accrued expenses. The error, which was identified by management during 2017, was caused by an insufficient estimation process for accrued expenses. The Hospital recorded in its 2016 consolidated financial statements a liability that was understated by approximately \$10.7 million and a corresponding overstatement of unrestricted net assets at January 1, 2016. The error did not have any impact on the 2016 consolidated statement of operations.

**Questioned costs:**

None.

**Status:**

The Hospital revised its accrued expense estimation process in 2017 to remediate this issue.



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