# The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

## Consolidated Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control and Compliance (With Supplementary Information) and Independent Auditor's Reports

December 31, 2019 and 2018

CohnReznick

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**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

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# Independent Auditor's Report

To the Board of Directors
The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Joseph P. Addabbo Family Health Center, Inc. and Affiliate (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses 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 accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Affiliate were not audited in accordance with *Government Auditing Standards*.

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 Organization'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 Organization'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 consolidated 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 the Organization as of December 31, 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 32 and 33 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets of the individual organizations, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 audit 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 of America. 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 have also issued our report dated October 1, 2020, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

CohnReznick LLP

New York, New York
October 1, 2020

**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

**Consolidated Statements of Financial Position**
**December 31, 2019 and 2018**

Assets

| | 2019 | 2018 |
|---|---|---|
| Current assets | | |
| Cash | $ 1,115,923 | $ 1,960,778 |
| Patient services receivable | 2,708,481 | 4,967,036 |
| 340B pharmacy program receivable | 1,463,991 | 976,956 |
| Grants and contracts receivable | 1,574,047 | 849,939 |
| Prepaid expenses and other current assets | 221,875 | 272,965 |
| Total current assets | 7,084,317 | 9,027,674 |
| Restricted cash | 3,375,225 | 10,639,690 |
| Loan receivable | 6,027,483 | 6,027,483 |
| Debt service reserve | 863,157 | 976,682 |
| Property and equipment, net | 33,874,147 | 27,066,656 |
| Security deposits | 40,566 | 40,566 |
| | 44,180,578 | 44,751,077 |
| Total assets | $ 51,264,895 | $ 53,778,751 |

Liabilities and Net Assets

| | | |
|---|---|---|
| Current liabilities | | |
| Accounts payable and accrued expenses | $ 4,609,129 | $ 2,885,090 |
| Accrued compensation | 1,974,845 | 2,101,353 |
| Refundable advances | 651,882 | - |
| Current maturities of long-term debt | 996,122 | 479,512 |
| Total current liabilities | 8,231,978 | 5,465,955 |
| Noncurrent liabilities | | |
| Deferred rent | 150,951 | 150,951 |
| Long-term debt, less current maturities | 22,442,441 | 24,722,745 |
| Total liabilities | 30,825,370 | 30,339,651 |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions | 20,439,525 | 23,439,100 |
| Total net assets | 20,439,525 | 23,439,100 |
| Total liabilities and net assets | $ 51,264,895 | $ 53,778,751 |

See Notes to Consolidated Financial Statements.

**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

**Consolidated Statements of Activities and Changes in Net Assets**
**Years Ended December 31, 2019 and 2018**

| | 2019 | 2018 |
|---|---|---|
| Revenue without donor restrictions | | |
| Patient services (net of contractual allowances and discounts) | $ 28,648,425 | $ 27,061,870 |
| DHHS grants | 4,890,142 | 4,429,632 |
| Contract services and other grants | 5,125,732 | 4,885,130 |
| 340B pharmacy program | 17,751,850 | 15,476,197 |
| Other | 514,613 | 658,669 |
| Total revenue without donor restrictions | 56,930,762 | 52,511,498 |
| Expenses | | |
| Salaries and related benefits | 37,497,990 | 35,237,130 |
| Other than personnel services | 22,795,325 | 19,765,268 |
| Interest | 388,856 | 542,132 |
| Depreciation and amortization | 895,360 | 894,039 |
| Total expenses | 61,577,531 | 56,438,569 |
| Loss from operations | (4,646,769) | (3,927,071) |
| Nonoperating revenue | | |
| New York State Department of Health capital grant | 1,202,194 | - |
| DHHS capital grant | 445,000 | - |
| | 1,647,194 | - |
| Changes in net assets | (2,999,575) | (3,927,071) |
| Net assets, beginning | 23,439,100 | 27,366,171 |
| Net assets, end | $ 20,439,525 | $ 23,439,100 |

See Notes to Consolidated Financial Statements.

**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2019**

| | Program services | General and administrative | Total |
|---|---|---|---|
| Salaries and wages | $ 24,741,029 | $ 3,489,297 | $ 28,230,326 |
| Fringe benefits and payroll taxes | 8,122,169 | 1,145,495 | 9,267,664 |
| Consultants and contractual services | 3,069,309 | 656,481 | 3,725,790 |
| Professional fees | - | 487,902 | 487,902 |
| Consumable supplies | 1,937,939 | 141,886 | 2,079,825 |
| Pharmaceuticals | 13,086,668 | - | 13,086,668 |
| Donated vaccines | 1,307,724 | - | 1,307,724 |
| Occupancy | 535,650 | 75,544 | 611,194 |
| Insurance | 187,091 | 26,386 | 213,477 |
| Equipment rental and maintenance | 126,410 | 22,997 | 149,407 |
| Telephone | 191,086 | 26,949 | 218,035 |
| Printing, publications and postage | 49,006 | 34,703 | 83,709 |
| Data processing | 121,270 | 17,104 | 138,374 |
| Personnel recruitment | 38,579 | 5,441 | 44,020 |
| Travel, conferences and meetings | 33,821 | 78,516 | 112,337 |
| Dues and subscriptions | 35,915 | 171,620 | 207,535 |
| Patient transportation | 149,010 | - | 149,010 |
| Other | 93,604 | 86,714 | 180,318 |
| Interest | 340,793 | 48,063 | 388,856 |
| Depreciation and amortization | 784,693 | 110,667 | 895,360 |
| Total functional expenses | $ 54,951,766 | $ 6,625,765 | $ 61,577,531 |

See Notes to Consolidated Financial Statements.

**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

**Consolidated Statement of Functional Expenses**
**Year Ended December 31, 2018**

| | Program services | General and administrative | Total |
|---|---|---|---|
| Salaries and wages | $ 23,467,151 | $ 3,445,200 | $ 26,912,351 |
| Fringe benefits and payroll taxes | 7,259,078 | 1,065,701 | 8,324,779 |
| Consultants and contractual services | 2,640,097 | 659,161 | 3,299,258 |
| Professional fees | - | 278,812 | 278,812 |
| Consumable supplies | 1,708,914 | 187,105 | 1,896,019 |
| Pharmaceuticals | 11,102,257 | - | 11,102,257 |
| Donated vaccines | 967,736 | - | 967,736 |
| Occupancy | 520,698 | 77,805 | 598,503 |
| Insurance | 227,624 | 34,013 | 261,637 |
| Equipment rental and maintenance | 98,565 | 41,301 | 139,866 |
| Telephone | 162,571 | 24,292 | 186,863 |
| Printing, publications and postage | 33,962 | 37,328 | 71,290 |
| Data processing | 122,607 | 18,320 | 140,927 |
| Personnel recruitment | 47,625 | 7,116 | 54,741 |
| Travel, conferences and meetings | 21,188 | 147,764 | 168,952 |
| Dues and subscriptions | 45,279 | 255,786 | 301,065 |
| Patient transportation | 126,500 | - | 126,500 |
| Other | 99,810 | 71,032 | 170,842 |
| Interest | 471,655 | 70,477 | 542,132 |
| Depreciation and amortization | 777,814 | 116,225 | 894,039 |
| Total functional expenses | $ 49,901,131 | $ 6,537,438 | $ 56,438,569 |

See Notes to Consolidated Financial Statements.

## The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

### Consolidated Statements of Cash Flows
### Years Ended December 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities | | |
| Cash received from patient services and pharmacy program | $ 30,666,980 | $ 26,503,554 |
| Cash received from 340B pharmacy services | 17,264,815 | 15,761,190 |
| Cash received from DHHS grants | 5,542,024 | 3,930,005 |
| Cash received from contracts and other grants | 4,401,624 | 5,466,666 |
| Cash received from others | 514,613 | 658,669 |
| Cash paid to employees | (37,624,498) | (34,741,950) |
| Cash paid to vendors | (20,780,196) | (18,384,793) |
| Interest paid | (388,856) | (542,132) |
| Net cash used in operating activities | (403,494) | (1,348,791) |
| Cash flows from investing activities | | |
| Issuance of loan receivable | - | (6,027,483) |
| Purchase of property and equipment | (7,702,851) | (4,026,738) |
| Net cash used in investing activities | (7,702,851) | (10,054,221) |
| Cash flows from financing activities | | |
| Proceeds from nonoperating capital grants | 1,647,194 | - |
| Proceeds from long-term debt | 50,748 | 23,291,411 |
| Payment of long-term debt | (1,814,442) | (2,579,498) |
| Payment of debt service reserve | 113,525 | (497,678) |
| Net cash (used in) provided by financing activities | (2,975) | 20,214,235 |
| Net (decrease) increase in cash and restricted cash | (8,109,320) | 8,811,223 |
| Cash and restricted cash, beginning | 12,600,468 | 3,789,245 |
| Cash and restricted cash, end | $ 4,491,148 | $ 12,600,468 |
| Reconciliation of changes in net assets to net cash used in operating activities | | |
| Changes in net assets | $ (2,999,575) | $ (3,927,071) |
| Adjustments to reconcile changes in net assets to net cash used in operating activities | | |
| Nonoperating capital grants | (1,647,194) | - |
| Depreciation and amortization | 895,360 | 894,039 |
| Deferred rent | - | 35,638 |
| Changes in operating assets and liabilities | | |
| Patient services receivable | 2,258,555 | (558,316) |
| 340B pharmacy program receivable | (487,035) | 284,993 |
| Grants and contracts receivable | (724,108) | 81,909 |
| Prepaid expenses and other current assets | 51,090 | (71,944) |
| Accounts payable and accrued expenses | 1,724,039 | 1,416,781 |
| Accrued payroll and employee benefits | (126,508) | 495,180 |
| Refundable advances | 651,882 | - |
| Net cash used in operating activities | $ (403,494) | $ (1,348,791) |

See Notes to Consolidated Financial Statements.

## Note 1 - Organization

The Joseph P. Addabbo Family Health Center, Inc. (the "Center") is a Federally Qualified Health Center ("FQHC") that operates healthcare centers in the boroughs of Brooklyn and Queens, New York. The Center provides a broad range of health services to a largely medically underserved population.

Addabbo Center Future Home, Inc. ("ACFH" or the "Affiliate") was organized on May 10, 2017, under Section 501(c)(3) of the Internal Revenue Code. The purpose of ACFH is to facilitate the borrowings related to a New Markets Tax Credit transaction to finance the development and construction of a health care facility in Queens, New York. There was no activity for ACFH in 2017.

The Center is the sole member of ACFH and is, therefore, considered the parent company.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

## Note 2 - Significant accounting policies

### Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements include the accounts of the Center and Affiliate (collectively, the "Organization"). All intercompany transactions and account balances have been eliminated in consolidation.

### Adoption of new accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, that was amended by ASU 2020-05, *Revenue from Contracts with Customers (Topic 606),* and *Leases (Topic 842): Effective Dates for Certain Entities*, which provided a one-year deferral of the effective date of ASU 2014-09 for certain entities that have not yet issued financial statements or made financial statements available for issuance as of June 3, 2020. As a result of ASU 2020-05, Topic 606 will be effective for periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Organization has evaluated the impact of the new standard on the consolidated financial statements and has elected for adoption effective January 1, 2019 using the modified retrospective method of transition. This ASU provides new revenue recognition guidance that superseded existing revenue recognition guidance. The update, as amended, requires the recognition of revenue related to the transfer of goods or services to customers that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, as well as additional qualitative and quantitative disclosures about revenues. The Organization performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for patient service revenue net of contractual allowances and discounts and for pharmacy revenue, the Organization performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts and group pharmacy contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts and presented as reduction to patient

revenue net of contractual allowances and discounts on the statements of activities and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient services revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to total revenue without donor restrictions, increase in net assets without donor restrictions, or total net assets.

The Organization adopted FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made, and provides guidance to organizations on how to account for certain exchange transactions This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2019. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions as of January 1, 2019. The adoption of ASU 2018-08 did not affect the Organization's consolidated statements of activities and changes in net assets.

The Organization adopted FASB ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash and cash equivalents. Due to this change, the amount described as restricted cash is now included with cash when reconciling the beginning-of-year and end-of-year total amounts shown on the consolidated statements of cash flows.

The Organization adopted FASB ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on the classification of eight specific cash flow issues. The adoption of ASU 2016-15 did not affect the Organization's consolidated statements of cash flows.

**Reclassifications**
Certain prior year amounts have been reclassified to conform to the current year presentation.

**Use of estimates**
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Classification of net assets**
The Organization reports information regarding its financial position and activities according to the following two categories:

Net assets without donor restrictions are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization 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, that is, when the stipulated time has elapsed; when the stipulated purpose has been fulfilled or both, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets.

**Cash**

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions. The Organization has not experienced any losses in such accounts. All highly-liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

**Restricted cash**

The Organization has cash that is restricted to construct an expansion project and to renovate the Center's health center facility located at 6200 Beach Channel Drive, Arverne, New York.

**Grants and contracts receivable**

Grants and contracts receivable consist of costs under the grant and contract agreements that were incurred prior to year-end for which payment has not been received. Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Organization regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Organization considers all grants and contracts as collectible.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets ranging from 5 to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the lease term. Expenditures over $5,000 are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets.

Construction in progress is recorded at cost. The Organization capitalizes construction, insurance and other costs during the period of construction. Depreciation and amortization is recorded when construction is substantially complete and the assets are placed in service.

According to federal regulations, any property and equipment obtained through federal funds are subject to a lien by the federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the federal government. If the stated requirements are not met, the Center would be obligated to the federal government in an amount equal to the fair value of the property and equipment.

**Impairment of long-lived assets**
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Organization compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying value and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Organization does not believe that any material impairment currently exists related to its long-lived assets.

**Deferred financing**
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the long-term debt to which such costs relate. Amortization of debt issuance is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

**Deferred rent**
The Organization occupies space under leases containing escalation clauses and/or incentives that require normalization of the rental expense over the life of the leases. The resulting deferred rent is reflected in the accompanying consolidated statements of financial position.

**Contributions**
Transactions where the resource provider often receives value indirectly by providing a societal benefit, although the societal benefit is not considered to be of commensurate value, are deemed to be contributions. Contributions are classified as either conditional or unconditional. A conditional contribution is a transaction where the Organization has to overcome a barrier or hurdle to be entitled to the resource and the resource provider is released from the obligation to fund or has the right of return of any advanced funding if the Organization fails to overcome the barrier. The Organization recognizes the contribution revenue upon overcoming the barrier or hurdle. Any funding received prior to overcoming the barrier is recognized as refundable advance.

Unconditional contributions are recognized as revenue and receivable when the commitment to contribute is received.

Conditional and unconditional contributions are recorded as either with donor restrictions or without donor restrictions. Contributions are recognized as contributions with donor restrictions if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as contributions without donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and are reported in the statements of activities and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as contribution without donor restrictions.

At December 31, 2019, the Organization has received grants and contracts from governmental entities, accounted for as either exchange transactions or conditional contributions, in the aggregate amount of approximately $6,000,000 that have not been recorded in the accompanying financial statements. These grants and contracts require the Organization to complete certain performance obligations during specified periods. If such performance obligations are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

**Patient services revenue and receivables**

Patient care service revenue is reported at the amount that reflects the consideration to which the Organization 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 for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services at the Organization's outpatient centers. The Organization measures the performance obligation from 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 completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB Accounting Standards Codification ("ASC") 606-10-50-14a and, therefore, 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 Organization's performance obligations consist primarily of outpatient services that occur within one day of a patient's visit; thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

The Organization determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicaid - Reimbursements for Medicaid services are generally paid at prospectively determined rates per visit or per covered member.

Medicare - Outpatient services are paid using prospectively determined rates.

Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per visit, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have on the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to 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 the Organization's historical settlement activity, 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. 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 in 2019.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2019, there was no additional revenue recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years.

Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

The Organization is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Organization renders services to patients who are financially unable to pay for healthcare. The Organization provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size.

The Organization maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records an explicit concession to uninsured patients in the period the services are provided based on historical experience.

Community benefit represents the cost of services for Medicaid, Medicare, and other public patients for which the Organization is not reimbursed.

Based on the cost of patient services, charity care amounted to $139,000 and $0, for the years ended December 31, 2019 and 2018, and there were $0 community benefit for the years then ended. Such amounts determined to qualify as charity care are not reported as revenue. Charity care is covered by the safety net funding from New York State Department of Health.

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Organization has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Organization otherwise would have recognized is one year or less in duration.

**Grants and contracts revenue**

Revenue from grants and contracts with resource providers such as the government and its agencies, other organizations and private foundations are accounted for either as exchange transactions or as contributions. When the resource provider receives commensurate value in return for the resources transferred to the Organization, the revenue from the grant or contract is accounted for as an exchange transaction in accordance with ASU 2014-09. For purposes of determining whether a transfer of asset is a contribution or an exchange, the Organization deems that the resource provider is not synonymous with the general public, i.e., indirect benefit received by the public as a result of the assets transferred is not deemed equivalent to commensurate value received by the resource provider. The execution of a resource provider's mission or the positive sentiment from acting as a donor is not deemed to constitute commensurate value received by a resource provider.

Revenue from grants and contracts that are accounted for as exchange transactions is recognized when performance obligations have been satisfied. Grants and contracts awarded for the acquisition of long-lived assets are reported as nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

Grants and contract transactions where the resource providers do not receive commensurate value are accounted for as contributions.

**340B pharmacy program receivable and revenue**

The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities* through its agreement with certain unaffiliated pharmacies. Participation in this program allows the Center to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. The Center recognized pharmacy revenue of $17,751,850 and $15,476,197 for the years ended December 31, 2019 and 2018, respectively, and pharmacy receivable of $1,463,991 and $976,956 as of December 31, 2019 and 2018, respectively. The Center recognizes pharmacy revenue as prescriptions are dispensed.

Because all of its performance obligations relate to pharmacy sales contracts with a duration of less than one year, the Center has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, 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 Center's performance obligations in relation to pharmacy revenue consist primarily of pharmacy sales that occur as the patient purchases the prescription, thus, there were no unsatisfied or partially unsatisfied performance obligations at the end of the reporting period.

The Center determines the transaction price based on standard charges for prescriptions provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Center's policy, and implicit price concessions provided to uninsured patients. The Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Center determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

**Donated vaccines**

Donated vaccines are recognized in the accompanying consolidated financial statements based on fair value at the date of donation. In 2019 and 2018, donated vaccines received amounted to $1,307,724 and $967,736, respectively, and are included in contract services and other grants on the consolidated statements of activities and changes in net assets.

**Interest earned on federal funds**

Interest earned on federal funds is recorded as a payable to the United States Public Health Services ("PHS") in compliance with the regulations of the United States Office of Management and Budget, if applicable.

**Functional expenses**
The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among program services, and general and administrative. Such allocations are determined by management on an equitable basis. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and benefits, travel, conferences and meetings, which are allocated on the basis of estimates of time and effort; occupancy costs, which are based on headcount; depreciation, which is allocated on a square footage basis; professional services, consultants and contractual services, data processing and telephone, which are allocated based on usage, and consumable supplies which are allocated based on a percentage of gross patient services revenue.

**Performance indicator**
The consolidated statements of activities and changes in net assets include income from operations as the performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator include New York State Department of Health and DHHS capital grants.

**Tax status**
The Center and the Affiliate were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes. The Organization has no unrecognized tax benefits at December 31, 2019 and 2018. The Center's federal and state income tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Organization recognizes interest and penalties associated with tax matters as operating expenses, and include accrued interest and penalties with accrued expenses in the consolidated statements of financial position.

**Subsequent events**
The Organization has evaluated subsequent events through October 1, 2020, which is the date the consolidated financial statements were available to be issued.

## Note 3 - Management's plans to improve results of operations and availability and liquidity

As indicated in the accompanying consolidated statements of activities and changes in net assets, the Organization showed a change in net assets deficiency of $2,999,575 for the year ended December 31, 2019. In November 2019, the Board of Directors initiated a change in executive leadership, since then three other members of a seven member senior management team have been restructured. To improve operating results, the Organization expedited its evaluation of departmental staffing and workflows, resulting in a net staff reduction of 129, approximately one-third of the pre-transition work force, and representing a significant reduction to operating expenses, over $300,000 in gross payroll reduction per pay period. Additional cost savings strategies were implemented in fringe benefits, consumable supplies and staff travel, most significantly was the suspension of the discretionary pension contribution, a change made effective January 1, 2020 and projected to reduce operating expenses by approximately $1,000,000. Included within the staff restructuring was the decision to eliminate the billing department staff and contract for billing cycle management services, a change initiated to optimize claims billing and cash receipts from patient

service revenue. The contracted billing company provides senior management with enhanced billing cycle reports and has provided pro bono education and training services to providers and front desk staff, resulting in improved front office scheduling, coding for services provided, and claims denial management. The Organization has also continued increasing the revenues from the 340B pharmacy program through provider and patient education and by expanding the referral providers and contracted pharmacies.

All of the above has occurred while simultaneously managing the Organization through the COVID-19 pandemic. A portion of the staff reduction noted above was necessitated by the significant changes in services delivery, wherein certain services have been temporarily suspended and telehealth services have been implemented (in March 2020). Telehealth services account for approximately 20% of the total billed claims through July 2020. As offset to this reduced patient service revenue, the Organization has received increased funding opportunities, including a $6,566,595 loan through the SBA Paycheck Protection Program, and approximately $3,100,000 of direct Federal grants, Federal stimulus funds, and other private grant opportunities. Management is complying with the funding requirements, and intends to maximize the cumulative COVID-19 related funding that is currently made available to the Organization through April 2021.

The following represents the Organization's financial assets at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Financial assets at year end | | |
| Cash | $ 1,115,923 | $ 1,960,778 |
| Patient services receivable | 2,708,481 | 4,967,036 |
| 340B pharmacy program receivable | 1,463,991 | 976,956 |
| Grants and contracts receivable | 1,574,047 | 849,939 |
| Financial assets available to meet general expenditures over the next twelve months | $ 6,862,442 | $ 8,754,709 |

The Organization routinely monitors the availability of resources required to meet contractual commitments and its general operating needs, and strives to maintain liquid financial assets sufficient to cover between 30 and 60 days of general expenditures. Management continuously forecasts its future 30 and 60 days of cash flow needs and presents days' cash on hand metric as part of its financial performance ratios to the Board of Directors monthly. From time to time, subject to collection of certain accounts receivable, available financial assets may exceed 60 days' cash requirements, this excess cash is maintained as part of the Organization's operating bank balances.

For purposes of analyzing resources available to cover general expenditures to be incurred within a 12-month period, the Organization considers all expenditures related to its ongoing mission of providing health care services to the surrounding medically underserved population as well as the underlying cost of conducting and supporting these services to be general operating expenditures.

In addition to financial assets available to cover general expenditures in the next 12 months, the Organization attempts to operate within its approved balanced budget, one that is built on the Organization collecting sufficient revenue required to cover general expenditures.

## Note 4 - Cash and restricted cash

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statements of financial position and cash and restricted cash shown in the consolidated statements of cash flows.

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 1,115,923 | $ 1,960,778 |
| Restricted cash | 3,375,225 | 10,639,690 |
| Total | $ 4,491,148 | $ 12,600,468 |

## Note 5 - Net patient services revenue and patient services receivable

The composition of patient services revenue by primary payor for the years ended December 31, 2019 and 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| Medicaid | $ 873,192 | $ 1,218,731 |
| Medicaid Managed Care | 20,978,285 | 18,929,112 |
| Medicare | 1,913,644 | 2,012,246 |
| Self-pay | 534,435 | 464,808 |
| Private insurance | 1,427,934 | 1,051,045 |
| New York Safety Net Pool/Uncompensated Care | 2,920,935 | 3,385,928 |
| Total | $ 28,648,425 | $ 27,061,870 |

Revenue from patient deductibles and coinsurance are included in the preceding categories based on the primary payor.

Patient services receivable consist of amounts due from government programs, commercial insurance companies, other group insurance programs, and private pay patients. Patient services receivable consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Medicaid | $ 322,216 | $ 305,195 |
| Medicaid Managed Care | 1,086,722 | 1,771,062 |
| Medicare | 276,488 | 156,735 |
| Self-pay | 9,904 | 841 |
| Private insurance | 324,741 | 169,902 |
| New York Safety Net Pool / Uncompensated Care | 688,410 | 2,563,301 |
| Subtotal | $ 2,708,481 | $ 4,967,036 |

The Organization's concentration of credit risk relating to patient services receivable primarily relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts remain outstanding. The Organization recognized $0 of patient receivable impairment or bad debt for the years ended December 31, 2019 and 2018 based on patient-specific impairment events.

## Note 6 - Grants and contracts receivable

Grants and contracts receivable consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| New York State Department of Health | | |
| Special Supplemental Nutrition Program for Women, Infants and Children | $ 170,599 | $ 227,931 |
| Consumer Assistance for the NY Health Benefit Exchange In Person Assistors and Navigators | 136,582 | 121,413 |
| Public Health Solutions | | |
| Early Intervention Services with Respect to HIV Disease | 36,658 | 7,870 |
| Ryan White Part A Care Coordination Program for for New York City | 138,945 | 174,000 |
| Ryan White Title III HIV Capacity Devt. & Planning Grants | 40,854 | |
| New York City Department of Health and Mental Hygiene | | |
| Infant Mortality Reduction Initiative | 157,609 | 171,813 |
| Substance Abuse and Mental Health Services Administration | | |
| Project Resources, Information, Treatment and Empowerment | 103,423 | - |
| NYS OASAS SOR | 59,168 | - |
| Other | 730,209 | 146,912 |
| Total | $ 1,574,047 | $ 849,939 |

## Note 7 - Property and equipment, net

Property and equipment, net consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 1,605,071 | $ 1,605,071 |
| Building and improvements | 24,560,609 | 24,517,195 |
| Furniture and equipment | 5,008,943 | 4,943,040 |
| Leasehold improvements | 1,083,809 | 1,083,809 |
| Subtotal | 32,258,432 | 32,149,115 |
| Less accumulated depreciation and amortization | (12,517,928) | (11,622,566) |
| Add construction in progress | 14,133,643 | 6,540,107 |
| Total | $ 33,874,147 | $ 27,066,656 |

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the PHS or third parties.

Construction in progress represents construction and renovation being done at the Center's health care facility located at 6200 Beach Channel Drive, Arverne, New York. The estimated total cost is $26,600,000, of which $12,517,928, and $11,622,566 was paid during 2019 and 2018, respectively. The construction is approximately 80% completed and is expected to be placed into service in March 2021. No depreciation has been provided on assets classified as construction in progress as these assets have not yet been placed in service. In 2019 and 2018, the Center capitalized interest expense amounting to $266,772 and $99,488, respectively, as part of construction in progress.

Depreciation and amortization expense amounted to $895,360 and $894,039 in 2019 and 2018, respectively.

## Note 8 - Loan receivable

As a result of the New Markets Tax Credit ("NMTC") financing structure described in Note 9, the Center is the holder of a promissory note with BOA Addabbo Investment Fund LLC (the "Investment Fund") effective January 9, 2018, for the face value of $6,025,650. This note bears interest at a rate of 1.0% per annum and is due in interest only payments, payable in arrears in quarterly installments commencing April 1, 2018 and in successive quarterly installments through January 9, 2025. The unpaid principal balance of this note will bear additional interest at a fixed rate of 1.0% per annum, which compounds quarterly from commencement of the note and through the date of maturity on January 9, 2041 and is payable from and after the end of the interest only period until maturity in successive quarterly installments. Interest income totaled $45,192 and $43,853 for the years ended December 31, 2019 and 2018, respectively.

## Note 9 - Refundable advances

Refundable advances represent advances received from DHHS but not yet earned as of year-end.

## Note 10 - Long-term debt

Long-term debt as of December 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| BACDE NMTC Fund 13, LLC - Promissory Note A under ACFH NMTC financing agreement - $5,285,600 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Payment of the principal of $5,250,000 shall be due on July 8, 2025. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a building loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | $ 5,285,600 | $ 5,285,600 |

| | 2019 | 2018 |
|---|---|---|
| BACDE NMTC Fund 13, LLC - Promissory Note B under ACFH NMTC financing agreement - $1,375,265 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a building loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | 1,375,265 | 1,375,265 |
| BACDE NMTC Fund 13, LLC - Promissory Note C under ACFH NMTC financing agreement - $1,099,135 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a project loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | 1,099,135 | 1,099,135 |
| PCDC Health Opportunities Fund XIX LLC - Promissory Note D under ACFH NMTC financing agreement - $5,946,300 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a project loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | 5,946,300 | 5,946,300 |

| | 2019 | 2018 |
|---|---|---|
| PCDC Health Opportunities Fund XIX LLC - Promissory Note E under ACFH NMTC financing agreement - $1,547,135 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a project loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | 1,547,173 | 1,547,173 |
| PCDC Health Opportunities Fund XIX LLC - Promissory Note F under ACFH NMTC financing agreement - $1,236,527 face amount with a maturity date of January 9, 2048 and interest at 2.61% per annum. Prior to maturity, interest shall be due and payable quarterly, in arrears on the 5th day of January, April, July and October. Commencing October 5, 2025 through the maturity date, the principal and interest shall be paid quarterly, in arrears on the 5th day of January, April, July and October. The note is secured by a project loan leasehold, fee mortgage, assignment of leases and rents and security agreement. | 1,236,527 | 1,236,527 |
| Primary Care Development Corporation ("PCDC") - Promissory Note - The Center entered into a loan agreement on January 8, 2018, in the amount of $5,822,689 with a maturity date of July 7, 2025 and interest at 6.50%, adjusted after the third and sixth anniversary and shall be no greater than 1.00% over the prior period's interest rate. Commencing on February 1, 2018, the Center shall pay interest only, in arrears through to the earlier of January 1, 2020 or expiration of the construction period and thereafter, interest and principal shall be payable on a level payment basis over an amortization period of 20 years. It is the Center's intention to pay down this debt based on drawdowns received from capital grants. The loan is secured by the term loan mortgage, assignment of leases and rents and security agreement. | 4,487,760 | 5,822,689 |

| | 2019 | 2018 |
|---|---|---|
| Bank of America, N.A. - Term Loan Note - On January 8, 2018, the Center entered into a loan agreement in the amount of $2,175,159 with a maturity date of February 1, 2021 and interest rate of 4.73% per annum. Interest only payments through to February 28, 2018, and thereafter, principal and interest monthly installments commencing on March 1, 2018. The loan is secured by the term loan mortgage, assignment of leases and rents and security agreement. | 2,087,955 | 2,136,455 |
| On March 23, 2009, the Center entered into a purchase agreement with PCDC to acquire a health care facility located at 114-49 Sutphin Boulevard, Jamaica, New York. Under this agreement, the Center assumed the obligations and liabilities of the seller, which included a mortgage on the property, a ground lease and an operating lease. Under the mortgage assumption agreement, the Center assumed responsibility for the original financing of the facility with PCDC, which originally closed on October 1, 1996. On the date of the agreement, the mortgage had a remaining balance of $5,331,667. The mortgage bears interest at 5.45% per annum and is due on May 1, 2024. The note is secured by the purchased facility. In addition, the Center is required to fund a Debt Service Reserve account equal to one year's debt service. On September 1, 2010, the Center renegotiated the terms of the mortgage. At this date, the interest rate was decreased from 5.45% to 3.27%. All other terms remained consistent. | 1,518,537 | 1,949,550 |
| Total loan | 24,584,252 | 26,398,694 |
| Less current maturities | 996,122 | 479,512 |
| Less debt issuance costs | 1,145,689 | 1,196,437 |
| Long-term debt | $ 22,442,441 | $ 24,722,745 |

The future aggregate amount of principal payments on long-term debt is as follows:

| Year ending December 31, | |
|---|---|
| 2020 | $ 996,123 |
| 2021 | 2,798,026 |
| 2022 | 778,388 |
| 2023 | 492,264 |
| 2024 | 363,374 |
| Thereafter | 19,156,077 |
| | $ 24,584,252 |

The Organization is required to comply with certain covenants under its building loan agreement.

**New Markets Tax Credit**
On January 9, 2018 (the "closing date"), ACFH entered into a NMTC financing agreement with various entities for the purposes of receiving financing to construct an expansion project and to renovate the Center's health center facility located at 6200 Beach Channel Drive, Arverne, New York (the "property" and the "qualified purpose"). The NMTC structure consists of NMTC investors and other lenders that provide qualified equity investments ("QEIs") to designated community development entities ("CDEs"), who, in turn, provide debt financing to qualified active low-income community businesses ("QALICBs"). A NMTC program permits taxpayers who have made quality equity investments in CDEs to receive a credit against their federal income taxes.

On January 8, 2018, Primary Care Development Corporation ("PCDC") as senior lender made a $5,822,689 term loan to the Center (the "leverage lender"). This loan is for a term of 7.5 years, with a 30-year amortization, and bears interest at a rate initially set at 6.5%, to be adjusted on the first day of the third and sixth anniversary of the loan as the greater of The Wall Street Journal Prime rate plus 2.25% or 6.5%. Interest only payments of $31,540 per month are required during the period of construction, which for purposes of this loan is assumed to be completed January 1, 2020. Effective as of that date, and through the loan term ending July 2025, the monthly payment increases to $45,799, representing interest and principal repayment. Any unpaid principal balance at July 2025 will then be refinanced. The loan is collateralized by all rights, title and interest of the Center's leverage loan documents including a pledge of the Center's membership interest in the CDEs that make the permanent financing loan to ACFH. The Center paid an origination fee of $48,900 plus PCDC's legal expenses of $25,000 and accrued interest of $13,470.

On January 9, 2018, Bank of America, N.A. provided ACFH with two NMTC senior direct loans, a building loan in the amount of $3,828,607 and a project loan in the amount of $1,021,727. Both loans have a term of 7.5 years and bear interest at 5.11% after completion of construction. As of December 31, 2019, no amounts have been drawn against these loans.

On January 9, 2018, the Center made a loan (the "junior leverage loan") to BOA Addabbo Investment Fund LLC (the "investment fund") in the amount of $6,025,650 with a maturity date of January 9, 2041, bearing interest at 1.0%. Concurrently, Bank of America, N.A. ("BOA") made a loan (the "senior leverage loan") to the investment fund of $5,250,000 and the NMTC investor Building America Community Development Corporation ("BACDC") made a capital contribution (the "fund equity investment") to the investment fund of $5,768,100. The investment fund used the combined proceeds of the leverage loans and the fund equity investment to make QEIs into two CDEs: PCDC Health Opportunities Fund XIX, LLC ("PCDC CDE") and Building America CDE, Inc. BACDE NMTC Fund 13, LLC ("BACDE") amounting to $9,000,000 and $8,000,000, respectively, in exchange for a 99% ownership interest in each CDE. The CDEs used substantially all of the fund provided by the QEI to make six (6) separate loans to ACFH for the abovementioned qualified purpose as required by the terms of the agreement, and as identified on pages 17 and 18 as Promissory Notes A, B, C, D, E and F.

The structure will stay in effect for a period of seven years, until January 9, 2025, when the NMTC period expires. Built within the agreements is a put option for the BACDC to sell 100% of its ownership of the investment fund at a purchase price in an amount equal to the sum of $1,000 to the Center. If BACDC exercises the put option, the Center will then become owner of the investment fund and will then indirectly own $16,490,000 worth of QLICI notes to ACFH. The Center may forgive such debt with no tax consequences to itself and ACFH because they are both tax exempt entities. At the time of the NMTC compliance period, the Center does not anticipate having a balance due on the PCDC loan.

The Center has entered into a Guaranty of Payment, Performance and Completion agreement with PCDC CDE and BACDC, and has guaranteed payment and performance of all obligations (except for payment of principal under the loan) as well as the completion of the expansion and renovations that will make the project free of any mechanic's liens or other liens for the provision of labor, materials, or other goods or services to the project.

Accrued interest payable in the amount of $107,767 as of December 31, 2019 and 2018, is included in accounts payable and accrued expenses on the consolidated statements of financial position.

As a requirement of the NMTC financing agreement, ACFH established interest bearing fee reserve accounts related to CDE expenses arising under the notes listed above, which are included in debt service reserve on the consolidated statements of financial position. The debt service reserve funds balance related to this NMTC financing agreement amount to $485,527 and $592,062 of December 31, 2019 and 2018, respectively.

## Note 11 - DHHS grants

For the years ended December 31, 2019 and 2018, the Organization recognized grant revenue from the DHHS as follows:

| Grant number | Grant period | Total grant | Revenue recognized |
|---|---|---|---|
| Operating grants | | | |
| 6 H80CS00430-17-05 | 04/01/2018 - 03/31/2019 | $ 3,835,306 | $ 775,625 |
| 6 H80CS00430-18-07 | 04/01/2019 - 03/31/2020 | 3,914,424 | 3,081,943 |
| 6 H76HA00056-26-02 | 05/01/2018 - 04/30/2019 | 544,005 | 143,055 |
| 5 H76HA00056-27-00 | 05/01/2019 - 04/30/2020 | 544,005 | 303,161 |
| 3 H79TI080632-01S1 | 09/30/2018 - 09/29/2019 | 525,000 | 343,658 |
| 6 H79TI080632-02M001 | 09/30/2019 - 09/29/2020 | 525,000 | 92,700 |
| 1 P06HA32356-01-00 | 09/01/2018 - 08/31/2019 | 150,000 | 150,000 |
| | | | 4,890,142 |
| Capital grant | | | |
| 6 C8DCS29153-01-06 | 09/30/2015 - 09/29/2020 | $ 1,000,000 | 445,000 |
| Total DHHS revenue 2019 | | | $ 5,335,142 |
| 3 H80CS00430-16-07 | 04/01/2017 - 03/31/2018 | $ 3,589,252 | $ 772,668 |
| 6 H80CS00430-17-05 | 04/01/2018 - 03/31/2019 | 3,835,306 | 3,059,681 |
| 6 H76HA00056-25-02 | 05/01/2017 - 04/30/2018 | 567,232 | 196,333 |
| 6 H76HA00056-26-02 | 05/01/2018 - 04/30/2019 | 544,005 | 400,950 |
| Total DHHS revenue 2018 | | | $ 4,429,632 |

## Note 12 - Contract services and other grants

Contract services and other grants revenue consist of the following at December 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Operating grants | | |
| New York State Department of Health | | |
| Special Supplemental Nutrition Program for Women, Infants and Children | $ 1,424,475 | $ 1,377,411 |
| Consumer Assistance for the NY Health Benefit Exchange: In Person Assistors and Navigators | 577,389 | 544,735 |
| Public Health Solutions | | |
| Ryan White Part A Care Coordination Program for for New York City | 557,668 | 174,000 |
| New York City Department of Health and Mental Hygiene | | |
| Immunization Cooperative Agreements | 1,307,724 | 967,736 |
| Infant Mortality Reduction Initiative | 199,090 | 293,195 |
| Delivery System Reform Incentive Payment (DSRIP) Program Performing Provider Systems (PPS) | 861,253 | 1,528,053 |
| Research Foundation for Mental Hygiene, Inc. | 198,133 | - |
| Total Operating | 5,125,732 | 4,885,130 |
| Capital grant | | |
| New York State Department of Health | | |
| Statewide Health Care Facility Transformation Program | 1,202,194 | - |
| Total | $ 6,327,926 | $ 4,885,130 |

## Note 13 - Pension plan

The Center has a contributory defined contribution pension plan covering substantially all nonunion full-time employees meeting certain eligibility requirements. The Center's contributions to the plan are based on a percentage of employee salaries and are charged to pension expense as incurred. Benefits, which are limited to plan assets invested in individual annuity contracts, immediately vest to each eligible participant. Pension expense for this plan approximated $1,066,000 and $960,000 for the years ended December 31, 2019 and 2018, respectively.

Also, the Center is a participant in a pension plan with District 1199, National Union of Hospital and Health Care Employees, RWDSU, AFL-CIO, that has been characterized for financial accounting purposes as a multiemployer pension plan (the "1199 Plan"), a noncontributory defined benefit plan sponsored by the League of Voluntary Hospitals. The risks of participating in a multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating entity stops contributing to the multiemployer plan, the unfunded obligations of the plan may be borne by the remaining participating entities.

- If an entity petitions to stop participating in the multiemployer plan, the entity may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The following table discloses the name and funded status of the 1199 Plan as of December 31, 2019, the date of the latest actuarial valuation.

| Legal Name | 1199 SEIU Health Care Employee Pension Plan |
|---|---|
| EIN/Pension Plan Number: | 13-3604862-001 |
| Pension Protection Act Zone Status 2011: | Green |
| FIP/RP Status Pending/Implemented: | No |
| Employer's Contributions Paid to the Plan For The Year Ended December 31, 2019: | $1,039,073 |
| Employer's Contributions Paid to the Plan For The Year Ended December 31, 2018: | $870,865 |
| Employer's Contributions that Represents More Than 5% of Total Contributions: | None |
| Surcharge Imposed: | None |
| Expiration Date of Collective-Bargaining Agreement: | 9/30/2021 |

## Note 14 - Commitments and contingencies

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the state and federal governments. Reimbursements received under these contracts and payments under Medicaid and Medicare are subject to audit by federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for reimbursing the agencies for the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The Center purchases professional and general liability insurance with a maximum limit of $3,000,000, to cover medical malpractice claims not covered by the FTCA. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of December 31, 2019 and 2018.

On December 21, 2018, the Center reached a new memorandum of agreement with its union, which covers approximately 52% of the Organization's employees. The agreement became effective October 1, 2018 and expires on September 30, 2021. The agreement provides for across the board salary increases of 3% effective October 1, 2018, 2019 and 2020.

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Center believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

The Organization is involved in claims and legal actions in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters will not have a material adverse impact on the financial position, results of operations or cash flows of the Organization.

The Organization entered into various lease agreements for the use of space that have been classified as operating leases and expire on various dates through to 2025. Rent expense paid for the years ended December 31, 2019 and 2018, was $236,664 and $258,125, respectively. As of December 31, 2019, the Organization is obligated to make future minimum payments in each of the subsequent five years and thereafter as follows:

| | | |
|---|---|---|
| 2020 | $ | 231,354 |
| 2021 | | 234,486 |
| 2022 | | 237,711 |
| 2023 | | 241,034 |
| 2024 | | 191,556 |
| Thereafter | | 29,589 |
| Total | $ | 1,165,730 |

## Note 15 - Subsequent events

In December 2019 and early 2020, the coronavirus that causes COVID-19 was reported to have surfaced in China. The spread of this virus globally in early 2020 has caused business disruption domestically in the United States, the area in which Organization operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while the Organization expects this matter to negatively impact the Organization's financial condition, results of operations, and cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

On May 4, 2020 (the "funding date"), the Organization received a loan of $6.566,595 from a financial institution pursuant to the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Under the PPP, if the borrower does not apply for loan forgiveness within 10 months after the last day of the covered period, or if the Small Business Administration ("SBA") determines that the loan is not eligible for forgiveness (in whole or in part), the PPP loan is no longer deferred and the borrower must begin paying principal and interest.

**Supplementary Information**

## The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

## Consolidating Statement of Financial Position
## December 31, 2019

| | The Joseph P. Addabbo Family Health Center, Inc. | Addabbo Center Future Home, Inc. | Eliminations | Total |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash | $ 1,115,923 | $ - | $ - | $ 1,115,923 |
| Patient services receivable | 2,708,481 | - | - | 2,708,481 |
| 340B pharmacy program receivable | 1,463,991 | - | - | 1,463,991 |
| Grants and contracts receivable | 1,574,047 | - | - | 1,574,047 |
| Prepaid expenses and other current assets | 221,875 | - | - | 221,875 |
| Total current assets | 7,084,317 | - | - | 7,084,317 |
| Restricted cash | - | 3,375,225 | - | 3,375,225 |
| Loan receivable | 6,027,483 | - | - | 6,027,483 |
| Debt service reserve | 384,620 | 478,537 | - | 863,157 |
| Property and equipment, net | 19,868,002 | 14,006,145 | - | 33,874,147 |
| Security deposits | 40,566 | - | - | 40,566 |
| | 26,320,671 | 17,859,907 | - | 44,180,578 |
| Total assets | $ 33,404,988 | $ 17,859,907 | $ - | $ 51,264,895 |
| Liabilities and Net Assets | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued expenses | $ 4,501,362 | $ 107,767 | $ - | $ 4,609,129 |
| Accrued compensation | 1,974,845 | - | - | 1,974,845 |
| Refundable advances | 651,882 | - | - | 651,882 |
| Current maturities of long-term debt | 996,122 | - | - | 996,122 |
| Total current liabilities | 8,124,211 | 107,767 | - | 8,231,978 |
| Noncurrent liabilities | | | | |
| Deferred rent | 150,951 | - | - | 150,951 |
| Long-term debt, less current maturities | 6,999,883 | 15,442,558 | - | 22,442,441 |
| Total liabilities | 15,275,045 | 15,550,325 | - | 30,825,370 |
| Commitments and contingencies | | | | |
| Net Assets | | | | |
| Without donor restrictions | 18,129,943 | 2,309,582 | - | 20,439,525 |
| Total net assets | 18,129,943 | 2,309,582 | - | 20,439,525 |
| Total liabilities and net assets | $ 33,404,988 | $ 17,859,907 | $ - | $ 51,264,895 |

See Independent Auditor's Report.

## The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

## Consolidating Statement of Activities and Changes in Net Assets
## Year Ended December 31, 2019

| | The Joseph P. Addabbo Family Health Center, Inc. | Addabbo Center Future Home, Inc. | Eliminations | Total |
|---|---|---|---|---|
| Revenue without donor restrictions | | | | |
| Patient services (net of contractual allowances and discounts) | $ 28,648,425 | $ - | $ - | $ 28,648,425 |
| DHHS grants | 4,890,142 | - | - | 4,890,142 |
| Contract services and other grants | 5,125,732 | - | - | 5,125,732 |
| 340B pharmacy program | 17,751,850 | - | - | 17,751,850 |
| Other | 514,613 | - | - | 514,613 |
| Total revenue without donor restrictions | 56,930,762 | - | - | 56,930,762 |
| Expenses | | | | |
| Salaries and related benefits | 37,497,990 | - | - | 37,497,990 |
| Other than personnel services | 22,766,256 | 29,069 | - | 22,795,325 |
| Interest | 174,357 | 214,499 | - | 388,856 |
| Depreciation and amortization | 895,360 | - | - | 895,360 |
| Total expenses | 61,333,963 | 243,568 | - | 61,577,531 |
| Loss from operations | (4,403,201) | (243,568) | - | (4,646,769) |
| Nonoperating revenue | | | | |
| New York State Department of Health capital grant | 1,202,194 | - | - | 1,202,194 |
| DHHS capital grant | 445,000 | - | - | 445,000 |
| | 1,647,194 | - | - | 1,647,194 |
| Changes in net assets | (2,756,007) | (243,568) | - | (2,999,575) |
| Net assets, beginning | 20,885,950 | 2,553,150 | - | 23,439,100 |
| Net assets, end | $ 18,129,943 | $ 2,309,582 | $ - | $ 20,439,525 |

See Independent Auditor's Report.

## The Joseph P. Addabbo Family Health Center, Inc. and Affiliate

## Schedule of Expenditures of Federal Awards
## Year Ended December 31, 2019

| Federal Grantor/ Pass-through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Passed through to Subrecipients | Total Federal Expenditures |
|---|---|---|---|---|
| U.S. Department of Health and Human Services: | | | | |
| Direct Programs: | | | | |
| Health Centers Cluster: | | | | |
| Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) | 93.224 | N/A | $ - | $ 1,082,307 |
| Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program | 93.527 | N/A | - | 2,775,261 |
| Total Health Centers Cluster | | | - | 3,857,568 |
| Grants for Capital Development in Health Centers | 93.526 | N/A | - | 445,000 |
| Substance Abuse and Mental Health Services Projects of Regional and National Significance | 93.243 | N/A | - | 436,358 |
| Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | N/A | - | 596,216 |
| Passed through Research Foundation for Mental Hygiene, Inc. | | | | |
| Opioid STR | 93.788 | H79T1081718-02 | - | 198,133 |
| Medicaid Cluster: | | | | |
| Passed through New York State Department of Health | | | | |
| Medical Assistance Program | 93.778 | C028925 | - | 206,436 |
| Total Medicaid Cluster | | | - | 206,436 |
| Children's Health Insurance Program | 93.767 | C028925 | - | 33,682 |
| Passed through New York City Department of Health and Mental Hygiene | | | | |
| Immunization Cooperative Agreements | 93.268 | Not Available | - | 1,307,724 |
| Passed through Public Health Solutions | | | | |
| HIV Emergency Relief Project Grants | 93.914 | 18-CCR-834 | - | 557,668 |
| Total U.S. Department of Health and Human Services | | | - | 7,638,785 |
| U.S. Department of Agriculture: | | | | |
| Passed through New York State Department of Health: | | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | DOH01-C30440GG-3450000 | - | 5,360,958 |
| Total U.S. Department of Agriculture | | | - | 5,360,958 |
| Total Expenditures of Federal Awards | | | $ - | $ 12,999,743 |

See Notes to Schedule of Expenditures of Federal Awards.

## Notes to Schedule of Expenditures of Federal Awards
## December 31, 2019

### Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Joseph P. Addabbo Family Health Center, Inc. (the "Center") under programs of the federal government for the year ended December 31, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

### Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

### Note 3 - Nonmonetary assistance

Nonmonetary assistance is reported in the Schedule at the fair value of the Special Supplemental Nutrition Program for Women, Infants, and Children ("WIC") checks received. The total federal share of the food instruments distributed by the Center amounted to $3,947,879 and is included in the Schedule.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The Joseph P. Addabbo Family Health Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of The Joseph P. Addabbo Family Health Center, Inc. (the "Center"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 1, 2020. The financial statements of Addabbo Center Future Home, Inc. were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Addabbo Center Future Home, Inc.

*Internal Control over Financial Reporting*

In planning and performing our audit of the consolidated financial statements, we considered the Center'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

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

*Compliance and Other Matters*

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

*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

New York, New York
October 1, 2020

# Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
The Joseph P. Addabbo Family Health Center, Inc.

## Report on Compliance for Each Major Federal Program

We have audited The Joseph P. Addabbo Family Health Center, Inc.'s (the "Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2019. The Center's major federal programs are 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 each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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 each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

### *Opinion on Each Major Federal Program*

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

### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2019-001. Our opinion on each major federal program is not modified with respect to this matter.

The Center's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Center 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 the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as Finding 2019-001 that we consider to be a significant deficiency.

The Center's response to the internal compliance over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

CohnReznick LLP

New York, New York
October 1, 2020

**The Joseph P. Addabbo Family Health Center, Inc. and Affiliate**

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

## Section I - Summary of Auditor's Results

Financial Statements:

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

Internal control over financial reporting:

- Material weakness(es) identified? ____ yes ✓ no
- Significant deficiency(ies) identified? ____ yes ✓ none reported

Noncompliance material to financial statements noted? ____ yes ✓ no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? ____ yes ✓ no
- Significant deficiency(ies) identified? ✓ yes ____ 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 ____ no

Identification of major federal programs:

| CFDA Number(s) | Name of Federal Program |
|---|---|
| | U.S. Department of Health and Human Services: |
| | Health Centers Cluster: |
| 93.224 | Consolidated Health Centers |
| 93.527 | Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program |

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

Auditee qualified as low-risk auditee? ✓ yes ____ no

## Section II - Financial Statement Findings

None

## Section III - Federal Award Findings and Questioned Costs

U.S. Department of Health and Human Services: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) (CFDA 93.224) and Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program (CFDA 93.527)

### Finding 2019-001 - Special Tests and Provisions: Sliding Fee Discounts

Criteria
In accordance with 42 CFR sections 51c.303(f) and (g), health centers must prepare and apply a sliding fee discount schedule ("SFDS") so that the amounts paid for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.

Statement of Condition
During our review of the Center's application of the SFDS, the amounts charged to two patients were not in accordance with the Center's SFDS.

Questioned Costs
None

Cause
The registration personnel did not accurately apply the SFDS.

Effect
The amounts owed for the services provided were not based on the Center's SFDS.

Context
Not considered an isolated incident. Two exceptions from a statistically valid sample of 25.

Identification as Repeat Finding
No

Recommendation
We recommend that the sliding fee discounts be monitored and reviewed by a supervisor on a periodic basis to ensure compliance.

Management Response
Senior Clinical and Executive management reviewed the details specific to these two patients, and have randomly performed spot checks on the sliding fee scales in use throughout the Center, simultaneously making inquiries of front office staff to assess their understanding and practical application of the sliding fee discount policy. The results of these initial actions were discussed among the senior management team, collectively deciding that educational trainings are necessary. As a reinforcing action, senior management also decided that these trainings would be conducted throughout the 4th quarter, and intends to repeat the training early in the 1st quarter of 2021, shortly after the sliding fee discount schedules are updated for the new Federal Poverty Guidelines.

CohnReznick

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Joseph P. Addabbo
Family Health Center

6200 Beach Channel Drive, Arverne, NY 11692
114-39/49 Sutphin Boulevard, Jamaica, NY 11434
120 Richards Street, Brooklyn, NY 11231
1288 Central Avenue, Far Rockaway, NY 11691
118-11 Guy Brewer Boulevard, Jamaica, NY 11434

**Telephone:** (718) 945-7150 **Fax:** (718) 945-2596 **Website:** www.addabbo.org

# CORRECTIVE ACTION PLAN

**FINDING**: 2019-001
Contact Person Responsible for the Corrective Action Plan: Michael Mikulski
Contact Telephone Number: 718-945-7150, ext 1312

**Agency:** U.S. Department of Health and Human Services: Health Resources and Services Administration (HRSA)

Finding 2019-001 Special Tests and Provisions - Sliding Fee Discounts

Significant Deficiency

The Center's application of the sliding fee discount schedule (SFDS) for 2 patients were not in accordance with the Center's SFDS.

**Auditee Response**:
Addabbo acknowledges the finding and understands the significance of adherence to the sliding fee discount policy. Senior management will review the sliding fee scale discount policy and related schedules with administrative clinic managers, and will provide additional training to front office staff, reinforcing the education of, appropriate interpretation of, and consistent application of the sliding fee discount schedule.

**Action Taken:**
Senior Clinical and Executive management reviewed the details specific to these 2 patients, and have randomly performed spot checks on the sliding fee scales in use throughout the agency, simultaneously making inquiries of front office staff to assess their understanding and practical application of the sliding fee discount policy. The results of these initial actions were discussed amongst the senior management team, collectively deciding that educational trainings are necessary. As a reinforcing action, senior management also decided that these trainings would be conducted throughout the 4th quarter, and intends to repeat the training early in the 1st quarter of 2021, shortly after the sliding fee discount schedules are updated for the new Federal Poverty Guidelines.

**Anticipated Completion Date**: February 2021

Michael Mikulski

Name: Michael Mikulski
Title: Contracted Interim CFO

October 1, 2020
Date