

**Ryan/Chelsea-Clinton Community
Health Center, Inc.**

Financial Statements

December 31, 2016 and 2015

Independent Auditors' Report

Board of Directors

Ryan/Chelsea-Clinton Community Health Center, Inc.

We have audited the accompanying financial statements of the Ryan/Chelsea-Clinton Community Health Center, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015 and the related statements of operations and change in net assets (deficiency), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ryan/Chelsea-Clinton Community Health Center, Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Directors
Ryan/Chelsea–Clinton Community Health Center, Inc.
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Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses on pages 24-25 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

PKF O'Connor Davies, LLP

Harrison, New York
June 12, 2017

Ryan/Chelsea-Clinton Community Health Center, Inc.

Statements of Financial Position

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,714,577	\$ 1,710,212
Restricted cash	141,813	205,959
Program services receivable, net of allowance for doubtful accounts of \$102,000 and \$64,000	1,401,899	857,368
Debt service fund	434,957	438,181
Contracts receivable	4,246	59,157
Prepaid expenses and other current assets	<u>160,994</u>	<u>202,835</u>
Total Current Assets	3,858,486	3,473,712
Property and equipment, net	8,181,152	8,504,757
Debt service reserve fund	<u>294,798</u>	<u>293,876</u>
	<u>\$ 12,334,436</u>	<u>\$ 12,272,345</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)		
Current Liabilities		
Accounts payable and accrued expenses	\$ 509,076	\$ 409,375
Accrued interest	63,700	78,100
Accrued salaries and related benefits	407,435	317,983
Current portion of loan payable	49,500	47,444
Current maturities of bonds payable	<u>745,000</u>	<u>720,000</u>
Total Current Liabilities	1,774,711	1,572,902
Loan payable, net of current portion	784,034	833,534
Bonds payable, net of current maturities	3,254,103	4,008,903
Due to William F. Ryan Community Health Center, Inc.	4,700,181	4,880,745
Subvention certificate payable to William F. Ryan Community Health Center, Inc.	<u>1,600,000</u>	<u>1,600,000</u>
Total Liabilities	<u>12,113,029</u>	<u>12,896,084</u>
Net Assets (Deficiency)		
Unrestricted		
Board designated	141,813	205,959
Undesignated	<u>79,594</u>	<u>(829,698)</u>
Total Net Assets (Deficiency)	<u>221,407</u>	<u>(623,739)</u>
	<u>\$ 12,334,436</u>	<u>\$ 12,272,345</u>

See notes to financial statements

Ryan/Chelsea-Clinton Community Health Center, Inc.

Statements of Operations and Change in Net Assets (Deficiency)

	Year Ended December 31	
	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS (DEFICIENCY)		
Operating Revenue		
Program services revenue	\$ 8,363,781	\$ 7,514,340
Provision for bad debts	<u>(37,560)</u>	<u>(34,521)</u>
Program services revenue, less provision for bad debt	8,326,221	7,479,819
Grants and contract services	2,383,750	1,991,313
Other	<u>307,706</u>	<u>193,313</u>
Total Operating Revenue	<u>11,017,677</u>	<u>9,664,445</u>
Operating Expenses		
Salaries and benefits	5,573,451	5,192,466
Other than personnel services	3,999,010	3,423,195
Interest	<u>191,893</u>	<u>217,081</u>
Total Operating Expenses	<u>9,764,354</u>	<u>8,832,742</u>
Excess of Operating Revenue over Operating Expenses before Depreciation	1,253,323	831,703
Depreciation	<u>408,177</u>	<u>415,296</u>
Change in Unrestricted Net Assets	845,146	416,407
NET ASSETS (DEFICIENCY)		
Beginning of year	<u>(623,739)</u>	<u>(1,040,146)</u>
End of year	<u>\$ 221,407</u>	<u>\$ (623,739)</u>

See notes to financial statements

Ryan/Chelsea-Clinton Community Health Center, Inc.

Statements of Cash Flows

	Year Ended December 31	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 845,146	\$ 416,407
Adjustments to reconcile changes in net assets (deficiency) to net cash from operating activities		
Depreciation	408,177	415,296
Amortization of deferred financing fees	31,968	31,968
Amortization of bond premium	(41,768)	(41,768)
Provision for bad debts	37,560	34,521
Changes in operating assets and liabilities		
Program services receivable	(582,091)	(23,966)
Contracts receivable	54,911	52,394
Prepaid expenses and other current assets	41,841	(85,279)
Accounts payable and accrued expenses	99,701	53,979
Accrued interest	(14,400)	(6,980)
Accrued salaries and related benefits	89,452	29,585
Due to William F. Ryan Community Health Center, Inc.	<u>(180,564)</u>	<u>(167,074)</u>
Net Cash from Operating Activities	<u>789,933</u>	<u>709,083</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(84,572)	(109,901)
Change in restricted cash	64,146	-
(Deposits to) withdrawals from debt service fund	3,224	(601)
Deposits to debt service reserve fund	<u>(922)</u>	<u>(117)</u>
Net Cash from Investing Activities	<u>(18,124)</u>	<u>(110,619)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of loan payable	(47,444)	(45,473)
Principal payments of bonds payable	<u>(720,000)</u>	<u>(705,000)</u>
Net Cash from Financing Activities	<u>(767,444)</u>	<u>(750,473)</u>
Net Change in Cash and Cash Equivalents	4,365	(152,009)
CASH AND CASH EQUIVALENTS		
Beginning of Year	<u>1,710,212</u>	<u>1,862,221</u>
End of Year	<u>\$ 1,714,577</u>	<u>\$ 1,710,212</u>
SUPPLEMENTAL DISCLOSURE CASH FLOW INFORMATION		
Cash paid for interest	\$ 216,093	\$ 224,061

See notes to financial statements

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

1. Description of Organization

The Ryan/Chelsea-Clinton Community Health Center, Inc. (the "Center") is a licensed diagnostic and treatment center under Article 28 of the NYS Public Health Law and a federally qualified health center ("FQHC") under Section 330 of the Federal Public Health Service Act. The Center is a related entity of William F. Ryan Community Health Center, Inc. ("WFR") through a sub-recipient agreement pursuant to which Section 330 funds are provided to the Center by WFR; an administrative services agreement pursuant to which WFR provides various administrative, management and support services to the Center; and several directors who serve on the boards of both organizations. The Center works closely with the various facilities of WFR as the Ryan Health Network to provide a broad range of health services to medically underserved communities.

The Center and WFR, acting through their individual Board of Directors, are the corporate members of Afia Foundation, Inc. (the "Foundation"). The Foundation's purpose is to benefit, promote and support the Center and WFR and to promote and support initiatives and projects that focus on activities, programs and undertakings that assist individuals with low income or who are medically unserved or underserved.

Tax Exempt Status

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal and state income taxes has been recorded in these financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Presentation of Net Assets

Resources are classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Unrestricted net assets are those whose use is not subject to any donor imposed restrictions. Temporarily restricted net assets are those resulting from contributions and other inflows of assets whose use by the Center is limited by donor imposed stipulations that will be met either by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and change in net assets (deficiency) as net assets released from restrictions. Permanently restricted net assets are donor restricted gifts that must be maintained permanently by the Center to provide present and future income for operations. At December 31, 2016 and 2015, there were no temporarily or permanently restricted net assets.

Cash and Cash Equivalents

The Center's policy for classifying cash and cash equivalents is to include certain investments in highly liquid debt instruments with a maturity date of three months or less at the time of purchase. Cash and cash equivalents do not include restricted cash, debt service funds, and debt service reserve funds. The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses on such accounts.

Fair Value of Financial Instruments

The Center follows U.S. GAAP guidance on fair value measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs relate to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Restricted Cash

Restricted cash consists of the unused portion of the proceeds from loan received from the Foundation to pay for the implementation costs of the electronic medical records project.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Debt Service Fund and Debt Service Reserve Fund

The debt service fund and debt service reserve fund are recorded at fair value and include assets held by trustees under a mortgage agreement. Amounts required to meet current liabilities of the Center are reported as current assets. Amounts reported as noncurrent include assets that will be used for long-term debt purposes in accordance with the mortgage agreement.

Program Services Receivable

Program services receivable is reported at its outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payer's ability to pay, and current economic trends. The Center writes off program services receivable against the allowance when a balance is determined to be uncollectible.

Property and Equipment

Items capitalized as part of property and equipment, are stated at cost or fair value if contributed. Routine maintenance and repairs are expensed while those that extend the life of existing assets are capitalized. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed utilizing the straight-line method.

The estimated useful lives by asset class are as follows:

Building and improvements	10-40 years
Furniture and equipment	3-15 years

Impairment of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Center records impairment losses on long-lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment charges recognized for the years ended December 31, 2016 and 2015.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Asset Retirement Obligations

The Center accounts for Asset Retirement Obligations ("ARO") in accordance with U.S. GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation does not defer recognition of a liability. The fair value of the ARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there are no ARO liabilities that are required to be reported at December 31, 2016 and 2015.

Debt Issuance Costs

In 2016, the Center adopted new U.S. GAAP guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statements of financial position as a direct deduction from the face amount of the debt. Previously, such costs were shown as deferred financing costs. Debt issuance costs are being amortized over the term of the debt on a method that approximates the effective interest method. The Center reflects amortization of debt issuance costs within interest expense on the statements of operations and change in net assets (deficiency), in accordance with the new guidance. This change had no effect on previously reported earnings. For the years ended December 31, 2016 and 2015, unamortized debt issuance costs were \$143,854 and \$175,822.

Program Services Revenue

Program services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. All other program services revenue is recorded at published charges with contractual allowances deducted to arrive at net program services revenue. The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), Limitation on Prices of Drugs Purchased by Covered Entities. Participation in this program allows the Center to purchase pharmaceuticals at discounted rates for prescriptions to eligible patients. Pharmacy revenue is generated through contracted pharmacies and the Section 340B program.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Grants and Contract Services

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the calendar year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. Grants and contract services revenue includes in-kind vaccine grants that are recognized at fair value. There were no conditional grants at December 31, 2016 and 2015.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Center's estimated costs for charity care approximated \$1,563,000 and \$2,130,000 for the years ended December 31, 2016 and 2015. The cost of charity includes the direct and indirect cost of providing care to self-pay patients and is estimated by utilizing total cost per self-pay visit.

Funds received from the New York State Indigent Care Pool to offset charity services provided approximated \$541,000 and \$454,000 for the years ended December 31, 2016 and 2015. The increase in charity care revenue in 2016 is due to the Federal Government restoring its match of the New York State portion of charity care payments.

Capitation Revenue

The Center has agreements with certain health and maintenance organizations ("HMO") to provide medical services to subscribing participants. Under these agreements, the Center receives monthly capitation payments based on the number of participants in each HMO assigned to the Center, regardless of the services actually performed by the Center. For the years ended December 31, 2016 and 2015, the Center earned capitation revenue of approximately \$1,029,000 and \$1,038,000, which is recorded in program services revenue in the statements of operations and change in net assets (deficiency).

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to time or other legal restrictions. The Center's policy is to report as unrestricted support, contributions with donor or time imposed restrictions when these restrictions are met in the same year the contributions are received.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

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

Functional Allocation of Expenses

The costs of providing the Center's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services that are benefited.

Professional and Similar Liabilities

The Center presents insurance claim liabilities and related recoveries on a gross basis. Any estimated insurance recovery is reflected as a receivable on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts.

Operating Indicator

The statements of operations and change in net assets (deficiency) include excess of operating revenue over operating expenses before depreciation, which is deemed by the Center to be its operating indicator. Changes which are excluded from the operating indicator, consistent with industry practice, include depreciation.

Accounting for Uncertainty in Income Taxes

The Center recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Center had no uncertain tax positions that would require financial statement recognition or disclosure. The Center is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to December 31, 2013.

Reclassifications

Certain reclassifications have been made to the 2015 balances previously reported in order to conform to the 2016 presentation.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or possible recognition in the financial statements through June 12, 2017 which is the date that the financial statements were available to be issued.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements December 31, 2016 and 2015

3. Program Services Receivable and Revenue

The Center recognizes program services revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual and formula-driven rates for the services rendered. Program services revenue for the years ended December 31, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows:

	2016	2015
Medicaid	\$ 1,114,026	\$ 1,117,858
Medicaid Managed Care	1,028,861	1,037,796
Medicare	845,612	841,539
Private insurance	274,116	216,301
Patient fees	375,601	345,207
	<u>3,638,216</u>	<u>3,558,701</u>
Uncompensated care	541,399	454,333
New York State and Child Health Plus Wraparound	2,960,610	3,104,221
Medicaid Managed Care Incentives	582,632	397,085
DSRIP	208,716	-
Pharmacy (340B)	432,208	-
	<u>8,363,781</u>	<u>7,514,340</u>
Program services revenue (net of contractual allowances)	\$ <u>8,363,781</u>	\$ <u>7,514,340</u>

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patient's responsibility and the Center considers these amounts in its determination of the provision for bad debts based on collection experience. Program services receivable is also reduced by an allowance for doubtful accounts.

In evaluating the collectability of program services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

4. Debt Service Fund and Debt Service Reserve Fund

As required for the bonds outstanding (see Note 8), the Center maintains the following debt service funds:

	<u>2016</u>	<u>2015</u>
Debt Service Fund (a)	\$ 434,957	\$ 438,181
Debt Service Reserve Fund (b)	<u>294,798</u>	<u>293,876</u>
	<u>\$ 729,755</u>	<u>\$ 732,057</u>

- a. Debt service fund – The debt service fund is used to meet the annual debt service requirements for the Center. This account is funded by the Center on a monthly basis to meet its annual debt payment obligations.
- b. Debt service reserve fund – The debt service reserve fund serves as collateral for the bond holders and is held by the bond trustees.

The debt service fund and debt service reserve fund at December 31, 2016 and 2015 were valued exclusively using level 1 inputs for those assets valued at fair value. The following table presents by level, within the fair value hierarchy, the Center's assets at fair value:

	<u>2016</u>	<u>2015</u>
Level 1 (Quoted Prices in Active Market)		
U.S. Government Obligations	\$ 727,676	\$ 647,866
Cash and cash equivalents	<u>2,079</u>	<u>84,191</u>
	<u>\$ 729,755</u>	<u>\$ 732,057</u>

5. Contracts Receivable

Contracts receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
AmeriCorps Program		
National Association of Community Health Centers	<u>\$ 4,246</u>	<u>\$ 59,157</u>

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

6. Property and Equipment

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,964,266	\$ 1,964,266
Building and improvements	9,525,463	9,446,552
Furniture and equipment	<u>3,283,210</u>	<u>3,277,549</u>
	14,772,939	14,688,367
Less accumulated depreciation	<u>(6,591,787)</u>	<u>(6,183,610)</u>
	<u>\$ 8,181,152</u>	<u>\$ 8,504,757</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately \$408,000 and \$415,000.

In the event the Department of Health and Human Services ("DHHS") grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to the Public Health Service ("PHS") or third parties.

7. Loan Payable

On October 16, 2009 (the "Closing Date"), the Center entered into a loan agreement with the Foundation with a principal amount of \$1,130,000, to be used by the Center to pay for the implementation costs of the electronic medical records project. Restricted cash as of December 31, 2016 and 2015 related to the loan agreement amounted to \$141,813 and \$205,959, which consists of the unused portion of the proceeds from the loan. The loan is being repaid over 20 years at the interest rate equal to the United States Prime Rate ("U.S. Prime Rate") noted in the Wall Street Journal plus 1% as of the Closing Date. On each anniversary of the Closing Date, the interest rate is reset to the rate equal to the U.S. Prime Rate plus 1%, but can never exceed 7% per annum. The Center began paying the principal and interest on the loan to the Foundation on December 1, 2009, with an ending payment date of December 1, 2029.

Principal payments by the Center for the years ended December 31, 2016 and 2015 approximated \$47,000 and \$45,000. Interest expense on this loan for the years ended December 31, 2016 and 2015 approximated \$37,000 and \$38,000.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

7. Loan Payable (continued)

Future principal payments on long-term debt in each of the five years subsequent to December 31, 2016 and thereafter, based on the October 16, 2016 interest rate, are as follows:

2017	\$ 49,500
2018	51,645
2019	53,883
2020	56,218
2021	58,655
Thereafter	<u>563,633</u>
	<u>\$ 833,534</u>

8. Bonds Payable

On January 13, 2000, the Center obtained financing for a new diagnostic and treatment center with the Dormitory Authority of the State of New York ("DASNY") through the issuance of the Series 1999 bonds. On February 22, 2012, the Center refunded and refinanced its outstanding Series 1999 bonds. DASNY, on behalf of the Center, issued Series 2012A and 2012B revenue bonds for an aggregate principal amount of \$6,175,000. The Series 2012A tax-exempt bonds were issued at a premium amounting to \$389,835 and the Series 2012B federally taxable bonds were issued at par. The Series 2012 bonds are payable on July 1 of every year through 2021 at varying interest rates (2.00% to 5.00%). The Series 2012 bonds are secured by the pledge and assignment of revenue pursuant to the loan agreement and mortgage insurance policy, the proceeds from the sale of Series 2012 bonds and all funds and accounts authorized and established under the Series 2012 Bond Resolution. Interest expense relating to bonds payable for the years ended December 31, 2016 and 2015 was approximately \$155,000 and \$179,000.

A summary of the Center's bonds payable follows:

	<u>2016</u>	<u>2015</u>
Bond proceeds	\$ 3,955,000	\$ 4,675,000
Add unamortized original issue premium	187,957	229,725
Less current maturities	<u>(745,000)</u>	<u>(720,000)</u>
	3,397,957	4,184,725
Less debt issuance costs	<u>(143,854)</u>	<u>(175,822)</u>
Bonds payable, net of current maturities	<u>\$ 3,254,103</u>	<u>\$ 4,008,903</u>

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

8. Bonds Payable (*continued*)

The aggregate amount of principal payments on the bonds payable subsequent to December 31, 2016 and thereafter are as follows:

2017	\$ 745,000
2018	765,000
2019	785,000
2020	810,000
2021	<u>850,000</u>
	<u>\$ 3,955,000</u>

9. Grants and Contract Services

Grants and contract services consist of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Passed through William F. Ryan Community Health Center, Inc:		
Consolidated Health Center Program	\$ 1,050,000	\$ 1,050,000
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	250,000	211,250
City of New York Department of Health and Mental Hygiene:		
Vaccines for Children Program	176,827	195,364
Community-Based Social Service Programs:		
NACHC AmeriCorps Program	95,384	144,416
St. Luke's Roosevelt Hospital Center - Roosevelt Program	100,000	100,000
Afia Foundation, Inc.	588,130	170,238
Other	<u>123,409</u>	<u>120,045</u>
	<u>\$ 2,383,750</u>	<u>\$ 1,991,313</u>

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

10. Pension Plans

a. Defined Contribution Pension Plan

The Center has a defined contribution pension plan covering substantially all non-union full-time employees meeting certain eligibility requirements. Contributions to the plan are based on a percentage of salaries. There were approximately \$2,000 and \$1,000 in pension plan forfeitures that the Center applied towards payments for the 2016 and 2015 year-end pension contribution. Pension expense approximated \$36,000 and \$24,000 for the years ended December 31, 2016 and 2015.

b. Local 1199 National Pension Fund for Hospital and Health Care Employees

The Center contributes to a multi-employer defined benefit pension plan under the terms of collective bargaining agreement that covers its union-represented employees. The risk of participating in this multi-employer plan is different from single-employer plan in the following aspects:

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

The Center's participation in this type of plan for the years ended December 31, 2016 and 2015 is outlined in the table below. The "EIN Number" column provides the Employer Identification Number ("EIN"). The most recent Pension Protection Act ("PPA") zone status available in 2016 and 2015 is for the plan's year-end at December 31, 2016 and December 31, 2015. The zone status is based on information that the Center received from the plan and is certified by the actuaries of the plan. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject. The Center's contribution to the plan did not exceed 5% of total contributions to the plan.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

10. Pension Plans (continued)

b. Local 1199 National Pension Fund for Hospital and Health Care Employees (continued)

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status	
			2016	2015
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green as of 1/1/17	Green as of 1/1/16
FIR / RP Status	Contributions by the Center		Surcharge	Expiration Date of Collective- Bargaining Agreement
Pending/Implemented	2016	2015	Imposed	
No	\$ 158,387	\$ 160,027	No	9/30/2018

Form 5500 is not yet available for the Plan's year ended in 2016.

11. Due to WFR

Balances due to WFR at December 31, 2016, are classified as long-term in the statements of financial position as WFR will not require repayment prior to January 1, 2018. Balances due to WFR are non-interest bearing and consist of the following at December 31:

	2016	2015
(a) Loan and transactions payable	\$ 4,700,181	\$ 4,880,745
(b) Subvention certificate payable to WFR	1,600,000	1,600,000
	<u>\$ 6,300,181</u>	<u>\$ 6,480,745</u>

(a) Loan and Transactions Payable

1. Loan to RCC

The balance due to WFR relates to accumulated balances due to WFR for loans made and intercompany transactions payable.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

11. Due to WFR (*continued*)

(a) *Loan and Transactions Payable (continued)*

2. Management Services and Expense Reimbursement

WFR provides the Center with administrative, fiscal, and support services in exchange for a management fee. The Center recognized management fee expense related to this agreement of \$795,000 and \$500,000 which is included in other than personal services in the statements of operations and change in net assets (deficiency) for the years ended December 31, 2016 and 2015. For the years ended December 31, 2016 and 2015, the Center made payments of approximately \$721,000 and \$500,000 for these services.

For the years ended December 31, 2016 and 2015, WFR paid certain expenses on behalf of the Center of approximately \$444,000 and \$520,000. For the years ended December 31, 2016 and 2015, the Center paid WFR approximately \$395,000 and \$550,000 related to these expenses and to balances owed previously.

3. Grants from WFR

WFR committed and paid federal funding to the Center of approximately \$1,300,000 and \$1,261,000 for the years ended December 31, 2016 and 2015 as part of a subrecipient agreement between WFR and the Center. In addition, for the years ended December 31, 2016 and 2015, WFR received non-federal grants on behalf of the Center of approximately \$298,000 and \$60,000 and received payments from third parties on behalf of the Center of approximately \$6,000 and \$77,000. Such grants and payments received on behalf of the Center were not remitted to the Center for the years ended December 31, 2016 and 2015 as the amounts were applied as payments to WFR's loan to the Center.

(b) *Subvention Certificate Payable to WFR*

WFR has paid for expenses on behalf of the Center since inception and in 2004 the Center issued a subvention certificate to WFR in the amount of \$1,600,000 related to the financing provided.

12. Grants from the Foundation

For the year ended December 31, 2016, the Foundation awarded \$360,000 in program service grants to the Center to assist with the transition to value based care under the Delivery System Reform Incentive Payment Program. For the years ended December 31, 2016 and 2015, the Foundation awarded approximately \$228,000 and \$170,000 to the Center for the Center's AmeriCorps Program. Payments made by the Foundation in 2016 and 2015 for these grants approximated \$588,000 and \$170,000.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

13. Commitments and Contingencies

Reimbursement

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 from 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 refunding the amounts in question.

Healthcare Revenue and Regulatory Compliance

The healthcare industry is subject to numerous laws and regulations imposed by federal, state and local governments. Compliance with these laws and regulations, specifically those related to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. In addition, certain cost reports, which serve as the basis for final settlement with the Medicare program, remain open for audit and settlement, as are New York State Medicaid cost reports for prior years.

Federal government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Furthermore, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Accordingly, there is at least a reasonable possibility that recorded estimates for healthcare revenue will change in the near term and the change could be material to the Center's financial condition, results of operations and cash flows.

The Center is not aware of any allegations of noncompliance that could have a material adverse effect on the amounts recorded in the financial statements. In addition, management believes that the Center has an effective compliance program in place to assist in complying with current laws and regulations and is in compliance, in all material respects, with applicable laws and regulations.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

13. Commitments and Contingencies (*continued*)

Collective Bargaining Agreements

During the years ended December 31, 2016 and 2015, approximately 56% and 51% of the Center's employees were covered by various collective bargaining agreements. The agreements cover physicians, dentists, RN's, LPN's, service, maintenance, technical, and clerical employees and social workers.

Union	% of Employees Covered	Contract Expiration date
1199 SEIU United Healthcare Workers East	47%	9/30/2018
New York State Federation of Physicians and Dentists	9%	10/14/2017

Delivery System Reform Incentive Payment Program

The New York State's Delivery System Reform Incentive Payment ("DSRIP") is the main mechanism by which the New York State Department of Health ("DOH") will implement the Medicaid Redesign Team Waiver Amendment. DSRIP's purpose is to fundamentally restructure the healthcare delivery system by reinvesting in the Medicaid program, with the ultimate goal of reducing the cost of care, while improving the quality and access to care provided. Up to \$6.42 billion dollars are allocated to this program statewide with payouts based upon achieving predefined results in system transformation, clinical management, and population health over a five-year period.

The five-year DSRIP period began on April 1, 2015. During the five-year DSRIP period, DSRIP payments are to be made based upon achieving predefined results in system transformation, clinical management, and population health. The payments to be made are based upon performance against predefined milestones and outcomes – failure to meet milestones and reporting requirements may result in a reduction to the payments or, in some instances receiving no payment.

The Center is part of the Mount Sinai Performing Provider System ("PPS") for DSRIP through WFR. Revenue for the years ended December 31, 2016 and 2015 as a result of the Center's participation in the PPS was approximately \$209,000 and Nil.

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

13. Commitments and Contingencies (*continued*)

Malpractice

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 maintains gap insurance for claims that are not covered by FTCA.

The Center has been named in litigation claims in the normal course of its operations. These claims will, in the opinion of management, be fully covered by the Center's insurance coverage and will not have a material adverse effect upon the financial position of the Center.

14. Concentration of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash and patients accounts receivable.

The Center grants credit without collateral to its patients, most of whom are local patients and are insured under third-party payers. The percentages of accounts receivable from patients and amounts due from third-party payers were approximately as follows at December 31:

	2016		2015
Medicaid	36 %		63 %
Medicare	10		6
Uncompensated care	44		14
Medicaid managed care	-		8
Self-pay and commercial insurance	10		9
	<u>100 %</u>		<u>100 %</u>

Ryan/Chelsea-Clinton Community Health Center, Inc.

Notes to Financial Statements
December 31, 2016 and 2015

15. Functional Expenses

The Center provides primary care, dental care, social work and other health care related services to patients. Expenses related to providing these services as of December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$ 7,866,016	\$ 7,154,911
General and administrative	<u>2,306,515</u>	<u>2,093,127</u>
	<u>\$ 10,172,531</u>	<u>\$ 9,248,038</u>

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Ryan/Chelsea-Clinton Community Health Center, Inc.

Supplementary Information

December 31, 2016 and 2015

Ryan/Chelsea-Clinton Community Health Center, Inc.

Schedule of Functional Expenses
Year Ended December 31, 2016

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 3,532,273	\$ 783,409	\$ 4,315,682
Fringe benefits	1,072,830	184,939	1,257,769
Consultants and contractual services	1,124,721	840,593	1,965,314
Professional fees	12,435	84,407	96,842
Supplies	724,774	72,718	797,492
Pharmaceuticals	351,807	-	351,807
Laboratory	43,831	-	43,831
Equipment rental and maintenance	71,803	17,519	89,322
Occupancy	108,015	24,730	132,745
Insurance	35,128	19,961	55,089
Telephone	87,818	51,575	139,393
Travel, conferences and meetings	34,878	18,022	52,900
Dues and subscriptions	26,711	16,538	43,249
Printing, publications and postage	20,501	30	20,531
Interest	153,515	38,378	191,893
Personnel recruitment	108,385	-	108,385
Data processing	12,179	36,229	48,408
Bank fees	-	3,739	3,739
Other	<u>17,870</u>	<u>32,093</u>	<u>49,963</u>
	7,539,474	2,224,880	9,764,354
Depreciation and amortization	<u>326,542</u>	<u>81,635</u>	<u>408,177</u>
	<u>\$ 7,866,016</u>	<u>\$ 2,306,515</u>	<u>\$ 10,172,531</u>

Ryan/Chelsea-Clinton Community Health Center, Inc.

Schedule of Functional Expenses
Year Ended December 31, 2015

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 3,470,351	\$ 534,851	\$ 4,005,202
Fringe benefits	1,030,223	157,041	1,187,264
Consultants and contractual services	775,629	756,400	1,532,029
Professional fees	18,137	91,729	109,866
Supplies	638,480	76,437	714,917
Pharmaceuticals	92,560	-	92,560
Laboratory	29,342	-	29,342
Equipment rental and maintenance	97,463	23,131	120,594
Occupancy	102,568	25,643	128,211
Insurance	34,967	20,596	55,563
Telephone	106,974	62,814	169,788
Travel, conferences and meetings	28,203	21,790	49,993
Dues and subscriptions	25,345	14,885	40,230
Printing, publications and postage	19,748	488	20,236
Interest	173,665	43,416	217,081
Personnel recruitment	146,899	97,942	244,841
Data processing	12,563	43,641	56,204
Bank fees	-	3,902	3,902
Other	<u>19,556</u>	<u>35,363</u>	<u>54,919</u>
	6,822,673	2,010,069	8,832,742
Depreciation and amortization	<u>332,238</u>	<u>83,058</u>	<u>415,296</u>
	<u>\$ 7,154,911</u>	<u>\$ 2,093,127</u>	<u>\$ 9,248,038</u>