Hudson Headwaters Health Network and Affiliates

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

December 31, 2019

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Hudson Headwaters Health Network and Affiliates

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Independent Auditor's Report

To the Board of Directors
Hudson Headwaters Health Network

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hudson Headwaters Health Network and Affiliates (the "Companies"), 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.

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 audit. We conducted our audit 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 affiliates 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 entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Hudson Headwaters Health Network and Affiliates as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was 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 30 and 31 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 basic 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 May 29, 2020 on our consideration of Hudson Headwaters Health Network and Affiliates' 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 Hudson Headwaters Health Network and Affiliates' 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 Hudson Headwaters Health Network and Affiliates' internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
May 29, 2020

Hudson Headwaters Health Network and Affiliates

Consolidated Statement of Financial Position
December 31, 2019

Assets	
Current assets	
Cash and cash equivalents	$ 17,296,099
Patient services receivable, net	5,326,270
DHHS grants receivable	20,906
Pharmacy receivables	10,726,186
Current portion of promises to give	526,038
Prepaid expenses and other current assets	4,409,350
Total current assets	38,304,849
Property and equipment, net	61,023,934
Promises to give, less current portion	329,963
Deferred compensation	4,861,159
Investments	25,121,218
Subvention receivable	350,000
Total assets	$ 129,991,123
Liabilities and Net Assets	
Current liabilities	
Accounts payable and accrued expenses	$ 10,755,611
Accrued compensation	4,515,455
Contract refundable advances	161,271
Current portion of notes payable	855,616
Total current liabilities	16,287,953
Deferred compensation	4,861,159
Notes payable, net of current portion	17,065,220
Total liabilities	38,214,332
Commitments and contingencies	
Net assets	
Without donor restrictions	89,946,229
With donor restrictions	1,830,562
Total net assets	91,776,791
Total liabilities and net assets	$ 129,991,123

See Notes to Consolidated Financial Statements.

Hudson Headwaters Health Network and Affiliates

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

Changes in net assets without donor restrictions	
Revenue	
Patient services (net of contractual allowance and discounts)	$ 66,516,756
Pharmacy revenue	39,846,580
DHHS grants	6,607,126
Contract services and other grants	4,370,404
Contributions and other	9,977,816
Net assets released from restriction	183,547
Total revenue	127,502,229
Expenses	
Salaries and related benefits	70,671,213
Other than personnel services	33,784,439
Interest	630,736
Provision for bad debts	2,091,304
Total expenses	107,177,692
Change in net assets without donor restrictions before depreciation and amortization and nonoperating activities	20,324,537
Depreciation and amortization	3,337,104
Change in net assets without donor restrictions before nonoperating activities	16,987,433
Nonoperating activities	
Loss on disposal of assets	(15,634)
Total nonoperating activities	(15,634)
Change in net assets without donor restrictions	16,971,799
Changes in net assets with donor restrictions	
Contributions	1,299,479
Net assets released from restrictions	(183,547)
Change in net assets with donor restrictions	1,115,932
Change in net assets	18,087,731
Net assets, beginning of year	73,689,060
Net assets, end of year	$ 91,776,791

See Notes to Consolidated Financial Statements.

Hudson Headwaters Health Network and Affiliates

Consolidated Statement of Functional Expenses
Year Ended December 31, 2019

	Program services	General and administrative	Fundraising	Total
Salaries and wages	$ 48,273,836	$ 7,263,874	$ 168,039	$ 55,705,749
Fringe benefits	12,967,615	1,950,893	46,956	14,965,464
Consumable supplies	12,243,497	665,920	18,833	12,928,250
Professional fees	6,403,538	3,391,630	29,016	9,824,184
Occupancy	2,654,093	209,569	-	2,863,662
Consultants and contractual services	1,767,065	606,896	3,658	2,377,619
Repairs and maintenance	947,880	125,315	-	1,073,195
Travel, conferences and meetings	464,314	279,627	30,386	774,327
Dues and subscriptions	126,540	280,818	1,380	408,738
Telephone	244,495	84,658	1,339	330,492
Insurance	311,016	253,294	-	564,310
Printing, publications and postage	126,230	122,182	22,400	270,812
Health promotion	407,370	274,698	-	682,068
Laboratory - outside services	127,210	-	-	127,210
Interest	630,736	-	-	630,736
Other	1,204,572	338,570	16,430	1,559,572
Provision for bad debts	2,091,304	-	-	2,091,304
	90,991,311	15,847,944	338,437	107,177,692
Depreciation and amortization	2,582,743	754,361	-	3,337,104
Total functional expenses	$ 93,574,054	$ 16,602,305	$ 338,437	$ 110,514,796

See Notes to Consolidated Financial Statements.

Hudson Headwaters Health Network and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2019

Cash flows from operating activities	
Cash received from patient services	$ 65,276,296
Cash received from pharmacy services	35,624,511
Cash received from DHHS services	6,781,833
Cash received from contract services and other grants	4,370,404
Cash received from other	8,817,037
Cash paid to employees	(70,293,979)
Cash paid for operations	(32,018,382)
Cash paid for interest	(630,736)
Net cash provided by operating activities	17,926,984
Cash flows from investing activities	
Purchases of property and equipment	(14,673,458)
Purchase of investments	(4,518,807)
Net cash used in investing activities	(19,192,265)
Cash flows from financing activities	
Payments on long-term debt	(3,930,626)
Contributions received	537,788
Proceeds from long-term debt	6,509,321
Net cash provided by financing activities	3,116,483
Net increase in cash and cash equivalents	1,851,202
Cash and cash equivalents, beginning	15,444,897
Cash and cash equivalents, end	$ 17,296,099

Hudson Headwaters Health Network and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2019

Reconciliation of change in net assets to net cash provided by operating activities	
Change in net assets	$ 18,087,731
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Provision for bad debts	2,091,304
Depreciation and amortization	3,337,104
Contributions received for capital project	(537,788)
Gain on disposal of assets	15,634
Changes in operating assets and liabilities	
Patient services receivable	(1,240,460)
Pharmacy receivable	(4,222,069)
DHHS grants receivable	73,628
Pledges receivable	(761,691)
Prepaid expenses and other current assets	(1,160,779)
Accounts payable and accrued expenses	1,766,057
Accrued compensation	377,234
Refundable advances	101,079
Net cash provided by operating activities	$ 17,926,984

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies

Organization

Hudson Headwaters Health Network (the "Network") operates diagnostic and treatment centers, licensed under Article 28 of the New York State Public Health Law located in the Adirondack region of New York State. Network provides a broad range of health services to a largely medically underserved population.

In 2007, the Hudson Headwaters Health Foundation, Inc. ("HHH Foundation") was established to provide financial support for the Network. In addition, HHH Foundation is authorized to solicit contributions on the Network's behalf. The Network is the sole member of HHH Foundation.

The Network is the sole corporate member of Compre-Care, Inc., which is dormant.

During December 2015, Hudson Headwaters Strategic Services, LLC ("Strategic Services") was formed as a single member limited liability company. The sole member is the Network. Strategic Services was formed for consulting revenue related to the 340B Drug Pricing Program. There was no activity in Strategic Services in 2019.

During October 2019, Hudson Headwaters 340B, LLC ("Hudson Headwaters 340B") was formed as a single member limited liability company. The sole member is the Network. Hudson Headwaters 340B was formed to provide third party administrative, auditing and consulting services to entities participating in the 340B Drug Pricing Program. There was no activity in Hudson Headwaters 340B in 2019.

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

New accounting pronouncement

The Network adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. 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 which 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 revenue. The Network adopted ASU 2014-09 on January 1, 2019 using the modified retrospective method of transition. The Network 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 Network 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 consolidated statement 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, change in net assets without donor restrictions, or total net assets.

The Network adopted FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Principles of consolidation
The consolidated financial statements include accounts of the Network, HHH Foundation, and Compre-Care, Inc. (collectively, the "Companies"). All significant intercompany transactions and account balances have been eliminated in consolidation.

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 ("GAAP").

Classification of net assets

Net assets without donor restrictions
Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes.

Net assets with donor restrictions
Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Performance indicator
The consolidated statement of activities and changes in net assets includes the change in net assets without donor restrictions before nonoperating activities as the performance indicator. Changes in net assets without donor restrictions, which are excluded from the performance indicator, include the loss on disposal of assets.

Use of estimates
The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations of credit risk
The Companies' financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, patient services receivables and revenue and grant revenue.

The Companies maintain cash and cash equivalents in bank accounts which, at times, may exceed federally insured limits. The Companies have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk on cash and cash equivalents. At December 31, 2019, the Companies' uninsured bank balances totaled approximately $849,000.

Cash and cash equivalents
For purposes of the consolidated statement of cash flows, the Companies consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments
Investments are reported in the consolidated statement of financial position at fair value with any realized and unrealized gains and losses reported as increases or decreases in net assets in the accounting period in which they occur.

The Companies invest in a portfolio that contains common shares and bonds of publicly traded companies, U.S. government obligations, corporate bonds and equity securities. Such investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with such investments and the uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded using the straight-line method over the estimated useful lives of the assets ranging from 3 to 25 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Companies capitalize all purchases of property and equipment in excess of $5,000 with a useful life of over one year.

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 change in net assets.

Construction in progress is recorded at cost. The Companies capitalize construction, insurance and other costs during the period of construction. Depreciation and amortization are recorded when construction is substantially complete and the assets are placed in service. The estimated cost to complete the construction in progress is approximately $16,300,000.

Certain property and equipment have been purchased with grant funds received from DHHS. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Impairment of long-lived assets
The Companies review their 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 Companies compare 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 assets' carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. The Companies do not believe that any material impairment currently exists related to their long-lived assets.

Debt issuance costs
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the loan payable to which such costs relate. Amortization of debt issuance costs is

reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

Contributions

Transactions where the resource provider often receive 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 Network 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 Network fails to overcome the barrier. The Network 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.

Unconditional contributions are recorded as either with donor restriction or without donor restriction. 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 consolidated statement 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.

Grants and contracts

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 Network, 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 Network 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. Moreover, 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.

On the other hand, when the resource provider does not receive commensurate value, the transaction is accounted for as a contribution.

Net patient services revenue and receivables

Patient care service revenue is reported at the amount that reflects the consideration to which the Network 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 Network bills the patients and third-party payors several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Network. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Network 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 in our centers. The Network measures the performance obligation from the commencement of an encounter, 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 encounter. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our pharmacy revenue patients and customers and the Network does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Network 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 Network'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 Network determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Network'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 Network 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:

Medicare - Outpatient services are paid using prospectively determined rates.

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

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 Centers 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 Network's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Network. In addition, the contracts the Center 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 Network'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 Network also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Network 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 Network's mission, care is provided to patients regardless of their ability to pay. Therefore, the Network 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 Network expects to collect based on its collection history with those patients.

The Network is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Network renders services to patients who are financially unable to pay for healthcare. The Network 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 Network 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 Network 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 Network's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the

Network records an explicit concession to uninsured patients in the period the services are provided based on historical experience.

Based on the cost of patient services, charity care and community benefit for the year ended December 31, 2019 approximated $903,000 and $18,400,000, respectively.

Such amounts determined to qualify as charity care are not reported as revenue.

The Network 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 Network 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 Network'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 Center does use a collections agency if the patient balance is over four months old.

The Network 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 Network otherwise would have recognized is one year or less in duration.

The beginning and ending patient services receivable balances were as follows as of December 31, 2019 **and 2018**:

	2019	2018
Patient accounts receivable, net	$ 5,326,270	$ 6,177,114

Pharmacy revenue and receivable

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 the 340B program that the Center operates through its agreement with a contracted pharmacy. Under this program, the Center uses the contracted pharmacy as its agent for the purpose of operating and managing the pharmacy and providing pharmacy services.

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.

The beginning and ending pharmacy receivable balances were as follows as of December 31, 2019 **and 2018**:

	2019	2018
Pharmacy receivables	$ 10,726,186	$ 6,504,117

Gifts of long-lived assets
When applicable, the Network reports gifts of property and equipment as without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restrictions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Network reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Meaningful use incentives
The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that (1) meaningfully use certified Electronic Health Records ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health Act. The criteria for meaningful use incentives will be staged in three steps over six years and be paid out based on a transitional schedule.

For the year ended December 31, 2019, the Network has recognized $178,500 from the Medicaid incentive program, which is included in contributions and other revenue.

Interest earned on federal funds
Interest earned on federal funds is recorded as a payable to the United States Public Health Service ("PHS") in compliance with the regulations of the United States Office of Management and Budget. The Network did not earn any interest on federal funds during the year ended December 31, 2019.

Functional expenses
The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, repairs and maintenance, insurance, and depreciation and amortization which are allocated on a square footage basis. The Companies allocate salaries and wages, consumable supplies, professional fees, dues and subscriptions, travel, conferences, and meetings, provision for bad debts, and laboratory - outside services based on actual expenses incurred. Weighted average methodology is used for fringe benefits, consultants and contractual services, printing, publications and postage, health promotion, telephone, interest and other expenses.

Tax status

The Network, HHH Foundation and Compre-care, Inc. are incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, as well as from state income taxes. Therefore, there is no provision for income taxes. In addition, the Network, HHH Foundation and Compre-Care, Inc. are not classified as private foundations.

The Companies have no unrecognized tax benefits at December 31, 2019. The Companies' federal and state information returns prior to calendar year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Companies recognize interest and penalties associated with tax matters as operating expenses and include accrued interest and penalties with accrued expenses in the consolidated statement of financial position.

Subsequent events

The Companies have evaluated subsequent events through May 29, 2020, which is the date the consolidated financial statements were available to be issued.

Note 2 - Liquidity

The Network regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investment of its funds not required for annual operations. As of December 31, 2019, the Network has financial assets available to meet annual operating needs for the 2020 calendar year as follows:

Cash and cash equivalents	$ 17,296,099
Patient services receivable, net	5,326,270
DHHS grants receivable	20,906
Pharmacy receivables	10,726,186
Total	$ 33,369,461

These financial assets are not subject to any donor or contractual restrictions.

The Network's goal is generally to maintain financial assets to meet 45 days of operating expenses. As part of its liquidity plan, excess cash is invested in short-term investments including money market accounts, U.S. Treasury Bills and mutual funds. In addition to the available financial assets above, the Network has a line of credit agreement of $2,000,000 which can be drawn for liquidity needs.

Note 3 - Net patient services revenue and net patient receivables

The composition of patient services revenue for primary payor for the year ended December 31, 2019 is as follows:

Medicaid	$ 3,449,013
Medicare	12,341,474
Other third-party payors	24,032,498
Self-pay	7,273,200
Medicaid managed care programs	8,997,800
New York State Safety net funds	1,158,907
New York State Managed care wrap-around	9,263,864
Total	$ 66,516,756

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

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

Medicaid	$ 998,479
Medicare	1,342,324
Third-party payors	1,466,171
Self-pay	1,478,430
Medicaid managed care plans	456,272
New York State Safety net funds	290,167
	6,031,843
Less allowance for doubtful accounts	705,573
	$ 5,326,270

The Network's concentration of credit risk relating to patient services receivables primarily relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient responsibility amounts remain outstanding. The Network recognized approximately $2 million of patient receivable impairment of bad debt for the year ended December 31, 2019 based on patient-specific impairment events.

Note 4 - Fair value measurements

The Network values financial assets on a recurring basis based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

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

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

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

In determining fair value, the Network utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The following is a description of the valuation methodology used for investments at fair value. There have been no changes in the methodologies used during the year ended December 31, 2019.

U.S. Government bonds/treasury bills: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Mutual funds/money market: Valued at the quoted net asset value of shares held by the Network at year end.

Annuities: Valued at unobservable inputs as represented by the Network investment advisor.

Guaranteed investment contract: Valued at fair value by the insurance company based upon contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses. Due to the fact that the Network transact at contract value, fair value is determined annually for financial statement reporting purposes only and is approximated by the contract's discontinuance value. Discontinuance value is the amount the Companies will receive if they transfer or surrender their funds out of the guaranteed investment contract that can be in the form of account value less either a market value adjustment which moves with market interest rates or a flat discontinuance charge depending on the product type. The discontinuance value is defined by the group annuity contract, which governs the guaranteed investment contract. Certain unobservable inputs are assessed through review of contract terms (for example, crediting interest rates) while others are substantiated utilizing available market data.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Network believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Network's deferred compensation investments as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Mutual funds	$ 4,169,922	$ -	$ -	$ 4,169,922
Money market	63,298	-	-	63,298
Annuities	-	-	365,513	365,513
Guaranteed investment contract	-	-	262,426	262,426
Total	$ 4,233,220	$ -	$ 627,939	$ 4,861,159

The following table sets forth by level, within the fair value hierarchy, the Network's investments as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
U.S. treasury bonds	$ -	$ 2,618,540	$ -	$ 2,618,540
Mutual funds				
Equity funds	336,792	-	-	336,792
Exchange traded products				
Equity funds	191,104	-	-	191,104
Fixed income funds	123,328	-	-	123,328
Money market accounts	20,184,343	-	-	20,184,343
U.S. treasury bills	-	1,667,111	-	1,667,111
Total	$ 20,835,567	$ 4,285,651	$ -	$ 25,121,218

The Network's policy is to recognize transfers into and transfers out of a level as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers among the three levels in 2019.

The table below presents information about recurring fair value measurements that use significant unobservable inputs (Level 3 measurements):

	Guaranteed investment contract	Annuities
Balance, January 1, 2019	$ 214,009	$ 377,474
Realized and unrealized gains	6,420	-
Interest earned	-	7,201
Contributions	57,669	-
Distributions	(15,288)	(19,162)
Fees	(384)	-
Balance, December 31, 2019	$ 262,426	$ 365,513
The amount of total gains for the period attributable to the change in unrealized gains or losses relating to assets held at the end of the reporting period	$ 6,420	$ -

Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of significant input values
Guaranteed investment contract	$ 262,426	Discontinuance value which approximates fair value	Earnings at guaranteed crediting rate	Gross guaranteed crediting rate must be greater than contractual minimum crediting rate
Annuities	$ 365,513	Current value as of December 31, 2019	N/A - no assumptions to report	N/A

Note 5 - Subvention and membership agreement

On July 1, 2012, the Network and three (3) other corporate members entered into a Subvention and Membership Agreement (the "Agreement") with Adirondack Health Institute ("AHI"). Pursuant to this Agreement, the parties agreed that AHI would require a minimum commitment of $1,000,000 in initial funding for its successful operation, which amount shall be funded through subventions made by the members, in accordance with Article 5 of the New York not-for-profit law. Accordingly, subvention certificates were issued by AHI to its members in the aggregate amount of $1,000,000. On August 22, 2016, an additional corporate member was added.

Upon dissolution of AHI, the holders of the subvention certificates shall be entitled, after the claims of creditors have been satisfied, to redemption of the subvention amounts, plus interest accrued at the prime rate per annum (5.50% at December 31, 2019). If, however, a member's participation in the Agreement is terminated as the result of a breach of the Agreement or in connection with the termination for cause of the member's membership in AHI, the member shall not be eligible to redeem the value of its subvention certificate.

If a member terminates its participation in the Agreement voluntarily after December 31, 2014, the member shall be eligible to redeem 50% of the value of its subvention certificate. In such case, the redemption shall be made pursuant to a resolution of the Board of Directors of AHI and subject to the approval of the members of AHI upon affirmative showing that the financial condition of AHI will permit the required payment to be made without impairment of its operations or injury to its creditors.

The Network was issued $350,000 in subvention certificates from AHI. This amount has been reported as a subvention receivable on the consolidated statement of financial position.

Note 6 - Property and equipment, net

Property and equipment, net, consists of the following:

Land	$ 4,278,142
Building and improvements	46,842,311
Leasehold improvements	4,267,325
Furniture, fixtures and equipment	7,057,271
Computers	4,179,862
Automobiles	710,432
	67,335,343
Less accumulated depreciation and amortization	20,389,281
	46,946,062
Construction in progress	14,077,872
Total	$ 61,023,934

Depreciation and amortization expense was $3,337,104 for the year ended December 31, 2019.

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

On January 28, 2005, the Network transferred to the Town of Chester ("Chester") a building for $1 in exchange for a lease. The agreement does not qualify as a sales-leaseback. The lease, which was originally for three years, was renewed in 2008 for an additional three-year period, and is renewable by the Network for an indefinite period. The Network believes the lease will be renewed indefinitely because of Chester's stated interest in maintaining a health facility within its jurisdiction. The lease does not require any rental payments from the Network. Chester, however, is responsible to perform certain significant repairs and maintenance of the building. The Network originally paid for the building and improvements and expects to use those assets over their expected economic life. Accordingly, the Network is amortizing the building and improvements over their expected useful lives.

Note 7 - Notes payable

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

Construction loan payable with Glens Falls National Bank bearing interest at 2.85% for seven years and adjusting to two-thirds of 200 basis points over the five year Federal Home Loan Bank of New York Regular Fixed Advance Rate on that date and on each and every fifth year thereafter. The maximum amount of draws on this loan is $6,500,000. The loan matures on December 1, 2035. This loan is secured by the property located in Queensbury, NY with a carrying value of approximately $7,500,000. This loan is subject to certain covenants. Unamortized loan costs were $114,984 as of December 31, 2019. Loan costs on the above loan are being amortized using an imputed interest rate of 3.17%.	$	5,473,136
Construction loan payable with Glens Falls National Bank bearing interest at 2.85% The maximum amount of draws on this loan is $6,000,000. The term of this loan is 7 years with a 20 year amortization period. The loan matures on April 1, 2037. This loan is secured by the property located in Champlain, NY with a carrying value of approximately $8,700,000. In addition, the Network must meet certain financial covenants. Unamortized loan costs were $116,187 as of December 31, 2019. Loan costs on the above loan are being amortized using an imputed interest rate of 3.17%.		5,358,831
Mortgage note payable to a private third-party for $1,168,003 bearing interest at 4.40%. The Mortgage matures on March 15, 2028. The mortgage is secured by the financed property in Glens Falls, NY with a carrying value of approximately $1,800,000. Unamortized loan costs were $33,491 as of December 31, 2019. Loan costs on the above loan are being amortized using an imputed interest rate of 5.19%.		981,990

Construction loan payable with Glens Falls National Bank bearing interest at 3.43% The maximum amount of draws on this loan is $6,600,000. The term of this loan is 7 years with a 20 year amortization period. The loan matures on June 28, 2026. This loan is secured by the property located in Moreau, NY with a carrying value of approximately $9,200,000. In addition, the Network must meet certain financial covenants. Unamortized loan costs were $134,060 as of December 31, 2019. Loan costs on the above loan are being amortized using an imputed interest rate of 3.84%.	$ 6,505,601
	18,319,558
Less unamortized loan costs	398,722
Less current portion	855,616
	$ 17,065,220

Future minimum principal payments for the five years subsequent to December 31, 2019 and thereafter are as follows:

2020	$ 855,616
2021	884,781
2022	913,857
2023	943,914
2024	973,053
Thereafter	13,748,337
	$ 18,319,558

Note 8 - Line of credit

The Network has a revolving line of credit in the amount of $2,000,000. There is no maturity date on the line of credit and the line will automatically renew pending any issues during the lender's annual review. The line of credit is unsecured. This agreement requires interest to be charged at the bank's prime rate (4.75% at December 31, 2019). There is no balance due as of December 31, 2019.

Note 9 - Promises to give

Promises to give are expected to be realized in the following periods:

In one year or less	$ 526,038
In one to five years	329,963
	$ 856,001

Note 10 - Net assets with donor restrictions

The Companies receive grants and contributions which are designated by donors for specific purposes or specific time periods. These grants and contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or the time period lapses.

Net assets with donor restrictions consist of the following as of December 31, 2019:

Property and equipment	$	1,728,234
Primary care		102,328
Total	$	1,830,562

Net assets are released from restriction upon satisfaction of the purpose restriction. Purpose restrictions satisfied during the year ended December 31, 2019 were as follows:

Primary care	$	106,946
Property and equipment		74,100
Pediatrics		2,501
Total	$	183,547

Note 11 - Contract services and other grants

For the year ended December 31, 2019, contract services and other grants consist of the following:

New York State Department of Health		
Community Based Adolescent Pregnancy Prevention Program	$	193,340
University of Vermont Health Network Community Benefit Grant		369,911
New York Health Foundation		74,732
Warren County Municipal Center		24,680
Town of Bolton		50,000
Town of Indian Lake		23,000
Town of Moriah		25,745
Town of North Creek		33,000
Town of Schroon Lake		50,000
Town of Warrensburg		25,000
Glens Falls Hospital		414,206
Medical Director/Physician Services Contracts		364,175
SCA Tissue North America		35,502
School Contracts		167,188
Washington County Jail		118,884
Pay for Performance with Adirondack Health Institute		108,821
Adirondack Health Institute		
Health Home Development Funds		1,266,468
Transformation Grant		127,991
Eye Tests Grant		79,680
YMCA Grant		84,615
Clinical Pharmacy Grant		82,685
Food Farmacy Grant		61,358
Other		589,423
	$	4,370,404

Note 12 - DHHS grants

For the year ended December 31, 2019, the Network recognized grant revenue from the DHHS as follows:

Grant number	Grant period	Total grant	Total revenue recognized
H80CS00159	01/01/19 - 12/31/19	$ 6,331,713	$ 6,331,713
H76HA00738	04/01/18 - 03/31/19	287,052	76,255
H76HA00738	04/01/19 - 03/31/20	287,052	199,158
			$ 6,607,126

Note 13 - Pension plan

The Companies maintain a federally qualified defined contribution plan covering substantially all employees who meet certain eligibility requirements. The amount contributed to the plan is determined by the Board of Directors. Pension expense amounted to approximately $2,276,000 for the year ended December 31, 2019.

Note 14 - Commitments and contingencies

The Network has contracted with various funding agencies to perform certain healthcare services and received Medicaid and Medicare revenue from the federal and state 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 Companies could be held responsible for refunding the amount in question.

The Network maintains their medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). The FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Network and their 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 Network maintains claims-made gap insurance with coverage of $2,000,000 per claim and $4,000,000 in the aggregate for claims that are not covered by FTCA.

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 Companies believe that they are in material compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Companies could be held responsible for refunding the amount in question.

The Network 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 Network.

The Companies have noncancelable leases at several facilities, two of which are donated, and some are on a month-to-month basis. The donated facilities lease agreements provide Network with the use of health facilities at no charge in exchange for the provision of healthcare services to the residents of the communities on a fee-for-service basis. Rent expense for the year ended December 31, 2019 amounted to approximately $1,003,000.

Facilities leased, under noncancelable operating leases expiring through 2033, require future annual minimum payments as follows:

2020	$	762,451
2021		646,140
2022		631,240
2023		185,000
2024		125,000
Thereafter		350,000
Total	$	2,699,831

Note 15 - Deferred compensation

The Network established a deferred compensation agreement with a select group of management, highly compensated employees and independent contractors. This agreement calls for annual payments, the amounts of which are to be decided by the Board of Directors of the Network. In connection with the agreement, the Network established a deferred compensation account.

The investments in the account, including any gains or losses, remain subject to the creditors of the Network until they are distributed to participants in accordance with the terms of the agreement. During the year ended December 31, 2019, the Network did not contribute to the deferred compensation plan. See Note 4 for information on fair value of investments.

Note 16 - Related party transactions

As of and for the year ended December 31, 2019, the Network recorded the following to AHI:

	Revenue	Receivable	Expenses	Accrued expenses
Contract services	$ 4,434,823	$ 776,945	$ 163,880	$ 18,018

AHI issued $350,000 in subvention certificates to Network. See Note 5 for Subvention Agreement.

The Network holds a 50% ownership interest in Adirondack ACO, LLC (the "ACO"). The ACO was formed as an accountable care organization to participate in a shared savings program and to develop and implement a clinical integration program. The Network accounts for its investment using the equity method. During 2017, it was determined that the investment in ACO was impaired and was thus written off in full. As stipulated in the operating agreement of the ACO, the Network reimbursed the ACO for 50% of the operating expenses in the amount of $56,885 for the year ended December 31, 2019. The Network also reimbursed the ACO for medical home expenses in the amount of $317,998 for the year ended December 31, 2019. The Network had amounts due to the ACO of $141,556 as of December 31, 2019.

Note 17 - Subsequent event

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 the Network primarily operates. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this uncertainty. Therefore, while the Network expects this matter to negatively impact the Network's financial condition, results of operations, or cash flows, the extent of the financial impact and duration cannot be reasonably estimated at this time.

Supplementary Information

Hudson Headwaters Health Network and Affiliates

Consolidating Statement of Financial Position
December 31, 2019

Assets	Hudson Headwaters Health Network	Hudson Headwaters Health Foundation, Inc.	Compre-Care, Inc.	Total	Eliminations	Consolidated
Current assets						
Cash and cash equivalents	$ 16,546,268	$ 463,856	$ 285,975	$ 17,296,099	$ -	$ 17,296,099
Patient services receivable, net	5,326,270	-	-	5,326,270	-	5,326,270
DHHS grants receivable	20,906	-	-	20,906	-	20,906
Pharmacy receivables	10,726,186	-	-	10,726,186	-	10,726,186
Current portion of promises to give	-	526,038	-	526,038	-	526,038
Prepaid expenses and other current assets	4,167,532	320,721	-	4,488,253	(78,903)	4,409,350
Total current assets	36,787,162	1,310,615	285,975	38,383,752	(78,903)	38,304,849
Property and equipment, net	61,023,934	-	-	61,023,934	-	61,023,934
Promises to give, less current portion	-	329,963	-	329,963	-	329,963
Deferred compensation	4,861,159	-	-	4,861,159	-	4,861,159
Investments	23,469,135	1,652,083	-	25,121,218	-	25,121,218
Subvention receivable	350,000	-	-	350,000	-	350,000
Total assets	$ 126,491,390	$ 3,292,661	$ 285,975	$ 130,070,026	$ (78,903)	$ 129,991,123
Liabilities and Net Assets						
Current liabilities						
Accounts payable and accrued expenses	$ 10,687,132	$ 147,382	$ -	$ 10,834,514	$ (78,903)	$ 10,755,611
Accrued compensation	4,515,455	-	-	4,515,455	-	4,515,455
Contract refundable advances, net	161,271	-	-	161,271	-	161,271
Current portion of notes payable	855,616	-	-	855,616	-	855,616
Total current liabilities	16,219,474	147,382	-	16,366,856	(78,903)	16,287,953
Deferred compensation	4,861,159	-	-	4,861,159	-	4,861,159
Notes payable, net of current portion	17,065,220	-	-	17,065,220	-	17,065,220
Total liabilities	38,145,853	147,382	-	38,293,235	(78,903)	38,214,332
Commitments and contingencies						
Net assets						
Without donor restrictions	88,345,537	1,314,717	285,975	89,946,229	-	89,946,229
With donor restrictions	-	1,830,562	-	1,830,562	-	1,830,562
Total net assets	88,345,537	3,145,279	285,975	91,776,791	-	91,776,791
Total liabilities and net assets	$ 126,491,390	$ 3,292,661	$ 285,975	$ 130,070,026	$ (78,903)	$ 129,991,123

See Independent Auditor's Report.

Hudson Headwaters Health Network and Affiliates

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

	Hudson Headwaters Health Network	Hudson Headwaters Health Foundation, Inc.	Compre-Care, Inc.	Total	Eliminations	Consolidated
Changes in net assets without donor restrictions						
Revenue						
Patient services (net of contractual allowances and discounts)	$ 66,516,756	$ -	$ -	$ 66,516,756	$ -	$ 66,516,756
Pharmacy revenue	39,846,580	-	-	39,846,580	-	39,846,580
DHHS grants	6,607,126	-	-	6,607,126	-	6,607,126
Contract services and other grants	4,370,404	-	-	4,370,404	-	4,370,404
Contributions and other	9,512,981	474,810	1,025	9,988,816	(11,000)	9,977,816
Net assets released from restriction	-	183,547	-	183,547	-	183,547
Total revenue	126,853,847	658,357	1,025	127,513,229	(11,000)	127,502,229
Expenses						
Salaries and related benefits	70,456,218	214,995	-	70,671,213	-	70,671,213
Other than personnel services	33,655,156	123,783	16,500	33,795,439	(11,000)	33,784,439
Interest	630,736	-	-	630,736	-	630,736
Provision for bad debts	2,091,304	-	-	2,091,304	-	2,091,304
Total expenses	106,833,414	338,778	16,500	107,188,692	(11,000)	107,177,692
Change in net assets without donor restrictions before depreciation and amortization and nonoperating activities	20,020,433	319,579	(15,475)	20,324,537	-	20,324,537
Depreciation and amortization	3,337,104	-	-	3,337,104	-	3,337,104
Change in net assets without donor restrictions before nonoperating activities	16,683,329	319,579	(15,475)	16,987,433	-	16,987,433
Nonoperating activities						
Transfer to/from affiliate	149,935	(149,935)	-	-	-	-
Loss on disposal of assets	(15,634)	-	-	(15,634)	-	(15,634)
Total nonoperating activities	134,301	(149,935)	-	(15,634)	-	(15,634)
Change in net assets without donor restrictions	16,817,630	169,644	(15,475)	16,971,799	-	16,971,799
Changes in net assets with donor restrictions						
Contributions	-	1,299,479	-	1,299,479	-	1,299,479
Net assets released from restrictions	-	(183,547)	-	(183,547)	-	(183,547)
Change in net assets with donor restrictions	-	1,115,932	-	1,115,932	-	1,115,932
Change in net assets	16,817,630	1,285,576	(15,475)	18,087,731	-	18,087,731
Net assets, beginning of year	71,527,907	1,859,703	301,450	73,689,060	-	73,689,060
Net assets, end of year	$ 88,345,537	$ 3,145,279	$ 285,975	$ 91,776,791	$ -	$ 91,776,791

See Independent Auditor's Report.

Hudson Headwaters Health Network and Affiliates

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

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Agency or pass-through grantor's number	Passed through to subrecipients	Federal expenditures
U.S. Department of Health and Human Services				
Health Center Program Cluster				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	$ -	$ 1,699,706
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	4,632,007
Total Health Center Program Cluster			-	6,331,713
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	275,413
Passed through New York State Department of Health				
Medicaid Cluster				
Medical Assistance Program	93.778	C-32114GG	-	91,315
Total Medicaid Cluster			-	91,315
Maternal and Child Health Services Block Grant to the States	93.994	C-32114GG	-	10,982
Total U.S. Department of Health and Human Services			-	6,709,423
Total expenditures of federal awards			$ -	$ 6,709,423

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 Hudson Headwaters Health Network (the "Network") under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Network, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Network.

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 Network has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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
Hudson Headwaters Health Network

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 Hudson Headwaters Health Network and Affiliates (the "Companies"), 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 May 29, 2020.

The financial statements of certain affiliates 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 those affiliates.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Companies' 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 Companies' internal control. Accordingly, we do not express an opinion on the effectiveness of the Companies' 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 Companies' 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 consolidated 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

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Hartford, Connecticut
May 29, 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
Hudson Headwaters Health Network

Report on Compliance for Each Major Federal Program

We have audited Hudson Headwaters Health Network's (the "Network") 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 Network's major federal programs for the year ended December 31, 2019. The Network'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 Network'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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Network'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 Network's compliance.

Opinion on Each Major Federal Program

In our opinion, the Network 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.

Report on Internal Control over Compliance

Management of the Network 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 Network'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 Network's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies 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, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Hartford, Connecticut
May 29, 2020

Hudson Headwaters Health Network and Affiliates

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

Section I - Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified opinion
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 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 opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ yes ✓ no

Identification of major programs

CFDA Number(s)	Name of Federal Program
	U.S. Department of Health and Human Services
	Health Center Program Cluster
93.224	Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)
93.527	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 - Findings - Financial Statement Audit

None.

Hudson Headwaters Health Network and Affiliates

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

Section III - Federal Awards Findings and Questioned Costs

None.

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Hudson Headwaters Health Network
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Finding 2018.001

Condition - The Network's methodology of allocating personnel costs to the Health Center grant did not clearly and accurately support the actual time and effort for a certain employee's hours charged to the to grant in a timely manner.

Recommendation - Management should review the time and effort policy and revise as needed to ensure that all discrepancies are resolved in a timely manner.

Current Status - We implemented a late timesheet penalty. If a timesheet is not provided on time to complete our bi-weekly payroll processing, an amount is deducted from their gross pay that pay period. The penalty is then reversed and paid in the pay period the timesheet is turned in. As of 12/31/2019 there was one outstanding timesheet which was turned in and corrected with pay date 01/02/2020.