



# Public Health and Health Planning Council

## Project # 122311-E Endoscopy Center of Long Island, LLC

**County:** Nassau County (Garden City)  
**Purpose:** Establishment

**Program:** Diagnostic and Treatment Center  
**Submitted:** December 27, 2012

### Executive Summary

#### Description

Endoscopy Center of Long Island, LLC, (ECLI, an existing diagnostic and treatment center (D&TC) that is certified as a single specialty freestanding ambulatory surgical center (FASC) for Gastroenterology and is also certified to provide Clinical Laboratory Service for Outpatients, is requesting approval to add North Shore-LIJ Ventures, LLC as a member of ECLI. The sole member of North Shore-LIJ Ventures, LLC is North Shore University Hospital, a voluntary not-for-profit 804-bed tertiary care hospital located in Manhasset. North Shore University Hospital will serve as the backup hospital.

The current and proposed membership interest of ECLI is as follows:

<u>Current Member</u>	<u>% Interest</u>	<u>Proposed Member</u>	<u>% Interest</u>
KLG,LLC	36.8843%	KLG,LLC	11.0653%
Endoscopy Associates, LLC	33.4815%	Endoscopy Associates, LLC	10.0444%
S&T Associates, LLC	27.1342%	S&T Associates, LLC	8.1403%
DM&MK,LLC	1.5000%	DM&MK,LLC	0.4500%
JC&EH,LLC	1.0000%	JC&EH,LLC	0.3000%
		North Shore-LIJ Ventures, LLC	70.0000%

North Shore-LIJ Ventures, LLC will enter into a Membership Interest Purchase Agreement to acquire 70% membership interest in ECLI for \$28.4 million. Presented as BFA Attachment B, is the financial summary for North Shore-Long Island Jewish Health System, who will fund this transaction for North Shore-LIJ Ventures, LLC and shows sufficient funds for the purchase.

In 2012, Endoscopy Center of Long Island (ECLI) performed 9,297 procedures. From January 1, 2013 through April 30, 2013, ECLI performed 3,117 procedures. Per the applicant, the change in ownership will not result in any change in the services being provided or the capacity.

DOH Recommendation  
Contingent Approval

Program Summary  
Endoscopy Center of Long Island, LLC, an existing ambulatory surgery center, requests permission transfer 70% of its membership interest from existing members to a new member, North Shore-LIJ Ventures, LLC (NSLIJ Ventures). No staffing or programmatic changes will occur due to this membership change.

Financial Summary  
There are no project costs associated with this application.

The purchase price of \$28,400,000 will be met with accumulated funds from North Shore-Long Island Jewish Health System.

Subject to the noted contingency, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner.

## Recommendations

Health Systems Agency

Office of Health Systems Management

**Approval contingent upon:**

1. Submission of an executed Membership Interest Purpose Agreement that is acceptable to the Department of Health. [BFA]
2. Submission of documentation demonstrating that the applicant has obtained or will obtain site control. [CSL]
3. Submission of a signed statement that the proposed financial and referral structure has been assessed in light of the anti-kickback and self-referral laws, with the consultation of legal counsel, and it is concluded that proceeding with the proposal is appropriate. [CSL]
4. For each facility identified in Contingency #3, the applicant must submit documentation reflecting the facility's current and past compliance with the applicable regulations in the state in which it operates. [CSL]
5. Submission of evidence of an Administrative Services Agreement acceptable to the Department. [CSL]
6. Submission of an executed operating agreement for the LLC, acceptable to the Department. [CSL]
7. Submission of a list of all managers of the second-level LLC-member. [CSL]
8. Submission of executed articles of organization for the second-level LLC-member, acceptable to the Department. [CSL]
9. Submission of an executed operating agreement for the second-level LLC-member, acceptable to the Department. [CSL]

Council Action Date

**June 6, 2013.**

## Programmatic Analysis

### Project Proposal

Endoscopy Center of Long Island, LLC, an existing ambulatory surgery center, requests permission transfer 70% of its membership interest from existing members to a new member, North Shore-LIJ Ventures, LLC (NSLIJ Ventures). No staffing or programmatic changes will occur due to this membership change.

### Character and Competence

The new 70% member is NSLIJ Ventures, whose sole member is North Shore University Hospital (NSUH). NSUH 's active parent is North Shore Long Island Jewish Health System (NSLIJHS). The Department reviewed the board of trustees of NSLIJHS as well as the individuals who will be the managers of NSLIJ Ventures. The managers of NSLIJ Ventures, all current employees of NSLIJHS, are:

#### Name

Dennis Dowling  
Sharon Joy  
Laurence Kraemer  
John McGovern  
Ira Nash, MD  
Robert Scoskie  
John Steel, Jr.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Mr. Steel disclosed a pending misdemeanor DWI charge. Michael Aschner disclosed two settled lawsuits. Michael Slade disclosed two settled lawsuits.

There was also disclosure regarding several investigations and legal proceedings involving Staten Island University Hospital, which is part of NSLIJHS. They include monetary settlements and a five-year Corporate Integrity Agreement related to the operation of part-time clinics, Medicare and Medicaid billing for stereotactic radiosurgery, the provision of detoxification services above licensed capacity, the graduate medical education program, and the provision of psychiatric services above licensed capacity.

Additionally, the staff from the Division of Certification & Surveillance reviewed the ten-year surveillance history of all associated facilities. Sources of information included the files, records, and reports found in the Department of Health. Included in the review were the results of any incident and/or complaint investigations, independent professional reviews, and/or comprehensive/focused inspections. The review found that any citations were properly corrected with appropriate remedial action.

### Recommendation

Based on the information reviewed, staff found nothing that would reflect adversely upon the applicant's character and competence or standing in the community.

**From a programmatic perspective, approval is recommended.**

## Financial Analysis

### Financial Analysis

#### MEMBERSHIP INTEREST PURCHASE AGREEMENT

North Shore-LIJ Ventures, LLC will enter into a Membership Interest Purchase Agreement with Endoscopy Center of Long Island, LLC. The applicant has submitted a proposed agreement, which is summarized below:

Purchaser: North Shore-LIJ Ventures, LLC  
Seller: KGL, LLC, Endoscopy Associates, LLC, S&T Associates, LLC, DM & MK, LLC and JC & EH, LLC  
Purchase Price: \$28,400,000 for 70% membership interest with \$100,000 to be held in escrow with the remaining balance due at closing.

#### CAPABILITY AND FEASIBILITY

There are no project costs associated with this application.

The purchase price of \$28,400,000 will be met with accumulated funds from North Shore-Long Island Jewish Health System. Presented as BFA Attachment B, is the financial summary for North Shore-Long Island Jewish Health System, who will fund this transaction for North Shore-LIJ Ventures, LLC and shows sufficient funds for the purchase.

BFA-Attachments A is the 2011 and as of September 30, 2012 financial summaries for Endoscopy Center of Long Island, LLC currently in operation, which shows the facility has maintained positive working capital, members' equity and a net income from operations of \$5,456,125 and \$6,198,694, respectively.

BFA-Attachments B is the 2011 and as of September 30, 2012 financial summaries for North Shore-Long Island Jewish Health System, Inc., which shows the facility has maintained positive working capital, net assets and a net income from operations of \$92,946,000 and \$96,284,000, respectively.

Subject to the noted contingency, it appears that the applicant has demonstrated the capability to proceed in a financially feasible manner, and approval is recommended.

**From a financial perspective, approval is recommended.**

## Attachments

BFA Attachment A	Financial Summary of Endoscopy Center of Long Island, LLC-2011 and as of September 30, 2012
BFA Attachment B	Financial Summary of North Shore-Long Island Jewish Health System, Inc.-2011 and as of September 30, 2012

ENDOSCOPY CENTER OF LONG ISLAND, LLC  
STATEMENT OF ASSETS, LIABILITIES,  
AND MEMBERS' EQUITY - INCOME TAX BASIS  
SEPTEMBER 30,

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	<u>\$ 565,431</u>	<u>\$ 566,860</u>
FIXED ASSETS:		
Machinery and equipment	1,565,851	1,446,028
Furniture and fixtures	28,011	28,011
Leasehold improvements	<u>1,455,307</u>	<u>1,452,757</u>
	3,049,169	2,926,796
Less: accumulated depreciation	<u>3,029,909</u>	<u>2,909,335</u>
	<u>19,260</u>	<u>17,461</u>
OTHER ASSETS:		
Closing costs - net of accumulated amortization	22,194	23,024
Security deposits	<u>20,265</u>	<u>20,265</u>
	<u>42,459</u>	<u>43,289</u>
TOTAL ASSETS	<u>\$ 627,150</u>	<u>\$ 627,610</u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:		
Payroll taxes payable	<u>\$ 1,000</u>	<u>\$ -</u>
MEMBERS' EQUITY	<u>626,150</u>	<u>627,610</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 627,150</u>	<u>\$ 627,610</u>

See accountants' compilation report.

**TURMAN & EIMER LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

ENDOSCOPY CENTER OF LONG ISLAND, LLC  
STATEMENT OF REVENUES, EXPENSES,  
AND MEMBERS' EQUITY - INCOME TAX BASIS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

	<u>2012</u>	<u>2011</u>
REVENUES:		
Fee income	<u>\$10,483,137</u>	<u>\$ 9,519,706</u>
OPERATING EXPENSES:		
Salaries	2,133,577	2,075,743
Payroll taxes	150,572	150,895
Guaranteed payments to members	243,750	243,750
Depreciation	7,169	1,266
Medical supplies	539,885	456,489
Lab fees	209,413	154,152
Rent and real estate taxes	166,854	237,285
Accounting fees	51,800	25,050
Legal and other professional fees	268,224	125,033
Bank charges	6,095	5,229
Insurance	243,543	283,959
Office expense and supplies	97,402	138,028
Repairs and maintenance	41,146	46,701
Utilities	28,406	40,517
Telephone	12,401	10,989
Licenses, permits and fees	3,760	7,033
Uniforms and linens	16,454	11,565
Data processing	5,117	3,606
NYS survey fee	51,552	40,643
Dues and subscriptions	3,813	4,407
Miscellaneous	-	1,241
Conferences and meetings	3,510	-
	<u>4,284,443</u>	<u>4,063,581</u>
OPERATING INCOME	6,198,694	5,456,125
OTHER INCOME:		
Insurance proceeds	229,911	-
Interest income	<u>1</u>	<u>4</u>
	229,912	4
NET INCOME	6,428,606	5,456,129
MEMBERS' EQUITY - BEGINNING OF PERIOD	<u>347,544</u> 6,776,150	<u>380,779</u> 5,836,908
LESS: DISTRIBUTIONS	<u>(6,150,000)</u>	<u>(5,209,298)</u>
MEMBERS' EQUITY - END OF PERIOD	<u>\$ 626,150</u>	<u>\$ 627,610</u>

See accountants' compilation report.

**TURMAN & EIMER LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

North Shore-Long Island Jewish Health System, Inc.

Consolidated Statements of Financial Position  
September 30, 2012 and December 31, 2011 (In Thousands)

	(Unaudited) September 30, 2012	(Audited) December 31, 2011
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 224,482	\$ 474,738
Marketable securities and other investments	1,460,579	1,116,810
Accounts receivable for services to patients, net of allowance for doubtful accounts	697,441	620,543
Accounts receivable for physician activities, net	56,194	53,428
Assets limited as to use, current portion	93,953	76,017
Pledges receivable, current portion	45,872	48,939
Insurance claims receivable, current portion	97,346	97,346
Other current assets	176,582	212,114
<b>Total current assets</b>	<b>2,852,449</b>	<b>2,699,935</b>
Assets limited as to use, net of current portion	893,346	805,632
Pledges receivable, net of current portion	104,659	111,866
Property, plant and equipment, net	3,360,221	3,104,120
Insurance claims receivable, net of current portion	372,243	372,243
Other assets	160,959	169,617
<b>Total assets</b>	<b>\$ 7,743,877</b>	<b>\$ 7,263,413</b>
<b>Liabilities and net assets</b>		
<b>Current liabilities:</b>		
Short-term borrowings	\$ 110,540	\$ 90,540
Accounts payable and accrued expenses	520,994	592,634
Accrued salaries and related benefits	470,572	466,667
Current portion of capital lease obligations	5,044	4,208
Current portion of long-term debt	50,399	46,656
Current portion of insurance claims liability	97,346	97,346
Current portion of malpractice and other insurance liabilities	47,130	47,130
Current portion of third-party payer structured liabilities	5,438	5,438
Current portion of estimated payable to third-party payers	401,889	288,029
<b>Total current liabilities</b>	<b>1,709,352</b>	<b>1,638,648</b>
Accrued retirement benefits, net of current portion	567,055	558,785
Capital lease obligations, net of current portion	81,832	81,790
Long-term debt, net of current portion	1,491,451	1,366,719
Insurance claims liability, net of current portion	372,243	372,243
Malpractice and other insurance liabilities, net of current portion	648,298	580,965
Third-party payer structured liabilities, net of current portion	25,274	29,248
Other long-term liabilities	416,456	445,055
<b>Total liabilities</b>	<b>5,311,961</b>	<b>5,073,453</b>
<b>Commitments and contingencies</b>		
<b>Net assets:</b>		
Unrestricted	1,982,461	1,735,798
Temporarily restricted	321,425	328,463
Permanently restricted	128,030	125,699
<b>Total net assets</b>	<b>2,431,916</b>	<b>2,189,960</b>
<b>Total liabilities and net assets</b>	<b>\$ 7,743,877</b>	<b>\$ 7,263,413</b>

See accompanying notes.

North Shore-Long Island Jewish Health System, Inc.

**Consolidated Statements of Operations**  
**For the Nine Months Ended September 30, 2012 and 2011 (In Thousands)**

	(Unaudited) 2012	(Unaudited) 2011
Operating revenue:		
Net patient service revenue	\$ 4,211,826	\$ 3,939,337
Physician practice revenue	575,010	454,989
Provision for bad debts	(76,696)	(74,947)
Total patient revenue, net of provision for bad debts	<u>4,710,140</u>	<u>4,319,379</u>
Other operating revenue	220,627	213,791
Net assets released from restrictions used for operations	31,200	38,384
Total operating revenue	<u>4,961,967</u>	<u>4,571,554</u>
Operating expenses:		
Salaries	2,443,958	2,229,279
Employee benefits	714,923	651,563
Supplies and expenses	1,442,268	1,362,848
Depreciation and amortization	213,966	188,622
Interest	50,568	46,296
Total operating expenses	<u>4,865,683</u>	<u>4,478,608</u>
Excess of operating revenue over operating expenses	96,284	92,946
Non-operating gains and losses:		
Investment income	18,121	32,413
Change in net unrealized gains and losses and change in value of equity method investments	104,333	(61,355)
Change in fair value of interest rate swap agreements designated as derivative instruments	(4,908)	(14,533)
Loss on refunding and refinancing of long-term debt	(4,590)	-
Contribution received in the acquisition of The Long Island Home	17,888	-
Other non-operating gains and losses	(3,453)	7,271
Total non-operating gains and losses	<u>127,391</u>	<u>(36,204)</u>
Excess of revenue and gains and losses over expenses	223,675	56,742
Net assets released from restrictions for capital asset acquisitions	22,531	13,507
Change in fair value of interest rate swap agreements designated as cash flow hedges	(15)	(1,059)
Recovery (loss) of fair value of endowment corpus	472	(772)
Increase in unrestricted net assets	<u>\$ 246,663</u>	<u>\$ 68,418</u>

See accompanying notes.