Shalom Health Care Center, Inc.

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2019

Shalom Health Care Center, Inc.
December 31, 2019

Contents

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Independent Auditor's Report

Board of Directors
Shalom Health Care Center, Inc.
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Shalom Health Care Center, Inc. (Organization), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations and changes in net deficit, 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.

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 Shalom Health Care Center, Inc. as of December 31, 2019, and the changes in their net deficit and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 25, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BKD, LLP

Indianapolis, Indiana
September 25, 2020

Shalom Health Care Center, Inc.

Consolidated Balance Sheet
December 31, 2019

Assets

	2019	
Current Assets		
Cash	$ 248,460	
Patient accounts receivable, net of allowance of $316,485	563,295	
Grants and other receivables	339,644	
Prepaid expenses and other	33,451	
Total current assets		$ 1,184,850
Property and Equipment, net		2,113,868
Total assets		$ 3,298,718

Liabilities and Net Deficit

Current Liabilities		
Current portion of long-term debt and line of credit agreement	$ 704,731	
Accounts payable	278,935	
Accrued payroll and related benefits	501,173	
Current portion of deferred rental income	37,218	
Other	30,325	
Total current liabilities		$ 1,552,382
Deferred Rental Income		209,094
Long-Term Debt		1,775,864
Total liabilities		3,537,340
Net Deficit - without donor restrictions		(238,622)
Total liabilities and net deficit		$ 3,298,718

Shalom Health Care Center, Inc.

Consolidated Statement of Operations and Changes in Net Deficiency
Year Ended December 31, 2019

	2019	
Unrestricted Revenues, Gains and Other Support		
Patient service revenue, net of contractual discounts and allowances	$ 4,299,237	
Provision for uncollectible accounts	(649,819)	
Net patient service revenue, less provision for uncollectible accounts		$ 3,649,418
Grant revenue		2,512,205
Contributions in-kind		842,712
School-based contract revenue		833,500
Rental income		214,823
Other		183,446
Net assets released from restrictions used for operations		124,250
Total unrestricted revenues, gains and other support		8,360,354
Expenses and Losses		
Salaries, wages and employee benefits	5,678,449	
Purchased services and professional fees	318,525	
Medical supplies and pharmaceuticals	779,681	
Office and administrative	225,929	
Insurance	20,197	
Plant operations	96,854	
Lease and rentals	408,974	
Interest	116,904	
Other	240,645	
Total expenses and losses, excluding depreciation		7,886,158
Operating Income Before Depreciation		474,196
Depreciation		269,285
Operating Income, Excess of Revenues Over Expenses and Increase in Net Deficit Without Donor Restrictions		204,911
Net Assets With Donor Restrictions		
Net assets released from restriction		(124,250)
Change in Net Deficit		80,661
Net Deficit, Beginning of Year		(319,283)
Net Deficit, End of Year		$ (238,622)

Shalom Health Care Center, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2019

	2019	
Operating Activities		
Change in net deficit	$ 80,661	
Items not requiring operating cash flow		
Depreciation	269,285	
Provision for uncollectible accounts	649,819	
Change in assets and liabilities		
Patient accounts receivable	(574,220)	
Grants and other receivables	21,564	
Prepaid expenses and other current assets	14,400	
Accounts payable and accrued expenses	(71,977)	
Deferred rental income	246,312	
Other current liabilities	(33,675)	
Net cash provided by operating activities		602,169
Investing Activity - purchase of property and equipment		(460,323)
Financing Activities		
Borrowings under line of credit agreement	99,000	
Principal payments on long-term debt and line of credit agreement	(103,872)	
Net cash used in financing activities		(4,872)
Increase in Cash		136,974
Cash, Beginning of Year		111,486
Cash, End of Year		$ 248,460
Supplemental Cash Flows Information		
Cash paid for interest		$ 116,904
Purchase of property and equipment financed through long-term debt		89,285

Shalom Health Care Center, Inc.

Notes to Consolidated Financial Statements
December 31, 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Shalom Health Care Center, Inc. (Center) was founded in 2002. Its purpose is to provide a full range of primary and preventive health care services to all residents of the Center's service area, regardless of ability to pay. The Center also operates school-based health clinics under contracts with local school systems. Services provided by the Center are subsidized by state, federal and local grants. The Center receives federal assistance as a Federally Qualified Health Center (FQHC). The Center owns and controls Shalom, LLC (Properties), which was formed for the purpose of holding real estate for the Center. The Center and Properties are collectively referred to as the Organization in these consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Center and Properties. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

The Center maintains its cash in bank deposit accounts, which at times, exceed federally insured limits. At December 31, 2019, the Center's cash accounts exceeded federally insured limits by approximately $24,000.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for self-pay patients was 77% of self-pay accounts receivable at December 31, 2019.

Property and Equipment

Property and equipment acquisitions, with a cost over $1,000 and an estimated useful life exceeding one year, are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	5 - 27.5 years
Equipment	3 - 7 years
Furniture and fixtures	5 - 7 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the year ended December 31, 2019.

Net Assets (Deficit)

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions. Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity. Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Grants and Contributions

Grants and contributions are provided to the Organization either with or without restrictions placed on the grant or gift by the grantor or donor. Revenues and net assets are separately reported to reflect the nature of those grants and gifts – with or without donor restrictions. The value recorded for each grant or contribution is recognized as follows:

Nature of the Grant or Gift	Value Recognized
Conditional, with or without restriction	
Grants or gifts that depend on the Organization overcoming a grantor or donor imposed barrier to be entitled to the funds	Not recognized until the grant or gift becomes unconditional, *i.e.* the grantor or donor imposed barrier is met

Nature of the Grant or Gift	Value Recognized
Unconditional, with or without restriction	
Received at date of grant or gift – cash and other assets	Fair value
Received at date of grant or gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional grants or gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of operations and changes in net assets as net assets released from restrictions. Absent explicit grantor or donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for grants or gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Grants, gifts and investment income having grantor or donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional grants or contributions having grantor or donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Certain grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of pharmacy inventory and various other services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as inventory or expense in its financial statements, and similarly increase contribution revenue by a like amount. For the year ended December 31, 2019, $842,712, were received as in-kind contributions.

Medical Malpractice Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Medical malpractice liability claims are described more fully in Note 6.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

Shalom, LLC is a single member limited liability organized under Section 501(c)(2) of the Internal Revenue Code. Its activities are reported on the tax filings of Shalom Health Care Center, Inc. as a disregarded entity.

The Organization files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The consolidated statement of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

340B Revenue

The Organization participates in the 340B “Drug Discount Program,” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the Center.

Future Accounting Standards

In fiscal year 2020, the Organization will adopt Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*, which applies to all contracts with customers, other than those within the scope of other standards, such as leases, insurance, financing arrangements, financial instruments and guarantees. The core principle of the new model is that an entity would recognize revenue as it transfers goods or services to customers in an amount that reflects the consideration it expects to receive. The Organization has evaluated the impact of this new standard and does not expect it will change the timing or measurement of revenues within the consolidated financial statements. The standard will require enhanced disclosures in the notes to the consolidated financial statements.

In fiscal year 2022, the Organization will adopt ASC Topic 842, *Leases,* which will require a lessee to recognize lease assets and liabilities on its balance sheet for all leases with terms of more than 12 months. The Organization has evaluated the impact of this new standard and expects it will result in the recognition of both the right-of-use asset and right-of-use liability within the consolidated balance sheet for operating leases in place. The Organization doesn't expect the adoption of this standard to have a material impact on the amounts recognized in the consolidated statement of operations.

Note 2: Grant Revenue and Conditional Grants and Contributions

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for the medically underserved population in Marion County, Indiana. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the year ended December 31, 2019, the Organization recognized $1,993,343 in CHC grant revenue in the current budget notice.

In addition to the above grants, the Center receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

The Organization has received the following conditional grants and promises to give at December 31, 2019 that are not recognized in the financial statements:

	2019
Given upon incurring allowable expenditures under the agreement	$ 519,403

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statements of operations and changes in net assets as a component of net patient service revenue.

The Organization is approved as a FQHC for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Center's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Center is reimbursed an all-inclusive rate for services under the program. Services not covered under the FQHC benefit are paid based on established fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonable possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance Centers and preferred provider Centers. The basis for payment to the Center under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual discounts and allowances (but before the provision for uncollectible accounts), recognized in the year ended December 31, 2019 was approximately:

	2019
Gross patient service revenue	$ 5,205,743
Less contractual discounts and discounts	(906,506)
Patient service revenue, net of contractual discounts and allowance	$ 4,299,237

A summary of patient service revenues, net of contractual discounts and allowances (but before the provision for uncollectible accounts), recognized in the year ended December 31, 2019 by major third-party payors was approximately:

	2019
Medicare	$ 184,609
Medicaid	3,796,776
Other third-party payers	83,979
Patients	233,873
Totals	$ 4,299,237

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2019 is:

	2019
Medicare	12%
Medicaid	73%
Other third-party payers	8%
Patients	7%
Totals	100%

Note 5: Property and Equipment

Property and equipment at December 31, 2019 consists of:

	2019
Land	$ 344,000
Buildings and leasehold improvements	2,385,227
Equipment	1,093,780
Furniture and fixtures	261,664
	4,084,671
Less accumulated depreciation	(1,970,803)
Total	$ 2,113,868

Note 6: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage and personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

The Organization purchases primary and excess liability malpractice insurance under claims-made policies for certain services and other portions of the Center not covered under FTCA. Management does not expect any claims to exceed malpractice insurance coverage.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claims experience, no accrual has been made for medical malpractice costs for the year ended December 31, 2019. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 7: Long-Term Debt

Long-term debt at December 31, 2019 consisted of the following:

	2019
Revolving line of credit agreement (A)	$ 596,318
Note payable, bank (B)	58,918
Installment equipment note payable (C)	23,576
Installment equipment note payable (D)	31,786
Note payable, bank (E)	48,648
Note payable, bank (F)	1,721,349
	2,480,595
Less current maturities	(704,731)
	$ 1,775,864

(A) The Organization entered into a $600,000 revolving line of credit agreement in April 2018, which expires in January 2020. A total of $596,318 was drawn against this line of credit at December 31, 2019. The line is collateralized by substantially all of the Organization's assets. Interest accrues at the variable prime rate (4.75% at December 31, 2019) and is payable monthly. Subsequent to year-end, this agreement was amended to convert a portion of outstanding principle to a term loan in the amount of $200,750 with monthly payments of $8,791 beginning April 2020 through maturity in March 2022. The remaining amounts outstanding were included in an amended line of credit agreement totaling $400,000 due March 2021. Interest on the amended agreement varies at prime plus 0.50%.

(B) The Organization has a note payable effective November 2018 in the original amount of $90,000 due November 2021. Payments of $2,680 are made monthly including interest at 4.50%. The note is secured by specific inventory and equipment of the Organization.

(C) The Organization has a note payable effective July 2017 in the original amount of $44,000 due June 2022. Payments of $850 are made monthly including interest at 6.00%. The note is secured by specific equipment of the Organization.

(D) The Organization has a note payable effective January 2019 in the original amount of $39,285 due November 2023. Payments of $784 are made monthly including interest at 7.50%. The note is secured by specific equipment of the Organization.

(E) The Organization has a note payable effective November 2019 in the original amount of $50,000 due October 2024. Payments of $989 are made monthly including interest at 7.00%. The note is secured by specific equipment of the Organization.

(F) The Organization has a note payable effective April 2018 in the original amount of $1,800,000 due June 2028. Monthly payments range from $10,963 to $11,629 with a final balloon payment of $1,165,868 due at maturity. Interest is fixed initially at 4.00% for the first twelve payments. Interest is then 5.00% for the next 48 payments. Beginning in July 2020, interest is calculated based on the average 5-year treasury yield plus 3.00% with a maximum rate of 5.75% through maturity. The note is secured by a mortgage on the Organization's building.

Aggregate annual maturities of long-term debt at December 31, 2019 are:

2020	$ 704,731
2021	111,875
2022	82,703
2023	75,546
2024	63,103
Thereafter	1,442,637
	$ 2,480,595

Note 8: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019, comprise the following:

	2019
Financial assets at year end	
Cash	$ 248,460
Patient accounts receivable	563,295
Grants and other receivables	339,644
Total financial assets available to meet general expenditures within one year	$ 1,151,399

The Organization manages its liquidity through a policy to structure financial assets and maintaining adequate liquid resources to fund near-term operating needs.

Note 9: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs have been allocated among the program and general and administrative categories based on the direct expenditures and other methods. Expenses related to providing these services are as follows:

	2019				
	Primary Care	SBHC	Total Program	Administration	Total Expenses
Salaries, wages and employee benefits	$ 2,612,087	$ 1,817,104	$ 4,429,191	$ 1,249,258	$ 5,678,449
Purchased services and professional fees	146,522	101,928	248,450	70,075	318,525
Medical supplies and pharmaceuticals	358,653	249,498	608,151	171,530	779,681
Office and administrative	103,927	72,297	176,224	49,705	225,929
Insurance	9,291	6,463	15,754	4,443	20,197
Plant operations	44,553	30,993	75,546	21,308	96,854
Lease and rentals	399,953	278,228	678,181	191,281	869,462
Interest	53,776	37,409	91,185	25,719	116,904
Other	110,697	77,006	187,703	52,942	240,645
Depreciation	123,871	86,171	210,042	59,243	269,285
	$ 3,963,330	$ 2,757,097	$ 6,720,427	$ 1,895,504	$ 8,615,931

Note 10: Operating Leases

The Organization has an operating leases for office space which expires in 2022. The lease has optional termination language where the it may terminate if the Organization loses governmental grant funding needed to operate the facility. The lease requires the Organization to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at December 31, 2019 were:

2020	$ 167,572
2021	172,596
2022	177,776
	$ 517,944

Rental and lease expense, excluding in-kind rent, totaled $209,462 for the year ended December 31, 2019.

In April 2019, the Organization entered into an agreement to lease a portion of its owned facility to an unrelated third party. The lease expires March 2027 and requires monthly rental payments to the Organization of $16,625 through March 2023 and $17,115 from April 2023 through maturity. In accordance with the terms of the agreement, the lessee funded approximately $275,000 of furniture and leasehold improvements. These improvements are assets of the Organization and the advance funding has been recorded as deferred rental income totaling $246,312 at December 31, 2019.

Future minimum lease payments receivable under this lease at December 31, 2019 were:

2020	$ 199,500
2021	199,500
2022	199,500
2023	203,910
2024	205,380
Thereafter	462,105
	$ 1,469,895

Note 11: Defined-Contribution Plan

The Organization offers a Section 403(b) retirement plan to eligible employees. Under the plan, the Organization matches employees' contributions on a discretionary basis up to 3% and half of employees' contributions greater than 3% up to 5% of eligible compensation. For the year ended December 31, 2019, the Organization contributed approximately $91,000 to this plan.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenue

A concentration of revenues related to grant awards is described in Note 2.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 6.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations may be in areas not covered by the Organization's insurance policies. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

340B Drug Pricing Program

The Center participates in the 340B Drug Pricing Program (340B Program) enabling the Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA conducts routine audits of these programs at health care centers and is increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 13: Management's Plan Regarding Current Financial Condition

The Organization has a working capital deficiency and incurred historical losses resulting in a net asset deficiency totaling $(238,622). Also, as discussed in Note 7, the Organization's revolving line of credit agreement, as amended subsequent to year-end, matures in March 2021.

Management is actively addressing the historical losses through continued focus on revenue cycle improvements, growth in its school-based contracts and a change in scope to increase its Medicaid PPS rate which would result in increased patient service revenue. Management is also actively pursuing cost reductions strategies through work force reductions and other reductions in pay.

Management is also pursuing a refinance of its note payable secured by a mortgage on its building. Management believes that recent improvements and market adjustments will allow for increased liquidity and the ability to refinance the line of credit agreement through increased term borrowings which will allow for cash flow relief.

As noted in Note 14, the Organization has received additional funding through the Coronavirus Aid, Relief and Economic Security (CARES) Act and applied for and received a loan under the Small Business Administration Paycheck Protection Program (PPP). Management expects to utilize these funds to offset the negative volume impact and increase in operating costs of COVID-19.

Note 14: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced. Subsequent to year-end, the worldwide spread of COVID-19 began to cause some business disruption throughout the United States as local governments implemented orders to reduce non-essential business operations and advised citizens to shelter-in place. The Organization has continued to operate as an essential healthcare provider and experienced declines in volumes and changes in operations with the movement towards telehealth services.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the magnitude and duration. The Organization expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

In 2020, the Organization refinanced its outstanding line of credit to extend the maturity date and convert a portion to a term note payable (See Note 7). The Organization also received approximately $1,296,000 in supplemental funding through the CHC grant from the U.S. Department of Health and Human Services, which was one-time funding made available to support the detection and prevention, diagnosis and treatment of COVID-19. The Organization also received one-time funding from the United Way of $50,000 and funding from the U.S. Department of Health and Human Services HIV/AIDS Bureau of the Health Resources and Services Administration of $12,000 related to providing care and testing for those impacted by COVID-19. Similarly, the Organization applied for and received a loan approximating $1,230,000 under the Small Business Administration Paycheck Protection Program authorized in the CARES Act.

Subsequent events have been evaluated through September 25, 2020, which is the date the consolidated financial statements were available to be issued.

Supplementary Information

Shalom Health Care Center, Inc.

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services				
Health Center Program Cluster				
Health Center Program	93.224	Direct	$ -	$ 267,505
Grants for New and Expanded Services Under the Health Center Program	93.527	Direct	-	1,725,838
		Total Health Center Program Cluster	-	1,993,343
Pass-through Programs:				
Health and Hospital Corporation of Marion County				
HIV Emergency Relief Project Grants	93.914	877785774	-	16,251
Total Federal Expenditures			$ -	$ 2,009,594

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Shalom Health Care Center, Inc. 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 Shalom Health Care Center, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of Shalom Health Care Center, Inc.

2. 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. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Shalom Health Care Center, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Shalom Health Care Center, Inc. did not have any federal loan programs during the year ended December 31, 2019.

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*

Independent Auditor's Report

Board of Directors
Shalom Health Care Center, Inc.
Indianapolis, Indiana

We have audited, 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, the consolidated financial statements of Shalom Health Care Center, Inc. (Organization), which comprise the consolidated balance sheet as of December 31, 2019, and the related consolidated statements of operations and changes in net deficit, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization’s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

The Organization’s Response to Findings

The Organization’s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

BKD, LLP

Indianapolis, Indiana
September 25, 2020

BKD
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Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Shalom Health Care Center, Inc.
Indianapolis, Indiana

Report on Compliance for the Major Federal Program

We have audited Shalom Health Care Center, Inc.'s (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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 Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

BKD, LLP

Indianapolis, Indiana
September 25, 2020

Shalom Health Care Center, Inc.
Schedule of Finding and Questioned Costs
Year Ended December 31, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ *Unmodified* ☐ *Qualified* ☐ *Adverse* ☐ *Disclaimer*

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ *Yes* ☒ *None reported*

   Material weakness(es)? ☒ *Yes* ☐ *No*

3. Noncompliance considered material to the consolidated financial statements was disclosed by the audit? ☐ *Yes* ☒ *No*

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ *Yes* ☒ *None reported*

   Material weakness(es)? ☐ *Yes* ☒ *No*

5. The opinion(s) expressed in the independent auditor's report on compliance for major federal award programs was:

   ☒ *Unmodified* ☐ *Qualified* ☐ *Adverse* ☐ *Disclaimer*

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ *Yes* ☒ *No*

7. The Center's major program was:

Cluster/Program	CFDA Numbers
Health Center Program Cluster	93.224 and 93.527

Shalom Health Care Center, Inc.
Schedule of Finding and Questioned Costs
Year Ended December 31, 2019 (Continued)

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Center qualified as a low-risk auditee? ☐ *Yes* ☒ *No*

Findings Required to be Reported by *Government Auditing Standards*

Reference Number		Finding
2019-001	**Criteria or Specific Requirement:**	**Internal Control Over Financial Reporting**
	Condition:	Certain internal controls surrounding various transaction classes did not timely detect adjustments related to fixed assets, deferred rent, accrued expenses, nonfederal grant revenue and patient accounts receivable.
	Effect:	Adjustments were required to prevent misstatements in the transaction classes identified.
	Cause:	Internal controls surrounding account reconciliation and review were not adequately applied to ensure that general ledger accounts and financial statements were appropriately stated.
	Recommendation:	Although the adjustments made were not associated with federal grants, we recommend that the Organization evaluate current accounting processes and controls for the identified transaction classes to ensure appropriate reconciliation, review and timely and accurate financial reporting.
	Views of Responsible Officials and Planned Corrective Action:	We concur. Management continues to evaluate current controls related to these transaction classes to ensure that transactions are accounted for properly and in a timely manner.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Shalom Health Care Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2019

Reference Number	Summary of Findings	Status
2018-01	The Organization had numerous posting entries requiring audit adjustment	Not Resolved – See current year finding 2019-001
2018-02	The Organization did not timely complete or review accurate bank reconciliations throughout the year	Resolved
2018-03	The Organization had instances of billing errors in the application of its sliding fee scale	Resolved