

Shalom Health Care Center, Inc.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

Shalom Health Care Center, Inc.

December 31, 2020 and 2019

Contents

Independent Auditor's Report.....	1
Consolidated Financial Statements	
Balance Sheets.....	3
Statements of Operations and Changes in Net Assets.....	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplementary Information	
Schedule of Expenditures of Federal Awards	25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> - Independent Auditor's Report.....	26
Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance - Independent Auditor's Report.....	28
Schedule of Findings and Questioned Costs.....	31
Summary Schedule of Prior Audit Findings.....	35

Independent Auditor's Report

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

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Shalom Health Care Center, Inc. (Organization), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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, 2020 and 2019, and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, in 2020, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audits were 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 August 30, 2021, 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
August 30, 2021

Shalom Health Care Center, Inc.

Consolidated Balance Sheets December 31, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 1,252,951	\$ 248,460
Patient accounts receivable, net of 2019 allowance of \$316,485	331,796	563,295
Grants and other receivables	395,495	339,644
Prepaid expenses and other	33,400	33,451
Total current assets	2,013,642	1,184,850
Property and Equipment, net	2,167,135	2,113,868
Total assets	\$ 4,180,777	\$ 3,298,718

Liabilities and Net Assets

Current Liabilities		
Current portion of long-term debt and line of credit agreement	\$ 600,530	\$ 704,731
Accounts payable	131,814	278,935
Accrued payroll and related benefits	258,580	501,173
Current portion of deferred rental income	37,218	37,218
Other	-	30,325
Total current liabilities	1,028,142	1,552,382
Deferred Rental Income	171,876	209,094
Long-Term Debt	1,688,531	1,775,864
Total liabilities	2,888,549	3,537,340
Net Assets - without donor restrictions	1,292,228	(238,622)
Total liabilities and net assets	\$ 4,180,777	\$ 3,298,718

Shalom Health Care Center, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2020 and 2019

	2020	2019
Revenues, Gains and Other Support		
Patient service revenue, net of contractual discounts and allowances		\$ 4,299,237
Provision for uncollectible accounts		<u>(649,819)</u>
Patient service revenue, less provision for uncollectible accounts	\$ 2,684,820	3,649,418
Grant revenue	4,169,624	2,512,205
Contributions in-kind	792,736	842,712
School-based contract revenue	1,026,922	833,500
Rental income	236,718	214,823
Other	1,460,458	183,446
Net assets released from restrictions used for operations	-	<u>124,250</u>
Total unrestricted revenues, gains and other support	<u>10,371,278</u>	<u>8,360,354</u>
Expenses and Losses		
Salaries, wages and employee benefits	6,071,955	5,678,449
Purchased services and professional fees	412,249	318,525
Medical supplies and pharmaceuticals	950,618	779,681
Office and administrative	341,665	225,929
Insurance	30,132	20,197
Plant operations	216,112	96,854
Lease and rentals	312,313	408,974
Interest	135,005	116,904
Other	<u>194,172</u>	<u>240,645</u>
Total expenses and losses, excluding depreciation	<u>8,664,221</u>	<u>7,886,158</u>
Operating Income Before Depreciation	1,707,057	474,196
Depreciation	<u>176,207</u>	<u>269,285</u>
Operating Income, Excess of Revenues Over Expenses and Increase in Net Assets Without Donor Restrictions	1,530,850	204,911
Net Assets With Donor Restrictions		
Net assets released from restriction	-	<u>(124,250)</u>
Change in Net Assets	1,530,850	80,661
Net Deficit, Beginning of Year	<u>(238,622)</u>	<u>(319,283)</u>
Net Assets, End of Year	<u>\$ 1,292,228</u>	<u>\$ (238,622)</u>

Shalom Health Care Center, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 1,530,850	\$ 80,661
Items not requiring operating cash flow		
Depreciation	176,207	269,285
Provision for uncollectible accounts	-	649,819
Change in assets and liabilities		
Patient accounts receivable	231,499	(574,220)
Grants and other receivables	(55,851)	21,564
Prepaid expenses and other current assets	51	14,400
Accounts payable and accrued expenses	(389,714)	(71,977)
Deferred rental income	(37,218)	246,312
Other current liabilities	(30,325)	(33,675)
Net cash provided by operating activities	1,425,499	602,169
Investing Activity - purchase of property and equipment	(229,474)	(460,323)
Financing Activities		
Borrowings under line of credit agreement	-	99,000
Principal payments on long-term debt and line of credit agreement	(191,534)	(103,872)
Net cash used in financing activities	(191,534)	(4,872)
Increase in Cash	1,004,491	136,974
Cash, Beginning of Year	248,460	111,486
Cash, End of Year	\$ 1,252,951	\$ 248,460
Supplemental Cash Flows Information		
Cash paid for interest	\$ 135,005	\$ 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, 2020 and 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, 2020, the Center's cash accounts exceeded federally insured limits by approximately \$844,000.

Patient Accounts Receivable

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Amounts received related to health care services that have not yet been provided to patients are contract liabilities. The Organization has no contract assets or liabilities reported on the consolidated balance sheet at December 31, 2020.

Property and Equipment

Property and equipment acquisitions, with a cost over \$5,000 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 years ended December 31, 2020 and 2019.

Refund Liabilities

The consideration the Organization has received from patients for which it does not expect to be entitled to is recorded as a refund liability.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Net Assets

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.

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization 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 Organization's policies and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

School-Based Contract Revenue

School-based contract revenue is recognized as the Organization satisfies performance obligations under its contracts with schools. Revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing services. The Organization determines the transaction price based on contract amounts.

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. Revenue is reported at the estimated transaction price of amount that reflects the consideration to which the Organization expects to be entitled to under its contracts with participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the Center.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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
<i>Conditional, with or without restriction</i>	
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>i.e.</i> the grantor or donor imposed barrier is met
<i>Unconditional, with or without restriction</i>	
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.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

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 years ended December 31, 2020 and 2019, \$792,736 and \$842,712, respectively, 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 7.

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).

Future Accounting Standards

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 sheets 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.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 2: Change in Accounting Principles

Revenue From Contracts With Customers

On January 1, 2020, the Organization adopted Topic 606, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption to all contracts with customers (patients) at January 1, 2020.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients.

Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements.

Prior to the adoption of Topic 606, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which the Organization does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Organization's estimation of the transaction price or revenue recorded.

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

Note 3: 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 years ended December 31, 2020 and 2019, the Organization recognized approximately \$2,905,000 and \$1,993,000, respectively, 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.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The Organization has received the following conditional grants and promises to give at December 31, 2020 and 2019 that are not recognized in the consolidated financial statements:

	2020	2019
Given upon incurring allowable expenditures under the agreement	\$ 1,244,784	\$ 519,403

Note 4: Patient Service and School-Based Contract Revenue

Patient service and school-based contract revenue are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care and services within its school-based clinics. Patient service revenue amounts due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. School-based contract revenue is due from various contracted school systems and is billed monthly throughout the school year. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Performance obligations for school-based contracts are satisfied over time and revenue is recognized monthly in relation to the total annual contract. The Organization believes that these methods 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 within its clinics and services provided under school-based contracts. The Organization measures the performance obligation from the commencement of a service, to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of services or duration of the contract. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient. The Organization had no performance obligations considered unsatisfied or partially unsatisfied as of December 31, 2020.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Transaction Price

The Organization determines the transaction price for patient service revenue based on standard charges for goods and services provided, reduced by explicit price concessions, which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients. The Organization determines the transaction price for school-based contract revenue based on contracted rates which generally do not include explicit or implicit price concessions.

Third-Party Payors

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. 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 Health 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 Organization 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.

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

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

Shalom Health Care Center, Inc.

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations.

Patient and Uninsured Payors

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. 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.

Adjustments arising from a change in the transaction price were not significant in 2020 and 2019.

Refund Liabilities

From time to time, the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2020, there were no material refund liabilities.

Revenue Composition

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines and the timing of revenue recognition. Tables providing details of these factors are presented below.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The composition of patient service revenue by primary payor for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Medicaid	\$ 2,308,023	\$ 2,894,427
Medicare	16,508	89,668
Other third-party payors	236,988	547,028
Patients	123,301	118,295
	\$ 2,684,820	\$ 3,649,418

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient service revenue based on lines of business and timing of revenue recognition for the year ended December 31, 2020 is as follows:

	2020
Timing of revenue recognition	
Health care services transferred over time	
Medical	\$ 2,442,939
Behavioral health	241,881
School-based revenues transferred over time	1,026,922
Pharmacy sales at point in time	155,032
	\$ 3,866,774

Financing Component

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

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 5: 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 payor agreements. The mix of net receivables from patients and third-party payors at December 31, 2020 and 2019 is:

	<u>2020</u>	<u>2019</u>
Medicare	14%	12%
Medicaid	69%	73%
Other third-party payors	10%	8%
Patients	<u>7%</u>	<u>7%</u>
Totals	<u><u>100%</u></u>	<u><u>100%</u></u>

Note 6: Property and Equipment

Property and equipment at December 31, 2020 and 2019 consists of:

	<u>2020</u>	<u>2019</u>
Land	\$ 344,000	\$ 344,000
Buildings and leasehold improvements	2,477,996	2,385,227
Equipment	1,102,418	1,093,780
Furniture and fixtures	268,201	261,664
Construction in progress	<u>121,530</u>	<u>-</u>
	4,314,145	4,084,671
Less accumulated depreciation	<u>(2,147,010)</u>	<u>(1,970,803)</u>
Total	<u><u>\$ 2,167,135</u></u>	<u><u>\$ 2,113,868</u></u>

Note 7: 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 years ended December 31, 2020 and 2019. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 8: Long-Term Debt

Long-term debt at December 31, 2020 and 2019 consisted of the following:

	2020	2019
Revolving line of credit agreement (A)	\$ 387,068	\$ 596,318
Note payable, bank (B)	28,838	58,918
Installment equipment note payable (C)	14,581	23,576
Installment equipment note payable (D)	24,542	31,786
Note payable, bank (E)	39,917	48,648
Note payable, bank (F)	1,666,521	1,721,349
Note payable, bank (G)	127,594	-
	2,289,061	2,480,595
Less current maturities	(600,530)	(704,731)
	\$ 1,688,531	\$ 1,775,864

- (A) The Organization entered into a \$600,000 revolving line of credit agreement in April 2018, which expired in January 2020. The line is collateralized by substantially all of the Organization's assets. Interest accrued at the variable prime rate and was payable monthly. During 2020, this agreement was amended to convert a portion of outstanding principal to a term loan in the amount of \$200,750 (Note G) and extended the remaining line of credit of \$400,000 through March 2021. Interest on the amended agreement varies at prime plus 0.50% (3.75% at December 31, 2020). Subsequent to year-end, the agreement was amended to extend the maturity to July 2022.
- (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.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

(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.

Subsequent to year-end, this note was refinanced to extend the term to July 2038. Monthly payments are \$11,578 including interest at 4.50% for the first 60 payments. After 60 payments, principal and interest are due monthly at an initial amount of \$11,578 with interest varying monthly at the prime rate plus 1.25% through maturity.

(G) The Organization has a note payable effective March 2020 in the original amount of \$200,750 due March 2022. Payments of \$8,791 are made monthly including interest at 4.75%. The note is secured by specific equipment of the Organization.

Aggregate annual maturities of long-term debt at December 31, 2020 are:

2021	\$	600,530
2022		108,722
2023		75,586
2024		63,184
2025		56,953
Thereafter		<u>1,384,086</u>
	\$	<u><u>2,289,061</u></u>

Note 9: 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, 2020 and 2019, comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets at year end		
Cash	\$ 1,252,951	\$ 248,460
Patient accounts receivable	331,796	563,295
Grants and other receivables	<u>395,495</u>	<u>339,644</u>
 Total financial assets available to meet general expenditures within one year	 <u>\$ 1,980,242</u>	 <u>\$ 1,151,399</u>

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

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 10: 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:

	2020				
	Primary Care	SBHC	Total Program	Administration	Total Expenses
Salaries, wages and employee benefits	\$ 3,499,025	\$ 1,679,376	\$ 5,178,401	\$ 893,554	\$ 6,071,955
Purchased services and professional fees	263,767	14,062	277,829	134,420	412,249
Medical supplies and pharmaceuticals	704,605	221,868	926,473	24,145	950,618
Office and administrative	156,492	3,721	160,213	181,452	341,665
Insurance	268	-	268	29,864	30,132
Plant operations	65,427	74,645	140,072	76,040	216,112
Lease and rentals	109,001	149,625	258,626	53,687	312,313
Interest	67,503	-	67,503	67,502	135,005
Other	127,270	9,656	136,926	57,246	194,172
Depreciation	100,575	13,062	113,637	62,570	176,207
	<u>\$ 5,093,933</u>	<u>\$ 2,166,015</u>	<u>\$ 7,259,948</u>	<u>\$ 1,580,480</u>	<u>\$ 8,840,428</u>

	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	138,245	199,512	337,757	71,217	408,974
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
	<u>\$ 3,701,622</u>	<u>\$ 2,678,381</u>	<u>\$ 6,380,003</u>	<u>\$ 1,775,440</u>	<u>\$ 8,155,443</u>

The 2019 consolidated financial statements have been revised for immaterial errors in the presentation of functional expenses for lease and rentals and total expenses. The revisions decreased reported amounts for primary care, SBHC, total program, administration and total expenses by \$261,708, \$78,716, \$340,424, \$120,064, and \$460,488, respectively. These revisions had no effect on the change in net assets.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 11: 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, 2020 were:

2021	\$ 172,596
2022	177,776
	\$ 350,372

Rental and lease expense, excluding in-kind rent, totaled \$162,188 and \$209,462 for the years ended December 31, 2020 and 2019, respectively.

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 \$209,094 and \$246,312 at December 31, 2020 and 2019, respectively.

Future minimum lease payments receivable under this lease at December 31, 2020 were:

2021	\$ 199,500
2022	199,500
2023	203,910
2024	205,380
2025	205,380
Thereafter	256,725
	\$ 1,270,395

Note 12: 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 years ended December 31, 2020 and 2019, the Organization contributed approximately \$72,000 and \$91,000, respectively, to this plan.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 13: 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 3.

Patient Service Revenue

Estimates of variable consideration in determining the transaction price for patient service revenue are described in Notes 1 and 4.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Note 7.

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.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Note 14: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses and schools, as well as the transition to telehealth services due to temporary closure of the Organization's clinics.

While some of these policies have been eased, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

The Organization's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Organization has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implemented numerous safety programs to minimize the impact of COVID-19 on staff and patients;
- Purchased personal protective equipment; and
- Implemented certain cost reduction initiatives

In addition, the Organization received additional grant funding to be made available to community health centers and obtained a Paycheck Protection Program loan, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). The Organization also received a distribution from the Provider Relief Fund and additional grant funds from other sources.

The extent of the COVID-19 pandemic's adverse effect on the Organization's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business and school closures and restrictions, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business. Decreases in cash flows and results of operations may have an effect on the Organization's access to liquidity and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of long-lived assets.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

Paycheck Protection Program (PPP) Loan

In April 2020, the Organization applied for and received a Paycheck Protection Program (PPP) loan as authorized in the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act) totaling \$1,229,600. The loan is forgivable based on actual payroll costs and certain other costs paid or incurred during an eight or twenty-four week covered period. The application for forgiveness is due within ten months from the end of the covered period and no principal or interest payments are required until the forgiveness amount is remitted to the lender by the Small Business Administration. Interest accrues at 1% under the PPP loan and is fully forgivable with the principal balance. The PPP note agreement has a maturity date of two years from the loan date of April 15, 2020. Monthly payments of principal are required for amounts not otherwise forgiven through the maturity date.

The Organization has elected to account for the funding as a conditional contribution by applying ASC Topic 958-605, *Revenue Recognition*. Revenue is recognized when conditions are met, which include meeting FTE and salary reduction requirements and incurring eligible expenditures. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to the recognition of revenue. During 2020, the Organization recognized \$1,229,600 of forgiveness revenue as conditions were met which is included in other revenues in the consolidated statements of operations and changes in net assets. Subsequent to year-end, the Organization received notice that the PPP loan was forgiven in its entirety.

Provider Relief Fund

During the year ended December 31, 2020, the Organization received \$594,000 of distributions from the CARES Act Provider Relief Fund (collectively the Provider Relief Fund). These distributions from the Provider Relief Fund are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Organization accounts for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Organization’s revenues and expenses through December 31, 2020, the Organization recognized all \$594,000, related to the distributions from the Provider Relief Fund, and these payments are recorded as grant revenue in the accompanying consolidated statement of operations and changes in net assets.

Shalom Health Care Center, Inc.
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

The Organization will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Organization's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Organization is unable to attest to or comply with current or future terms and conditions, the Organization's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the consolidated financial statements compared to the Organization's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Note 15: Subsequent Events

Subsequent to year-end, the Organization applied for and received a PPP2 loan totaling \$1,276,000, which has similar terms to the Organization's prior PPP loan. The Organization also received a notice of award totaling \$3,567,000 for additional one-time funding under the Health Center Program which was made available by the American Rescue Plan Act. This funding is for a two year performance period and was made available to carry out vaccine-related activities and those necessary to detect, treat and mitigate the continued spread of COVID-19.

Subsequent events have been evaluated through August 30, 2021, 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, 2020

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				
<i>Health Center Program Cluster</i>				
Health Center Program	93.224	Direct	\$ -	\$ 686,869
COVID - Health Center Program	93.224	Direct	-	659,660
Grants for New and Expanded Services Under the Health Center Program	93.527	Direct	-	1,558,644
		<i>Total Health Center Program Cluster</i>	<u>-</u>	<u>2,905,173</u>
<i>Pass-through Programs:</i>				
Health and Hospital Corporation of Marion County				
HIV Emergency Relief Project Grants	93.914	H89HA11463	-	11,074
COVID - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H7CHA37107	-	14,099
The Medical College of Wisconsin, Inc.				
Mental Health Research Grants	93.242	1R01MH116787-01A1	-	65,451
		<i>Total U.S. Department of Health and Human Services</i>	<u>-</u>	<u>2,995,797</u>
Total Federal Expenditures			<u>\$ -</u>	<u>\$ 2,995,797</u>

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, 2020. 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, 2020.

**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, 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated August 30, 2021, which contained an emphasis of matter paragraph regarding the adoption of a new accounting standard.

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) as a basis for designing 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 cost as item 2020-001 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 effect on the consolidated financial statements. 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 finding identified in our audit is 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 result 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
August 30, 2021

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, 2020. 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, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2020-02 and 2020-03. Our opinion on each major federal program is not modified with respect to these matters.

Management's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Management's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2020-02 and 2020-03 that we consider to be material weaknesses.

Management's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Management's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the responses.

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
August 30, 2021

Shalom Health Care Center, Inc.
Schedule of Finding and Questioned Costs
Year Ended December 31, 2020

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 (Continued)
Year Ended December 31, 2020

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
2020-001	<p>Criteria or Specific Requirement: Internal Control Over Financial Reporting</p> <p>Condition: Certain internal controls surrounding various transaction classes did not timely detect adjustments related to deferred rent, accrued expenses, in-kind contributions and expenses, and patient accounts receivable.</p> <p>Effect: Adjustments were required to prevent misstatements in the transaction classes identified.</p> <p>Cause: Internal controls surrounding account reconciliation and review were not adequately applied to ensure that general ledger accounts and financial statements were appropriately stated.</p> <p>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.</p> <p>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.</p>

Shalom Health Care Center, Inc.
Schedule of Finding and Questioned Costs (Continued)
Year Ended December 31, 2020

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2020-002	<p>Federal Program Name: Health Center Program Cluster</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>CFDA Title and Number: Health Center Program Cluster, CFDA 93.224 and 93.527</p> <p>Criteria or Specific Requirement: Special Tests and Provisions - The Organization must prepare and apply a sliding fee discount schedule so that amounts owed for health center services by eligible patients are adjusted (discounted) based on the patient's ability to pay.</p> <p>Condition: Application of the sliding fee discount was not appropriately applied.</p> <p>Questioned Costs: No</p> <p>Context: The Organization establishes and maintains internal controls over the application of the sliding fee discounts applied in accordance with its policies so that eligible patients receive discounts based on their ability to pay. During the course of the audit, there were two errors out of 40 in the application of the sliding fee discount. The sample selected was not a statistically valid sample.</p> <p>Effect: Patients were billed incorrect amounts which were subsequently corrected.</p> <p>Cause: Internal controls surrounding application of the sliding fee discount were not adequately applied to ensure that discounts were appropriately applied.</p> <p>Repeat Findings: No</p> <p>Recommendation: We recommend that the Organization evaluate current review processes and controls for the application of the sliding fee discount to ensure that all information collected from patients is reviewed and the appropriate slide is processed. This includes information collected subsequent to the date of service.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. The impacted accounts have subsequently been corrected. Management continues to evaluate current controls related to the application of the sliding fee discount to ensure that appropriate review is completed and discounts are applied correctly.</p>

Shalom Health Care Center, Inc.
Schedule of Finding and Questioned Costs (Continued)
Year Ended December 31, 2020

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
2020-003	<p>Federal Program Name: Health Center Program Cluster</p> <p>Federal Agency: U.S. Department of Health and Human Services</p> <p>CFDA Title and Number: Health Center Program Cluster, CFDA 93.224 and 93.527</p> <p>Criteria or Specific Requirement: Reporting - the Organization is required to file a quarterly and annual Federal Financial Report (SF-425) and the Uniform Data System.</p> <p>Condition: Elements of program income were not appropriately reported in the annual Federal Financial Report.</p> <p>Questioned Costs: No</p> <p>Context: The Organization establishes and maintains internal controls over the reporting requirements associated with its federal grant programs. During the course of the audit, there was an error in one of the three reports tested. The error identified was in the reporting of program income in the annual Federal Financial Report. The sample selected was not a statistically valid sample.</p> <p>Effect: Incorrect amounts were included in the annual submission.</p> <p>Cause: Internal controls surrounding the review and submission of required reports were not adequately applied to ensure accuracy of required elements.</p> <p>Recommendation: We recommend that the Organization evaluate current review processes and controls for the submission of required reporting elements. Documentation should be maintained to support the reported amounts which can be reconciled to other financial reporting systems.</p> <p>Views of Responsible Officials and Planned Corrective Action: We concur. Management continues to evaluate current controls related to federal financial reporting requirements to ensure that amounts are appropriately stated.</p>

Shalom Health Care Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020

Reference Number	Summary of Findings	Status
2019-001	The Organization had numerous posting entries requiring audit adjustment	Not Resolved – See current year finding 2020-001