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STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513  
Fax: (317) 232-4711  
Web Site: [www.in.gov/sboa](http://www.in.gov/sboa)

November 25, 2019

Board of Directors  
Shalom Health Care Center, Inc.  
3400 Lafayette Road, Suite 200  
Indianapolis, IN 46222

We have reviewed the audit report of Shalom Health Care Center, Inc. which was opined upon by Barnes, Dennig & Co., Ltd, Independent Public Accountants, for the period January 1, 2017 to December 31, 2017. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Shalom Health Care Center, Inc. as of December 31, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Barnes, Dennig & Co., Ltd prepared the audit report in accordance with guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

*Paul D. Joyce*  
Paul D. Joyce, CPA  
State Examiner

# **Shalom Health Care Center, Inc. and Subsidiary**

**Consolidated Financial Statements with Supplementary Information  
December 31, 2017 and 2016, and  
Independent Auditors' Report**

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**  
December 31, 2017 and 2016

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## **Independent Auditors' Report**

The Board of Directors  
Shalom Health Care Center, Inc. and Subsidiary

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Shalom Health Care Center, Inc. and Subsidiary (a nonprofit organization) (Center), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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 audit. 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of the Shalom Health Care Center, Inc. and Subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BARNES DENNIG

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**Independent Auditors' Report  
(Continued)**

***Other Matters***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedules as listed in the table of contents and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018, on our consideration of the Center'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 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 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 Center's internal control over financial reporting and compliance.

*Barnes, Dennig & Co., Ltd.*

September 27, 2018  
Indianapolis, Indiana

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statements of Financial Position  
December 31, 2017 and 2016**

	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 273,781	\$ 92,732
Patient accounts receivable, net	1,125,942	742,547
Grants receivable	149,443	92,443
Rent receivable	13,703	32,227
Other assets	31,324	24,126
Total current assets	1,594,193	984,075
<b>Property and equipment, net</b>	<b>2,046,988</b>	<b>2,199,263</b>
Total assets	<b>\$ 3,641,181</b>	<b>\$ 3,183,338</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 623,531	\$ 243,017
Accrued wages and related liabilities	401,851	464,552
Current portion of long-term debt	93,285	81,000
Refundable advances	163,251	63,750
Line of credit	-	400,000
Total current liabilities	1,281,918	1,252,319
<b>Long-term, net of current</b>	<b>1,734,464</b>	<b>1,389,980</b>
Total liabilities	3,016,382	2,642,299
<b>Net assets</b>		
Unrestricted	624,799	248,052
Temporarily restricted	-	292,987
Total net assets	624,799	541,039
Total liabilities and net assets	<b>\$ 3,641,181</b>	<b>\$ 3,183,338</b>

See accompanying notes to financial statements

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statements of Activities  
Year Ended December 31, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>			
Patient service revenue, net of contractual allowances	\$ 3,384,154	\$ -	\$ 3,384,154
Provision for bad debts	(362,656)	-	(362,656)
Net patient service revenue	3,021,498	-	3,021,498
Grants	3,872,158	-	3,872,158
Contributions in-kind	826,723	-	826,723
Rental income	214,623	-	214,623
Other	45,449	-	45,449
Net assets released from restrictions	292,987	(292,987)	-
Total revenue, gains and other support	<u>8,273,438</u>	<u>(292,987)</u>	<u>7,980,451</u>
<b>Expenses, excluding depreciation</b>			
Primary care	4,109,997	-	4,109,997
Federally funded SBHC	1,070,455	-	1,070,455
Other SBHC	810,014	-	810,014
Administration	1,380,464	-	1,380,464
Total expenses, excluding depreciation	<u>7,370,930</u>	<u>-</u>	<u>7,370,930</u>
<b>Operating income before depreciation</b>	902,508	(292,987)	609,521
<b>Depreciation</b>	(246,866)	-	(246,866)
<b>Operating income (loss)</b>	655,642	(292,987)	362,655
<b>Repayment of excess grant expenditures</b>	(278,895)	-	(278,895)
<b>Change in net assets</b>	376,747	(292,987)	83,760
<b>Net assets, beginning of year</b>	<u>248,052</u>	<u>292,987</u>	<u>541,039</u>
<b>Net assets, end of year</b>	<u>\$ 624,799</u>	<u>\$ -</u>	<u>\$ 624,799</u>

See accompanying notes to financial statements

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statements of Activities  
Year Ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenue, gains and other support</b>			
Patient service revenue, net of contractual allowances	\$ 3,108,857	\$ -	\$ 3,108,857
Provision for bad debts	(136,336)	-	(136,336)
Net patient service revenue	2,972,521	-	2,972,521
Grants	3,155,572	292,987	3,448,559
Contributions in-kind	809,924	-	809,924
Rental income	210,770	-	210,770
Other	42,016	-	42,016
Net assets released from restrictions	-	-	-
Total revenue, gains and other support	<u>7,190,803</u>	<u>292,987</u>	<u>7,483,790</u>
<b>Expenses, excluding depreciation</b>			
Primary care	3,905,334	-	3,905,334
Federally funded SBHC	1,032,339	-	1,032,339
Other SBHC	820,904	-	820,904
Administration	1,362,764	-	1,362,764
Total expenses, excluding depreciation	<u>7,121,341</u>	<u>-</u>	<u>7,121,341</u>
<b>Operating income before depreciation</b>	69,462	292,987	362,449
<b>Depreciation</b>	<u>(245,635)</u>	<u>-</u>	<u>(245,635)</u>
<b>Operating income (loss)</b>	(176,173)	292,987	116,814
<b>Loss on prior year uncollectible receivables</b>	<u>(801,148)</u>	<u>-</u>	<u>(801,148)</u>
<b>Change in net assets</b>	(977,321)	292,987	(684,334)
<b>Net assets, beginning of year</b>	<u>1,225,373</u>	<u>-</u>	<u>1,225,373</u>
<b>Net assets, end of year</b>	<u>\$ 248,052</u>	<u>\$ 292,987</u>	<u>\$ 541,039</u>

See accompanying notes to financial statements

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2017**

	<u>Primary Care</u>	<u>In Scope SBHC</u>	<u>Other SBHC</u>	<u>Total Program</u>	<u>Administration</u>	<u>Total Expenses</u>
Salaries and wages	\$ 2,145,319	\$ 916,934	\$ 703,014	\$ 3,765,267	\$ 425,785	\$ 4,191,052
Fringe benefits	479,497	65,197	83,046	627,740	294,602	922,342
Pharmacy	770,955	7,152	3,240	781,347	-	781,347
Contracted services	94,502	-	2,349	96,851	53,112	149,963
Rent	109,055	66,000	-	175,055	37,322	212,377
Professional fees	55,945	-	-	55,945	109,403	165,348
Information technology	2,954	-	-	2,954	150,588	153,542
Interest	99,814	-	-	99,814	1,402	101,216
Telephone	19,362	-	-	19,362	76,681	96,043
Supplies	106,043	8,488	4,080	118,611	541	119,152
Repairs and maintenance	28,431	-	-	28,431	27,098	55,529
Miscellaneous	138,670	-	-	138,670	60,308	198,978
Licenses, dues, and subscriptions	9,964	232	-	10,196	26,837	37,033
Professional development	10,918	4,695	-	15,613	30,418	46,031
Insurance	11,454	-	14,054	25,508	30,921	56,429
Travel	10,728	417	-	11,145	26,522	37,667
Education and community relations	546	-	-	546	11,833	12,379
Personnel recruitment	592	61	109	762	1,514	2,276
Advertising	-	-	-	-	8,982	8,982
Postage	3,306	1,279	122	4,707	1,980	6,687
Printing	11,942	-	-	11,942	4,615	16,557
<b>Total expenses, excluding depreciation</b>	<b>4,109,997</b>	<b>1,070,455</b>	<b>810,014</b>	<b>5,990,466</b>	<b>1,380,464</b>	<b>7,370,930</b>
Depreciation	15,764	2,814	346	18,924	227,942	246,866
<b>Total expenses</b>	<b>\$ 4,125,761</b>	<b>\$ 1,073,269</b>	<b>\$ 810,360</b>	<b>\$ 6,009,390</b>	<b>\$ 1,608,406</b>	<b>\$ 7,617,796</b>

See accompanying notes to financial statements

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2016**

	<u>Primary Care</u>	<u>In Scope SBHC</u>	<u>Other SBHC</u>	<u>Total Program</u>	<u>Administration</u>	<u>Total Expenses</u>
Salaries and wages	\$ 2,129,183	\$ 879,708	\$ 724,356	\$ 3,733,247	\$ 449,559	\$ 4,182,806
Fringe benefits	508,957	66,044	86,916	661,917	329,020	990,937
Pharmacy	753,989	7,333	3,322	764,644	-	764,644
Contracted services	105,123	-	970	106,093	97,013	203,106
Rent	73,118	66,250	-	139,368	25,023	164,391
Professional fees	66,306	-	-	66,306	67,815	134,121
Information technology	2,572	-	-	2,572	123,266	125,838
Interest	93,489	-	-	93,489	1,328	94,817
Telephone	18,978	-	-	18,978	75,158	94,136
Supplies	59,377	7,706	4,187	71,270	15,689	86,959
Repairs and maintenance	30,373	-	-	30,373	33,612	63,985
Miscellaneous	22,314	-	-	22,314	15,061	37,375
Licenses, dues, and subscriptions	5,355	302	-	5,657	29,742	35,399
Professional development	7,882	3,390	-	11,272	21,742	33,014
Insurance	10,050	-	606	10,656	22,335	32,991
Travel	8,874	291	-	9,165	20,130	29,295
Education and community relations	866	-	-	866	18,770	19,636
Personnel recruitment	2,416	247	445	3,108	6,181	9,289
Advertising	-	-	-	-	8,371	8,371
Postage	2,760	1,068	102	3,930	1,653	5,583
Printing	3,352	-	-	3,352	1,296	4,648
<b>Total expenses, excluding depreciation</b>	<b>3,905,334</b>	<b>1,032,339</b>	<b>820,904</b>	<b>5,758,577</b>	<b>1,362,764</b>	<b>7,121,341</b>
Depreciation	33,272	2,512	367	36,151	209,484	245,635
<b>Total expenses</b>	<b>\$ 3,938,606</b>	<b>\$ 1,034,851</b>	<b>\$ 821,271</b>	<b>\$ 5,794,728</b>	<b>\$ 1,572,248</b>	<b>\$ 7,366,976</b>

See accompanying notes to financial statements

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidated Statements of Cash Flows  
Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 83,760	\$ (501,584)
Adjustments to reconcile change in unrestricted net assets to net cash from operating activities:		
Depreciation	246,866	245,635
Changes in:		
Patient accounts receivable	(383,395)	514,066
Grants receivable	(57,000)	54,171
Rent receivable	18,524	(525)
Other assets	(7,198)	648
Accounts payable	380,514	34,188
Accrued wages and related liabilities	(62,701)	121,763
Refundable advances	99,501	(209,333)
	<u>318,871</u>	<u>259,029</u>
Net cash provided by operating activities		
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(50,591)	(279,362)
<b>Cash flows from financing activities</b>		
Proceeds from line of credit	-	150,000
Payments on line of credit	(1,464)	-
Payments on note payable	(85,767)	(77,625)
	<u>(87,231)</u>	<u>72,375</u>
Net cash provided (used) by financing activities		
<b>Net change in cash</b>	181,049	52,042
<b>Cash, beginning of year</b>	<u>92,732</u>	<u>40,690</u>
<b>Cash, end of year</b>	<u>\$ 273,781</u>	<u>\$ 92,732</u>
<b>Supplemental cash flows information</b>		
Cash paid for interest	\$ 101,216	\$ 94,817
Equipment purchases financed through debt	\$ 44,000	\$ -

See accompanying notes to financial statements

## SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements

#### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Nature of Activities*

Shalom Health Care Center, Inc. and Subsidiary (the 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 the ability to pay. The Center's major programs consist of primary and preventive care and school-based health clinics (SBHC), all of which are subsidized by state, federal and local grants. The Center receives federal assistance as a Federally Qualified Health Center.

##### *Financial Statement Presentation*

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, which have no donor-imposed restriction; temporarily restricted net assets, which have donor-imposed restrictions that will expire in the future; and permanently restricted net assets, which have donor-imposed restriction, which do not expire. There were no temporarily restricted net assets as of December 31, 2017.

The consolidated financial statements include the Center and Shalom, LLC (collectively, the Center) which was formed during 2014 for the purpose of holding real estate for the Center. Shalom, LLC is 100% owned by the Center and all material inter-company accounts and transactions have been eliminated.

##### *Cash*

The Center maintains its cash in bank deposit accounts, which, at times, exceed federally insured limits. The Center has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk.

##### *Patient Accounts Receivable*

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors 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 Center records a significant provision for bad debts 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 discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements  
(Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Patient Accounts Receivable (Continued)*

Retroactively calculated third-party contractual settlements are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements.

*Property and Equipment*

Property and equipment are recorded at cost or fair value at the time of the gift in the case of donated items. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. The cost of maintenance and repairs is expensed as incurred, while significant improvements are capitalized.

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets.

*Net Patient Service Revenue*

The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

*Contributions*

The Center records gifts of cash and other assets at their fair value as of the date of contribution. Such donations are recorded as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts having donor stipulations, which are satisfied in the period the gift is received, are reported as unrestricted revenue.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements  
(Continued)

NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***In-Kind Donations***

The Center receives certain in-kind donations during the year, which are recorded at fair value as contribution revenue and an expense in the financial statements. For the years ended December 31, 2017 and 2016 in in-kind donations were:

	2017	2016
Pharmacy	\$ 760,723	\$ 743,674
Operating space	66,000	66,250
	<u>\$ 826,723</u>	<u>\$ 809,924</u>

***Government Grants***

Support funded by grants is recognized as the Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. 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.

***Income Taxes***

The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Indiana law. The Center is not considered a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. However, the Center is subject to federal income tax on any unrelated business taxable income. Shalom LLC is a single member limited liability company and its activities are reported on the Center's tax filings.

The Center's IRS Form 990 is subject to review and examination by federal and state authorities. The Center believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Subsequent Event Evaluation***

In preparing its financial statements, the Center has evaluated events subsequent to the statement of financial position date through September 27, 2018, which is the date the financial statements were available to be issued.

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 2 PATIENT ACCOUNTS RECEIVABLE AND NET PATIENT SERVICE REVENUE**

Net patient accounts receivable at December 31 consisted of the following:

	<u>2017</u>	<u>2016</u>
Medicaid	\$ 931,247	\$ 633,327
Medicare	56,937	52,053
Self-pay	76,305	22,423
Other insurance	<u>61,453</u>	<u>34,744</u>
	<u>\$ 1,125,942</u>	<u>\$ 742,547</u>

Net patient service revenue consisted of the following:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 4,104,526	\$ 3,892,801
Less provision for contractual allowances	(720,372)	(783,944)
Less provision for bad debts	<u>(362,656)</u>	<u>(136,336)</u>
	<u>\$ 3,021,498</u>	<u>\$ 2,972,521</u>

Medicaid represented approximately 78% and 85% of net patient accounts receivable and approximately 82% and 84% of net patient service revenues for 2017 and 2016, respectively.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual allowances represent the difference between the estimated billing rates and amounts estimated to be paid under various health benefit agreements, including Medicare, Medicaid of Indiana and other insurance plans. Provisions for contractual allowances are recorded in the period in which the services are provided.

The Center also received financial incentives through the Medicare and Medicaid electronic health records program known as meaningful use. In 2016 the Center recorded such financial incentives in excess of the amounts that were paid to the Center under this program. \$182,750 of these incentives were expensed in 2016 under loss on prior year uncollectible receivables.

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Notes to Consolidated Financial Statements  
(Continued)**

**NOTE 3 GRANT RECEIVABLES**

Grant receivables at December 31 consisted of the following:

	2017	2016
ISDH CHC grant	\$ 109,903	\$ 78,373
Shalom advantage	28,790	14,070
School contracts	5,000	-
Indiana breast cancer awareness trust	5,750	-
	\$ 149,443	\$ 92,443

**NOTE 4 PROPERTY AND EQUIPMENT**

Property and equipment at December 31 consisted of the following:

	2017	2016
Land	\$ 344,000	\$ 344,000
Building and improvements	1,383,555	1,383,555
Leasehold improvements	693,385	692,485
Software and equipment	1,112,590	1,018,886
Less accumulated depreciation	(1,486,542)	(1,239,663)
	\$ 2,046,988	\$ 2,199,263

**NOTE 5 LONG-TERM DEBT**

Long Term Debt at December 31 consisted of the following:

	2017	2016
Line of credit	\$ 398,536	\$ 400,000
Mortgage loan	1,388,033	1,470,980
HVAC loan	41,180	-
	\$ 1,827,749	\$ 1,870,980

Annual maturities of the notes payable at December 31, 2017 are:

2018	\$ 93,285
2019	98,456
2020	103,995
2021	108,569
2022	109,011
Thereafter	1,314,433
	\$ 1,827,749

## SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

### Notes to Consolidated Financial Statements (Continued)

#### NOTE 5 LONG-TERM DEBT (CONTINUED)

The Center has a \$400,000 revolving line of credit agreement expiring in July 2017. As of December 31, 2017 and 2016 \$398,536 and \$400,000 respectively, was borrowed against this line. The line is collateralized by substantially all of the Center's assets. Interest accrues at the variable interest rate of 1% above the bank's prime rate (4.5% at December 31, 2017) and is payable monthly. The Center must maintain a minimum net worth of \$200,000 and a current ratio between 1.0 and 1.5. The line of credit agreement was extended through April 13, 2018 and refinanced in April 2018 with a \$600,000 line of credit agreement expiring in January 2020. The line is collateralized by substantially all of the Center's assets. Interest accrues at the variable interest rate of the National Prime rate as published in the Wall Street Journal (4.75% at April 30, 2018) and is payable monthly.

During 2014, Shalom, LLC obtained a mortgage in the amount of \$1,634,000, secured by certain real estate, and matures on December 1, 2029. The note requires monthly payments of \$13,243. The note stipulates the interest rate will be recalculated twice in 5 year increments. An interest rate of 5.375% is effective until October 31, 2019. The first interest rate recalculation will be effective on November 1, 2019. The mortgage was refinanced in April 2018 in the amount of \$1,800,000, secured by certain real estate, and matures on June 1, 2028. The note requires monthly payments of \$10,963. The note stipulates the interest rate will be recalculated based on changes on the United States Treasury Securities yield (2.73% as of April 30, 2018).

During 2017, Shalom Health Care Center, Inc. obtained a note in the amount of \$44,000 to finance the purchase of a new HVAC system and matures on June 15, 2022. The note requires monthly payments of \$850 and incurs interest annually at a rate of 6.2%. The note is secured by the HVAC system.

#### NOTE 6 OPERATING LEASES

On December 22, 2015, the Center entered into a seven year lease agreement for office space located at 5750 W. 56th St., Indianapolis, Indiana. The lease calls for monthly base rent payments of \$6,646 for the first twelve months, \$9,531 for the second twelve months, \$13,292 for the third twelve months, and \$13,691 for the fourth twelve months and increasing by 3% a year for the remainder of the lease. In accordance with GAAP, lease expense is recorded on a straight-line basis over the lease term and was approximately \$149,000 and \$99,000 for 2017 and 2016, respectively.

#### NOTE 7 DEFINED CONTRIBUTION PLAN

The Center offers a Section 403(b) retirement plan to eligible employees. Under the plan, the Center matches employee contributions 1 for 1 up to 3% and ½ to 1 for employee contributions greater than 3% up to 5%. For the years ended December 31, 2017 and 2016, the Center contributed approximately \$102,000 and \$29,000 to this plan, respectively.

SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements  
(Continued)

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

Laws and regulations

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to matters such as licensure, accreditation and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with fraud and abuse as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Litigation

The Center is involved in certain claims of legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate dispositions of these matters are not expected to have a material adverse effect on the financial position of the Center if the claims and legal actions prove unsuccessful.

**SUPPLEMENTARY INFORMATION**

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidating Statement of Financial Position  
Year Ended December 31, 2017**

	Shalom Health Care Center, Inc.	Shalom, LLC	Eliminating Entries	Consolidated
<b>Assets</b>				
<b>Current assets:</b>				
Cash and cash equivalents	\$ 267,552	\$ 6,229	\$ -	\$ 273,781
Patient accounts receivable, net	1,125,942	-	-	1,125,942
Grants receivable	149,443	-	-	149,443
Rent receivable	-	215,303	(201,600)	13,703
Accounts receivable - Shalom, LLC	196,953	-	(196,953)	-
Other assets	26,669	4,655	-	31,324
Total current assets	1,766,559	226,187	(398,553)	1,594,193
<b>Property and equipment, net</b>	416,349	1,630,639	-	2,046,988
Total assets	<u>\$ 2,182,908</u>	<u>\$ 1,856,826</u>	<u>\$ (398,553)</u>	<u>\$ 3,641,181</u>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities:</b>				
Accounts payable	\$ 798,211	\$ 26,920	\$ (201,600)	\$ 623,531
Accounts payable - SHCC	-	196,953	(196,953)	-
Accrued wages and related liabilities	401,851	-	-	401,851
Current portion of note payable	-	93,285	-	93,285
Refundable advances	163,251	-	-	163,251
Line of credit	-	-	-	-
Total current liabilities	1,363,313	317,158	(398,553)	1,281,918
<b>Note payable, net of current</b>	363,536	1,370,928	-	1,734,464
Total liabilities	1,726,849	1,688,086	(398,553)	3,016,382
<b>Net assets</b>	456,059	168,740	-	624,799
Total liabilities and net assets	<u>\$ 2,182,908</u>	<u>\$ 1,856,826</u>	<u>\$ (398,553)</u>	<u>\$ 3,641,181</u>

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Consolidating Statement of Activities  
Year Ended December 31, 2017**

	Shalom Health Care Center, Inc.	Shalom, LLC	Eliminating Entries	Consolidated
<b>Revenue and support</b>				
Patient service revenue	\$ 3,384,154	\$ -	\$ -	\$ 3,384,154
Provision for bad debts	(362,656)	-	-	(362,656)
Net patient service revenue	3,021,498	-	-	3,021,498
Contributions in-kind	826,723	-	-	826,723
Grants	3,872,158	-	-	3,872,158
Rental income	-	387,423	(172,800)	214,623
Other	36,849	8,600	-	45,449
Total revenue and support	7,757,228	396,023	(172,800)	7,980,451
<b>Expenses, excluding depreciation</b>				
Primary care	4,134,741	148,056	(172,800)	4,109,997
Federally funded SBHC	1,070,455	-	-	1,070,455
Other SBHC	807,384	2,630	-	810,014
Administration	1,277,823	102,641	-	1,380,464
Total expenses, excluding depreciation	7,290,403	253,327	(172,800)	7,370,930
<b>Change in net assets before depreciation and other changes</b>	466,825	142,696	-	609,521
<b>Depreciation and other changes</b>				
Depreciation	(194,284)	(52,582)	-	(246,866)
Repayment of excess grant expenditures	(278,895)	-	-	(278,895)
<b>Change in net assets</b>	(6,354)	90,114	-	83,760
<b>Net assets, beginning of year</b>	462,413	78,626	-	541,039
<b>Net assets, end of year</b>	\$ 456,059	\$ 168,740	\$ -	\$ 624,799

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2017**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass - Through Entity Identification Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Services - Direct Programs			
Community Health Center Program (Section 330)	93.224	N/A	\$ 1,948,414
Affordable Care Act Grants for New and Expanded	93.527	N/A	<u>586,606</u>
Total Health Center Services Cluster			2,535,020
HIV Emergency Relief Project Grants	93.914	877785774	<u>35,304</u>
Total Expenditures of Federal Awards			<u>\$ 2,570,324</u>

**NOTE 1 BASIS OF PRESENTATION**

The supplementary schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 INDIRECT COST RATE**

The Center has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

**NOTE 3 SUBRECIPIENTS**

The Center provided no federal awards to subrecipients.



**INDEPENDENT AUDITORS' 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**

The Board of Directors  
Shalom Health Care Center, Inc. and Subsidiary

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Shalom Health Care Center, Inc. and Subsidiary (the Center) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 27, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Center'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2017-01 to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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 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*.

**INDEPENDENT AUDITORS' 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  
(CONTINUED)**

**Center's Response to Findings**

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the 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.

*Barnes, Dennig & Co., Ltd.*

September 27, 2018  
Indianapolis, Indiana



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GRANT GUIDANCE**

The Board of Directors  
Shalom Health Care Center, Inc. and Subsidiary

**Report on Compliance for Each Major Federal Program**

We have audited Shalom Health Care Center, Inc. and Subsidiary's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2017. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Program***

In our opinion, Shalom Health Care Center, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GRANT GUIDANCE  
(CONTINUED)**

**Report on Internal Control over Compliance**

Management of the Center 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 Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

*Barnes, Dennig & Co., Ltd.*

September 27, 2018  
Indianapolis, Indiana

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Schedule of Findings and Questioned Costs  
Year Ended December 31, 2017**

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   x   Yes        No
- Significant deficiency(ies) identified that is not considered to be a material weakness?        Yes   x   None reported
- Noncompliance material to financial statements noted?        Yes   x   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified?        Yes   x   No
- Significant deficiency(ies) identified that are not considered to be a material weakness?        Yes   x   None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?        Yes   x   No

***Identification of Major Program***

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224 & 93.527	U.S. Department of Health and Human Services, Health Organization Cluster

Dollar threshold used to distinguish between Type A and Type B programs:       \$750,000      

Auditee qualified as low-risk auditee?        Yes   x   No

## SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY

### Schedule of Findings and Questioned Costs Year Ended December 31, 2017 (Continued)

#### Section II – Financial Statement Findings

##### 2017-01: Audit Adjustments

**Criteria** – The Center is responsible for establishing and maintaining effective internal control over financial reporting.

**Condition and Context** – During the course of the audit, we identified misstatements in the financial statements for the year under audit that were not initially identified by the Center's internal controls. Audit adjustments were necessary to correct errors in the financial statements in order for the financial statements to be presented in accordance with GAAP. Those adjustments include the following:

- \$344,000 adjustment to correct refundable advances and grant receivables
- \$399,000 to adjust Medicaid service revenue and receivables
- \$32,000 to adjust accrued payroll at year end
- \$60,000 to adjust the accounts payable and prepaids
- \$216,000 to adjust accrued vacation and PTO
- \$71,000 to adjust Medicaid receivables
- \$47,000 entry to correct refundable allowances and grants
- \$43,000 entry to increase rent expense
- \$19,000 entry to correct rent income on LLC's books

**Effect** – misstated financial statements.

**Cause** – lack of reconciliations and review on significant general ledger accounts

**Recommendation** – perform regular account reconciliations and corresponding reviews.

**Views of responsible officials and planned corrective actions** – The Center agrees with the audit finding and we will perform the necessary reviews of general ledger accounts in future periods.

#### Section III – Federal Award Findings and Questioned Costs

No matters are reportable

**SHALOM HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2017**

<b>Reference Number</b>	<b>Summary of Finding</b>	<b>Status</b>
2016-01	Shalom had numerous posting entries and journal entries.	Repeat Finding 2017-01