SHALOM HEALTH CARE CENTER, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

SHALOM HEALTH CARE CENTER, INC.

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Independent Auditors' Report

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

We have audited the accompanying balance sheets of Shalom Health Care Center, Inc. (the Center) as of December 31, 2011 and 2010, and the related statements of operations and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Center's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 23, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Gauthier + Kimmaling, LLC

May 23, 2012

SHALOM HEALTH CARE CENTER, INC.
BALANCE SHEETS
DECEMBER 31,

	2011			2010		
ASSETS	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Current Assets:						
Cash and cash equivalents	$ 120,742	$ 100,283	$ 221,025	$ 328,895	$ 138,055	$ 466,950
Patient accounts receivable, net of allowance for doubtful accounts of $45,000 in 2011 and $49,000 in 2010	241,297	-	241,297	96,335	-	96,335
Grants receivable	102,124	-	102,124	286,035	-	286,035
Other assets	384	-	384	513	-	513
Total Current Assets	464,547	100,283	564,830	711,778	138,055	849,833
Property and Equipment:						
Software and equipment	1,175,701	-	1,175,701	758,851	-	758,851
Less: accumulated depreciation	(300,979)	-	(300,979)	(164,287)	-	(164,287)
Property and equipment, net	874,722	-	874,722	594,564	-	594,564
Total Assets	$ 1,339,269	$ 100,283	$ 1,439,552	$ 1,306,342	$ 138,055	$ 1,444,397
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable	$ 22,163	$ -	$ 22,163	$ 15,531	$ -	$ 15,531
Accrued wages and related liabilities	87,843	-	87,843	104,310	-	104,310
Total Current Liabilities	110,006	-	110,006	119,841	-	119,841
Net Assets (Note 6)	1,229,263	100,283	1,329,546	1,186,501	138,055	1,324,556
Total Liabilities and Net Assets	$ 1,339,269	$ 100,283	$ 1,439,552	$ 1,306,342	$ 138,055	$ 1,444,397

The accompanying notes are an integral part of the financial statements.

SHALOM HEALTH CARE CENTER, INC.
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	2011			2010		
REVENUE AND SUPPORT	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Net patient service revenue	$ 1,493,173	$ -	$ 1,493,173	$ 900,310	$ -	$ 900,310
Contributions	520	-	520	500	-	500
Contributions in-kind (Note 4)	513,272	-	513,272	488,547	-	488,547
Grants	1,238,128	118,750	1,356,878	1,428,093	75,000	1,503,093
Interest income	869	-	869	3,679	-	3,679
Other income	15,644	-	15,644	8,268	-	8,268
Revenue and Support	3,261,606	118,750	3,380,356	2,829,397	75,000	2,904,397
Net assets released from restriction	156,522	(156,522)	-	207,211	(207,211)	-
Total Revenue and Support	3,418,128	(37,772)	3,380,356	3,036,608	(132,211)	2,904,397
EXPENSES						
Primary care	1,980,290	-	1,980,290	1,636,937	-	1,636,937
Federally funded SBHC	374,771	-	374,771	387,568	-	387,568
Other SBHC	206,392	-	206,392	200,717	-	200,717
Administration	813,913	-	813,913	583,495	-	583,495
Total Expenses	3,375,366	-	3,375,366	2,808,717	-	2,808,717
Increase (decrease) in net assets	42,762	(37,772)	4,990	227,891	(132,211)	95,680
Net assets - beginning of year	1,186,501	138,055	1,324,556	958,610	270,266	1,228,876
Net assets - end of year	$ 1,229,263	$ 100,283	$ 1,329,546	$ 1,186,501	$ 138,055	$ 1,324,556

The accompanying notes are an integral part of the financial statements.

SHALOM HEALTH CARE CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

EMPLOYEE COMPENSATION	Primary Care	Federally Funded SBHC	Other SBHC	Total Program	Administration	Total Expenses
Salaries and wages	$ 897,152	$ 259,700	$ 154,032	$ 1,310,884	$ 390,204	$ 1,701,088
Fringe benefits	247,717	50,977	45,411	344,105	80,612	424,717
Total Employee Compensation	1,144,869	310,677	199,443	1,654,989	470,816	2,125,805
OTHER EXPENSES						
Contracted services	25,462	24	-	25,486	13,226	38,712
Professional fees	18,127	-	-	18,127	22,745	40,872
Laboratory	146,147	-	-	146,147	-	146,147
Pharmacy	343,964	6,837	-	350,801	-	350,801
Supplies	33,016	11,425	1,510	45,951	13,060	59,011
Repairs and maintenance	19,560	1,250	673	21,483	13,650	35,133
Rent	140,303	30,000	-	170,303	31,621	201,924
Insurance	-	-	588	588	18,624	19,212
Telephone	720	495	-	1,215	4,130	5,345
Postage	2,777	657	-	3,434	922	4,356
Personnel recruitment	3,158	49	-	3,207	245	3,452
Licenses, dues, and subscriptions	6,468	1,279	-	7,747	15,908	23,655
Printing	1,517	912	444	2,873	2,477	5,350
Travel	6,968	4,907	-	11,875	30,955	42,830
Professional development	566	160	-	726	14,675	15,401
Information technology	4,239	750	84	5,073	56,411	61,484
Bad debt	30,000	-	-	30,000	-	30,000
Depreciation	44,735	5,286	3,587	53,608	83,083	136,691
Miscellaneous	7,694	63	63	7,820	21,365	29,185
Total Expenses	$ 1,980,290	$ 374,771	$ 206,392	$ 2,561,453	$ 813,913	$ 3,375,366

The accompanying notes are an integral part of the financial statements.

SHALOM HEALTH CARE CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Primary Care	Federally Funded SBHC	Other SBHC	Total Program	Administration	Total Expenses
EMPLOYEE COMPENSATION						
Salaries and wages	$ 717,314	$ 278,161	$ 150,944	$ 1,146,419	$ 315,315	$ 1,461,734
Fringe benefits	165,175	52,169	31,986	249,330	68,855	318,185
Total Employee Compensation	882,489	330,330	182,930	1,395,749	384,170	1,779,919
OTHER EXPENSES						
Contracted services	19,843	86	-	19,929	3,117	23,046
Professional fees	37,122	164	-	37,286	28,920	66,206
Laboratory	144,720	-	-	144,720	-	144,720
Pharmacy	333,545	4,206	-	337,751	-	337,751
Supplies	29,963	8,825	2,575	41,363	3,581	44,944
Repairs and maintenance	21,199	1,149	2	22,350	5,943	28,293
Rent	73,428	30,000	-	103,428	18,357	121,785
Insurance	-	-	8,464	8,464	14,511	22,975
Telephone	-	-	-	-	7,168	7,168
Postage	2,650	681	-	3,331	731	4,062
Personnel recruitment	7,232	97	-	7,329	3,619	10,948
Licenses, dues, and subscriptions	1,135	620	693	2,448	9,722	12,170
Printing	4,454	1,646	-	6,100	537	6,637
Travel	6,111	2,250	1,186	9,547	24,610	34,157
Professional development	404	239	-	643	757	1,400
Information technology	4,185	1,701	633	6,519	36,348	42,867
Bad debt	30,000	-	-	30,000	-	30,000
Depreciation	29,537	5,554	4,234	39,325	28,075	67,400
Miscellaneous	8,920	20	-	8,940	13,329	22,269
Total Expenses	$ 1,636,937	$ 387,568	$ 200,717	$ 2,225,222	$ 583,495	$ 2,808,717

The accompanying notes are an integral part of the financial statements.

SHALOM HEALTH CARE CENTER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,990	$ 95,680
Adjustments to reconcile net assets to net cash provided by (used in) operations:		
Depreciation	136,691	67,400
Provision for bad debts	30,000	30,000
Decrease (increase) in operating assets:		
Patient accounts receivable	(174,962)	(24,489)
Grants receivable	183,911	(116,793)
Other assets	129	(133)
Increase (decrease) in operating liabilities:		
Accounts payable	6,633	(462)
Accrued wages and related liabilities	(16,467)	45,466
Net Cash Provided by (Used in) Operating Activities	170,925	96,669
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(416,850)	(432,049)
Net increase (decrease) in cash	(245,925)	(335,380)
Cash - beginning of year	466,950	802,330
Cash - end of year	$ 221,025	$ 466,950

The accompanying notes are an integral part of the financial statements.

1. NATURE OF THE ORGANIZATION

Shalom Health Care Center, Inc. (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.

2. SIGNIFICANT ACCOUNTING POLICIES

The Center maintains its accounting records on the accrual basis.

The preparation of financial statements in conformity with generally accepted accounting principles 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 amount of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Equipment is stated at cost or, for donations, at fair market value at the date of donation. Depreciation is computed over the estimated useful life, generally three to seven years for equipment, using the straight-line method. Acquisitions are capitalized at management's discretion.

The Center reviews its software and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. If the property is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the property exceeds the fair value of such property. There was no impairment loss recognized in 2011 or 2010.

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Center uses the allowance method based on estimated allocations to estimate bad debt expense for accounts receivable deemed uncollectible for non-contractual reasons. Individual accounts are written off based upon management's judgment after a reasonable collection effort has been made and evidence exists to suggest the account will not be collected. As of December 31, 2011 and 2010, there were allowances of $60,530 and $49,000, respectively.

Retroactively calculated third-party contractual adjustments 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.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

The Center has reported two classes of net assets in these financial statements, those which are temporarily restricted, and those which are unrestricted. Temporarily restricted net assets are net assets in which the donor has imposed restrictions as to the assets' use related to either the timing or the purpose of such use. When such restrictions are met, the net assets are released from restriction into unrestricted net assets. Contributions for which the restrictions are met in the same period in which the contribution is received are recorded as unrestricted funds. Unrestricted net assets are those net assets in which management possesses full discretionary power as to use. The Center has no permanently restricted net assets.

The Center has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes (pursuant to Section 501(a) of the IRC) unless tax on unrelated business income is applicable. Management believes that the Center has adequately addressed all relevant tax positions and that there are no unrecorded liabilities. Management believes it is no longer subject to income tax examination for years prior to 2008.

For purposes of the statements of cash flows, investments with a maturity of three months or less are considered to be cash equivalents.

3. FINANCIAL INSTRUMENTS

The Center maintains its cash in bank accounts, the balances of which may exceed federally insured limits at times. As of December 31, 2011 and 2010, such excess consisted of approximately $22,000 and $0, respectively. The Center has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. CONTRIBUTIONS IN-KIND

The Center received in-kind contributions for pharmacy and laboratory services and operating space. Amounts of in-kind contributions are as follows:

	2011	2010
Pharmacy services	$ 319,690	$ 314,547
Laboratory services	144,000	144,000
Operating space	30,000	30,000
Donated software	19,582	-
Total	$ 513,272	$ 488,547

5. RETIREMENT 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, 2011 and 2010, the Center contributed $34,908 and $23,357 to this plan, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted funds at December 31, consisted of the following:

	2011	2010
Richard M. Fairbanks	$ 92,321	$ 130,714
Central Indiana Community Fdn.	1,462	7,341
Speedway Vaccine Grant	6,500	-
Totals	$ 100,283	$ 138,055

7. REVENUE FROM CONTRACTING AGENCIES

The Center participates as a provider of health care services to Medicare and Medicaid patients. Reimbursement for covered services is based on prospective payment rates. Final reimbursement is determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. Provisions for estimated reimbursement adjustments are reported in the financial statements in the period that the services are rendered.

Revenue from Medicare and Medicaid accounted for approximately 56% and 53% of total net patient service revenue in 2011 and 2010, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

8. LEASED PREMISES

During 2010, the Center renewed and extended its lease agreement for office space located on the second floor of 3400 Lafayette Road, Indianapolis, Indiana. The term of the lease is for 10 years with the expiration date of June 30, 2020. The lease calls for payments of $14,327 for months 1 through 24, $14,408 for months 25 through 60, $15,293 for months 61 through 96, and $16,158 for months 97 through 120. The lease includes a renewal option whereby the Center must notify, in writing, the landlord of its interest to renew six months prior to expiration. At such time, the landlord will notify the Center of the proposed rent. All other terms will remain. During 2011 and 2010, the Center made lease payments totaling $171,924 and $91,785, respectively.

Minimum future lease payments for the next five years are as follows:

2012	$ 172,412
2013	172,900
2014	172,900
2015	178,210
2016	183,520
Total	$ 879,942

9. LINE OF CREDIT

The Center has a $200,000 line of credit with a local bank. The terms of the instrument state a variable interest rate of 1% above the bank's prime rate. Per the note, the Center must maintain a minimum net worth of $200,000 and a current ratio between 1.0 and 1.5. There was no balance outstanding at December 31, 2011 or December 31, 2010.

10. CONCENTRATIONS OF CREDIT RISK

The Center grants credit without collateral to its patients, most of who are local residents and are either uninsured or insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, was as follows:

	2011	2010
Medicaid	72%	73%
Medicare	3%	3%
Private pay	22%	21%
Private insurance	3%	3%
Total	100%	100%

11. FAIR VALUE MEASUREMENTS

In accordance with Accounting Standards Codification (ASC) 820, the Center measures its recurring assets and liabilities at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The three levels of inputs used are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets
- Level 3 – Unobservable inputs for the asset or liability based on the best available information

As of December 31, 2011 and 2010, there were no assets or liabilities valued on a recurring basis.

The fair value of short-term financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate the carrying value in the accompanying financial statements due to the short maturity of such instruments.

All methods of assessing fair value result in a general approximation of value and such value may never be realized.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

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*

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

We have audited the financial statements of Shalom Health Care Center, Inc. (the Center) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

This report is intended solely for the information and use of management, the Center's Board of Directors, others within the Center, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May 23, 2012