



**LA CASA DE SALUD, INC.**

**Financial Statements**

**December 31, 2018 and 2017**

**With Independent Auditors' Reports**

**La Casa De Salud, Inc.  
December 31, 2018 and 2017**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors,  
La Casa De Salud, Inc.:

### Report on the Financial Statements

We have audited the accompanying financial statements of La Casa De Salud, Inc. ("LCDS" or the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets (deficit), functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 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 financial statements referred to above present fairly, in all material respects, the financial position of LCDS as of December 31, 2018 and 2017, and its activities and 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.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"), and is not a required part of the basic 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 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 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Emphasis of Matter - Not for Profit Reporting Model**

As discussed in Note 1 and Note 9 to the financial statements, in 2018 the Organization adopted new accounting guidance in accordance with Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities* (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2019 on our consideration of LCDS'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 LCDS'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 LCDS's internal control over financial reporting and compliance.

*Withum Smith & Brown, PC*

September 20, 2019

**La Casa De Salud, Inc.**  
**Statements of Financial Position**  
**December 31, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 1,853,390	\$ 960,555
Patient services receivable, net	182,296	101,308
Grants and contracts receivable, net	1,819,859	1,466,800
Accounts receivable - other	484,425	276,138
Prepaid expenses	87,657	71,875
Total current assets	<u>4,427,627</u>	<u>2,876,676</u>
Property and equipment, net	6,253,998	6,323,947
Security deposits	22,850	21,900
Due from related parties	<u>251,292</u>	<u>84,177</u>
Total assets	<u>\$ 10,955,767</u>	<u>\$ 9,306,700</u>
<b>Liabilities and Net Assets (Deficit)</b>		
Current liabilities		
Current portion of long-term debt	\$ 160,399	\$ 147,465
Accounts payable	1,126,642	1,092,077
Accrued expenses	188,371	50,189
Accrued payroll	628,219	378,691
Other liabilities	<u>426,877</u>	<u>243,564</u>
Total current liabilities	2,530,508	1,911,986
Long-term debt, less current portion and unamortized debt issuance costs	5,520,637	5,652,147
Due to related parties	<u>1,817,857</u>	<u>2,417,857</u>
Total liabilities	9,869,002	9,981,990
Net assets (deficit) without donor restrictions	<u>1,086,765</u>	<u>(675,290)</u>
Total liabilities and net assets (deficit)	<u>\$ 10,955,767</u>	<u>\$ 9,306,700</u>

The Notes to Financial Statements are an integral part of these statements.

**La Casa De Salud, Inc.**  
**Statements of Activities and Changes in Net Assets (Deficit)**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Operating revenue</b>		
Patient services revenue, net	\$ 5,489,157	\$ 4,145,769
Provision for bad debts	<u>(107,582)</u>	<u>(104,639)</u>
Net patient services revenue less provision for bad debts	5,381,575	4,041,130
Grant and contract income	6,474,498	6,132,429
Pharmacy income	4,081,745	2,029,096
Rental income	212,891	218,485
Other income	<u>96,947</u>	<u>151,287</u>
	<u>16,247,656</u>	<u>12,572,427</u>
 <b>Operating expenses</b>		
Program services	13,521,699	11,451,227
Supporting services	<u>963,902</u>	<u>774,391</u>
	<u>14,485,601</u>	<u>12,225,618</u>
 <b>Changes in net assets without donor restrictions</b>	1,762,055	346,809
Net deficit without donor restrictions, beginning of year	<u>(675,290)</u>	<u>(1,022,099)</u>
 Net assets (deficit) without donor restrictions, end of year	<u>\$ 1,086,765</u>	<u>\$ (675,290)</u>

The Notes to Financial Statements are an integral part of these statements.

**La Casa De Salud, Inc.**  
**Statements of Functional Expenses**  
**Years Ended December 31, 2018 and 2017**

	2018			2017		
	Program Services	General and Administrative	Total	Program Services	General and Administrative	Total
Salaries and wages	\$ 5,490,594	\$ 113,642	\$ 5,604,236	\$ 4,896,930	\$ 127,462	\$ 5,024,392
Employee benefits	1,204,157	24,920	1,229,077	1,105,038	28,763	1,133,801
Consultant services	1,229,134	614,237	1,843,371	1,152,039	424,838	1,576,877
Professional services	769,190	55,950	825,140	376,753	19,721	396,474
Rent	730,474	--	730,474	752,244	--	752,244
Mortgage interest	289,628	--	289,628	295,310	--	295,310
Repairs and maintenance	112,376	--	112,376	234,250	--	234,250
Utilities	121,474	--	121,474	133,154	--	133,154
Transportation	38,435	--	38,435	37,280	--	37,280
Accounting	--	53,843	53,843	--	32,883	32,883
Insurance	362,625	21,595	384,220	309,139	72,538	381,677
Furniture and equipment	73,491	--	73,491	57,455	--	57,455
Software and internal network	96,679	12,567	109,246	107,263	8,357	115,620
Pharmaceuticals, tests and supplies	2,431,956	--	2,431,956	1,518,154	--	1,518,154
Security services	170,114	--	170,114	149,463	--	149,463
Recreational activities	11,334	--	11,334	16,573	--	16,573
Telephone	94,211	--	94,211	80,253	--	80,253
Miscellaneous expenses	92,127	67,148	159,275	41,912	59,829	101,741
Depreciation and amortization	203,700	--	203,700	208,017	--	208,017
	<u>\$ 13,521,699</u>	<u>\$ 963,902</u>	<u>\$ 14,485,601</u>	<u>\$ 11,451,227</u>	<u>\$ 774,391</u>	<u>\$ 12,225,618</u>

The Notes to Financial Statements are an integral part of these statements.

**La Casa De Salud, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

	2018	2017
<b>Cash flows from operating activities</b>		
Changes in net assets without donor restrictions	\$ 1,762,055	\$ 346,809
Adjustment to reconcile changes in net assets without donor restrictions to net cash provided by operating activities		
Bad debt expense	107,582	104,639
Depreciation and amortization	203,700	208,017
Interest expense	35,385	35,385
Change in		
Patient services receivable	(188,570)	303,296
Grants and contracts receivable	(353,059)	(183,829)
Accounts receivable - other	(208,287)	(232,847)
Prepaid expenses	(15,782)	(1,670)
Security deposits	(950)	1,775
Accounts payable	34,565	271,682
Accrued expenses	138,182	(54,115)
Accrued payroll	249,528	136,445
Other liabilities	183,313	188,479
Net cash provided by operating activities	<u>1,947,662</u>	<u>1,124,066</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(133,751)	(112,409)
Net change in amounts due from related parties	<u>(167,115)</u>	<u>(43,029)</u>
Net cash used by investing activities	(300,866)	(155,438)
<b>Cash flows from financing activities</b>		
Principal payments of long term debt	(153,961)	(6,093,743)
Proceeds from mortgage payable	--	6,300,000
Payments on finance costs	--	(353,854)
Net change in amounts due to related parties	<u>(600,000)</u>	<u>67,858</u>
Net cash used by financing activities	<u>(753,961)</u>	<u>(79,739)</u>
Net change in cash and cash equivalents	892,835	888,889
<b>Cash and cash equivalents</b>		
Beginning of year	<u>960,555</u>	<u>71,666</u>
End of year	<u>\$ 1,853,390</u>	<u>\$ 960,555</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for		
Interest	<u>\$ 254,243</u>	<u>\$ 295,310</u>

The Notes to Financial Statements are an integral part of these statements.



**1. ORGANIZATION AND BASIS OF PRESENTATION**

**Organization**

La Casa de Salud, Inc. ("LCDS" or the "Organization") is a diagnostic and treatment center licensed under Section 28A of the New York State Department of Health. The Organization provides the community with services such as primary health care, pediatrics, podiatry, dental, gynecological, rehabilitative and mental health services.

**Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which require the Organization to report information regarding its financial position and activities in accordance to the following net asset classifications.

**Net assets without donor restrictions:** Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

**Net assets with donor restrictions:** Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities and changes in net assets (deficit).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates included in these financial statements relate to collectability of patient accounts receivable and the estimate of useful lives of fixed assets.

**Cash and Cash Equivalents**

LCDS maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. LCDS has not experienced any losses in such accounts. All highly-liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

**Patient Services Receivable**

The collection of receivables from third-party payors and patients is LCDS's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under LCDS's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Patient services receivable are reduced by an allowance for doubtful accounts.

**La Casa De Salud, Inc.**  
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In evaluating the collectability of patient services receivable, LCDS analyzes its past 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 patient services receivable associated with services provided to patients who have third-party coverage, LCDS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, including patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, LCDS 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 the discounted rates, if negotiated, and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from five to forty years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Expenditures which substantially increase estimated useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets. The dollar threshold for all purchases of property and equipment to be capitalized is \$5,000.

According to Federal regulations, any property and equipment obtained through Federal funds are subject to a lien by the Federal government. As long as LCDS maintains its tax-exempt status, or so long as the property and equipment is used for its intended purpose, LCDS is not required to reimburse the Federal government. If the stated requirements are not met, LCDS would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

**Impairment of Long-lived Assets**

LCDS reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, LCDS compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. LCDS does not believe that any material impairment currently exists related to its long-lived assets.

**Deferred Financing Costs**

Financing costs incurred in connection with debt financing are capitalized and amortized on a straight-line basis over the life of the related debt obligation and approximates the effective interest method. Amortization of deferred financing costs is included in interest expense.

**Deferred Revenue**

The Clinic is a covered entity under the 340B program. Human Resources and Services Administration ("HRSA") which oversees the Ryan White HIV/AIDS Program ("the Program"), has established that any revenue a Ryan White grantee generates through participation in the 340B program is Ryan White program income and is subject to HRSA restrictions on how program income may be spent.

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Program income is calculated as the excess of revenues over expenses from dispensing medications using an estimate of the ceiling prices associated with the cost of acquiring the medications rather than historical cost. Program income from the 340B program is recognized as operating revenue in the period when qualifying expenditures are incurred. Program income not spent on qualifying expenditures is recorded as deferred revenue.

**Deferred Rent**

Rent expense for operating leases, which generally have escalating rentals over the term of the lease, is recorded on the straight-line basis over the lease term. The lease term commences on the earlier of the date when the property is ready for the Organization to take possession or the date when rent payments commence. The difference between rent expense and rent paid is recorded as a deferred rent liability and is included in accrued expenses on the Organization's Statements of Financial Position.

**Contributions**

Contributions are reported in the period they are received or unconditionally pledged at their fair market value at the time of the pledge. They are recorded as restricted if the donor places either a time or purpose restriction on the use of the contribution. They are recorded as unrestricted if its use is for general Organization purposes or if it is unspecified.

**Grants and Contracts**

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. Unpaid amounts are included in grants and contracts receivable. It is the Organization's policy to charge off uncollectible amounts when management determines they will not be collected.

LCDS is a subcontractor providing healthcare services to the participants of a WeCARE program ("WeCARE") run by another healthcare provider. Under the terms of the contract, LCDS performs assessment and rehabilitative services and recognizes both fixed and variable revenue under the contract. Fixed revenues are recognized monthly over the term of the contract and variable revenues are recognized on a fee for service basis as the services are rendered to WeCARE participants.

**Patient Services Revenue**

LCDS has agreements with third-party payors that provide for payments to LCDS at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. LCDS provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges to arrive at gross self-pay revenue. Estimated allowances are then deducted to arrive at net self-pay revenue.

**La Casa De Salud, Inc.**  
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LCDS recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients, LCDS 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 LCDS's uninsured patients will be unable to pay for the services provided. Thus, LCDS records a significant provision for bad debts related to uninsured patients in the period the services are provided.

**Pharmacy Revenue**

Pharmacy and net patient service revenue is derived from dispensing drugs obtained at discounted prices under the 340B Drug Pricing Program and from service fees for healthcare services provided to eligible patients.

**Functional Expenses**

The costs of providing program and other activities has been summarized on functional basis in the statements of activities and changes in net assets (deficit). Accordingly, certain costs have been allocated to the programs benefitted. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<b>Expense</b>	<b>Method of Allocation</b>
Salaries and wages, employee benefits, consultant services	Time and effort
Rent, mortgage interest, utilities, transportation, accounting, furniture and equipment, pharmaceutical tests and supplies, security services, recreational activities, telephone and depreciation and amortization	Direct
All others	Predetermined utilization rate

**Tax Status**

The Organization is a Not-For-Profit Organization 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. LCDS has no unrecognized tax benefits at December 31, 2018. LCDS's Federal and state income tax returns prior to calendar year 2015 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. LCDS has filed all required payroll tax returns and payroll taxes due have been paid. There were no tax related interest or penalties included in the financial statements presented.

**New Accounting Pronouncements**

Adopted in the current year:

*Presentation of Financial Statements of Not-For-Profit Entities*

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented with a reclassification of net assets from unrestricted new assets to net assets without donor restrictions.

**La Casa De Salud, Inc.**  
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Under ASU 2016-14 underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition, the ASU eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service.

Not yet adopted:

*Revenue From Contracts With Customers*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*, (Topic 606), which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14, which deferred the effective date for adoption until annual periods beginning after December 15, 2018. Earlier adoption is permitted subject to certain limitations. The amendments in this update are required to be applied retrospectively to each prior reporting period presented or with the cumulative effect being recognized at the date of initial application. Management is currently evaluating the impact of this ASU on its financial statements.

*Lease Transactions*

In February 2016 the FASB issued ASU 2016-02, *Leases* (Topic 842), which is effective for fiscal years beginning after December 15, 2020 with early adoption permitted. In addition to expanded disclosure requirements regarding leasing activities, the new standard significantly changes current lessee accounting for operating leases. Under the new standard all lessees will be required to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases of property and equipment, except for certain leases classified as short-term leases. LCDS has not adopted the new standard in these financial statements and is presently evaluating the effect adoption will have on prospective financial statements.

**Reclassification**

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**3. PATIENT SERVICES RECEIVABLE, NET**

Patient services receivable, net, consist of the following at December 31:

	2018	2017
Medicaid	\$ 57,908	\$ 57,543
Medicare	59,469	11,458
Managed Care - Medicare	103,941	8,781
Managed Care - Medicaid	94,745	94,081
Managed Care - Non-Medicaid	--	25,158
Commercial	69,184	6,332
Self-pay	9,270	2,594
	<u>394,517</u>	<u>205,947</u>
Less: Allowance for contractual and doubtful accounts	212,221	104,639
	<u>\$ 182,296</u>	<u>\$ 101,308</u>

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LCDS estimates uncollectible accounts and establishes an allowance for doubtful accounts in order to adjust accounts receivable to estimated net realizable value. Accounts receivable that are determined to be uncollectible based on LCDS's policies are written off to the allowance for doubtful accounts. Significant changes in payor mix or business office operations could have a significant impact on LCDS's results of operations and cash flows.

A summary of activity in LCDS's allowance for doubtful accounts is as follows:

	2018	2017
Balance at January 1	\$ 104,639	\$ 57,398
Additions charged to costs and expenses	107,582	104,639
Accounts written off, net of recoveries	--	(57,398)
Balance at December 31	<u>\$ 212,221</u>	<u>\$ 104,639</u>

**4. PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

	2018	2017
Land	\$ 52,502	\$ 52,502
Building & improvements	6,755,843	6,626,843
Furniture & equipment	222,142	222,142
Construction in progress	4,751	--
	<u>7,035,238</u>	<u>6,901,487</u>
Less: Accumulated depreciation and amortization	781,240	577,540
	<u>\$ 6,253,998</u>	<u>\$ 6,323,947</u>

Depreciation expense for the years ended December 31, 2018 and 2017 applicable to the above assets amounted to \$203,700 and \$208,017, respectively.

**5. RELATED PARTY TRANSACTIONS**

LCDS is a member of the Acacia Network and receives fiscal, management, and other support services from affiliates controlled by a common Board of Directors including, Acacia Network, Inc., Puerto Rican Organization to Motivate, Enlighten and Serve Addicts, Inc. ("Promesa Inc."), Promesa Administrative Services Organization, Inc. ("PASO"), Promesa Foundation, Inc. ("Foundation"), Community Association of Progressive Dominicans ("ACDP"), Bronx Addiction Integrated Concepts Systems, Inc. ("BASICS"), Hunts Point Multi Service Center, Inc. ("Hunts Point"), United Bronx Parents, Inc. ("UBP"), and Sera Security Services, LLC ("Sera"). In addition, employees of the Organization participate in the pension plan of Promesa, Inc.

The Organization leases its premises from the Foundation, a related party through common board members.

LCDS receives security services at the sites it operates from Sera. Security services expense incurred amounted to \$170,114 and \$149,463 for the years ended December 31, 2018 and 2017, respectively.

**La Casa De Salud, Inc.**  
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Due from related parties consists of the following at December 31:

	2018	2017
Acacia Network, Inc.	\$ 2,001	\$ 4,875
ACDP	7,455	4,875
BASICS	14,017	2,844
Green Hope	214	--
PASO	5,025	3,081
Promesa Inc.	188,427	65,012
Promesa Foundation	277	--
UBP	33,876	3,490
	<u>\$ 251,292</u>	<u>\$ 84,177</u>

Due to related parties consists of the following at December 31:

	2018	2017
UBP	<u>\$ 1,817,857</u>	<u>\$ 2,417,857</u>

Pursuant to an agreement between LCDS and UBP, the outstanding amount is not due in the next twelve months and accordingly has been classified as a long term liability in the statements of financial position.

**6. PATIENT SERVICES REVENUE, NET**

Patient services revenue, net consists of the following at December 31:

	2018	2017
Medicaid	\$ 676,980	\$ 527,535
Medicaid Managed Care	4,272,261	3,284,727
Medicare, HMO and Commercial	539,916	333,507
Bad debts	(107,582)	(104,639)
	<u>\$ 5,381,575</u>	<u>\$ 4,041,130</u>

Medicaid and Medicare revenue is reimbursed to LCDS at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

**La Casa De Salud, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**7. LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	2018	2017
Banco Popular in the amount of \$6,300,000. The loan is payable in 120 monthly installments of \$33,989 (principal and interest) at 4.15 percent per annum based upon a 25-year amortization schedule maturing in August 2026. The land and building are pledged as security for the mortgage.	\$ 5,950,850	\$ 6,104,811
Less: Unamortized debt financing costs	<u>269,814</u>	<u>305,199</u>
Long-term debt, less unamortized debt financing costs	5,681,036	5,799,612
Less: Current portion	<u>160,399</u>	<u>147,465</u>
Long-term debt less current portion and unamortized financing costs	<u>\$ 5,520,637</u>	<u>\$ 5,652,147</u>

Future maturities of long-term debt in each of the five years subsequent to December 31 and thereafter, are as follows:

Year	Long Term Debt	Deferred Financing Costs	Net
2019	\$ 160,399	\$ (35,385)	\$ 125,014
2020	167,284	(35,385)	131,899
2021	174,464	(35,385)	139,079
2022	181,953	(35,385)	146,568
2023	189,763	(35,385)	154,378
Thereafter	<u>5,076,987</u>	<u>(92,889)</u>	<u>4,984,098</u>
	<u>\$ 5,950,850</u>	<u>\$ (269,814)</u>	<u>\$ 5,681,036</u>

**8. AVAILABILITY AND LIQUIDITY**

The following represents the Organization's financial assets at December 31, 2018:

Cash and cash equivalents	\$ 1,853,390
Patient services receivable, net	182,296
Grants and contracts receivable, net	1,819,859
Accounts receivable, other	<u>484,425</u>
Total current assets	4,339,970
Amounts available under the 330 grant program	<u>2,400,000</u>
Total funds available within one year	<u>\$ 6,739,970</u>

The Organization has \$4,339,970 of financial assets that could be available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of cash and cash equivalents of \$1,853,390, patient services receivable of \$182,296, grants and contracts receivable, \$1,819,859 and other receivable of \$484,425. In addition, the Organization has approximately \$2,400,000 of funds available under its 330 grant program which provides funds to cover salaries required for the effective operation of a health center. None of the financial assets are subject to contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.



**La Casa De Salud, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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The Organization has a goal to maintain financial assets, which consist of cash and short term receivables to meet 60 days of normal operating expenses. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and obligations become due.

**9. COMMITMENTS AND CONTINGENCIES**

LCDS, in the normal course of business operations, maintains cash balances at financial institutions that may exceed Federal Deposit Insurance Corporation ("FDIC") insurance limits. Management monitors the soundness of the institutions and considers LCDS's risk to be minimal.

The Organization leases its premises from Promesa, Inc. a related party, under a 25-year, non-arm's length lease that commenced on February 1, 2012. Annual rent is \$36,300. In September 2015, the Organization took over additional space and agreed to additional rental payments of \$2,475 per month. Rent was increased to \$6,300 per month effective January 2018 and annual rent for the additional space is \$75,600. Rent expense for the years ended December 31, 2018 and 2017 was \$111,900 and \$66,000, respectively.

In May 2016, the Organization entered a lease with the Gershon Company, under a 10-year, arm's length agreement, for space for the Casa Maria Ryan White Part C early intervention program. The lease calls for annual rent of \$480,000 with 2 percent escalations every two years until 2022 when it becomes an annual escalation. Rent expense for the years ended December 31, 2018 and 2017 was approximately, \$485,400 and \$480,000, respectively.

The Organization pays rent for the WeCARE program run by another healthcare provider ("Fedcap") via deductions directly taken from the fixed monthly payment amounts. The lease is held by Fedcap which leases the space at cost to the Organization for the operation of the Article 28 clinic. Rent expense for each of the years ended December 31, 2018 and 2017 was approximately \$96,400.

Future minimum lease payments for the premises are as follows:

2019	\$	534,300
2020		540,828
2021		540,828
2022		542,348
2023 and thereafter		<u>2,320,216</u>
	\$	<u>4,478,520</u>

LCDS maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to LCDS and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

For the years prior to FTCA coverage, LCDS maintained tail insurance. LCDS maintains GAP insurance for claims that are not covered by FTCA.

**La Casa De Salud, Inc.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

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The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. 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. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions.

The amounts received from the Medicaid and Medicare programs for the years ended December 31, 2018 and 2017 are subject to audit by the New York State Department of Health and National Government Service (the Facility's Medicare Intermediary). LCDS believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, LCDS could be held responsible for refunding the amount in question.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. LCDS believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, LCDS could be held responsible for refunding the amount in question.

From time to time, the Organization may be subject to legal proceedings arising out of the ordinary course of business. Although management cannot predict the outcome of such proceedings, management does not expect such proceedings to result in a material adverse effect on its financial position, results of operations or its cash flows.

**10. DEFERRED REVENUE**

Deferred revenue associated with the program income yet to be expended on qualifying Ryan White program activities as at 2018 and 2017, is approximately \$125,160 and 114,000, respectively. Deferred revenue is included with other liabilities in the statements of financial position.

**11. SUBSEQUENT EVENTS**

LCDS has evaluated subsequent events occurring after the statement of financial position date through the date of September 20, 2019, which is the date the financial statements were available to be issued. Based on that evaluation, LCDS has determined that no subsequent events have occurred, which require disclosure in the financial statements.

**SUPPLEMENTARY INFORMATION**

**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**

To the Board of Directors,  
La Casa De Salud, Inc:

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 financial statements of La Casa De Salud, Inc. ("LCDS" or the "Organization"), which comprise the statements of financial position as of December 31, 2018 and the related statement of activities and changes in net assets (deficit), functional expenses and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LCDS's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LCDS's internal control. Accordingly, we do not express an opinion on the effectiveness of LCDS'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 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. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether LCDS'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*.

## 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 the audit performed in accordance with *Government Auditing Standards* in considering LCDS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Withum Smith + Brown, PC*

September 20, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors,  
La Casa De Salud, Inc.:

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

We have audited LCDS's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of LCDS's major federal programs for the year ended December 31, 2018. LCDS's major federal programs are identified in the summary of auditors' 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.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of LCDS'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 (CFR) 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 LCDS'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 LCDS's compliance.

**Opinion on Major Federal Programs**

In our opinion, LCDS 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, 2018.

## Report on Internal Control Over Compliance

Management of LCDS 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 LCDS's internal control over compliance with the types of 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 LCDS'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.

*Withum Smith + Brown, PC*

September 20, 2019

**La Casa De Salud, Inc.  
Schedule of Expenditures of Federal awards  
Year Ended December 31, 2018**

<b>Federal Grantor/ Pass-through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Grant Period</b>	<b>Total Program Award Amount</b>	<b>2018 Expenditures</b>
<b>U.S. Department of Health and Human Services</b>				
<b>Health Resources and Services Administration</b>				
<b>Direct programs</b>				
Homeless Health Care Program	93.224	2/1/2018-01/31/2019	\$ 3,249,480	\$ 2,509,413
	93.224	2/1/2017-01/31/2018	2,943,760	250,177
				<u>2,759,590</u>
Ryan White Part C Early Intervention Program	93.918	1/1/2018-12/31/2018	844,355	<u>664,629</u>
Passed through New Jersey Department of Health				
Total federal awards				<u>\$ 3,424,219</u>

See Independent Auditors' Report.  
See accompanying Notes to Schedule of Expenditures of Federal Awards.



**La Casa De Salud, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**December 31, 2018**

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**1. GENERAL INFORMATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") presents the activities in all federal awards of LCDS. All financial assistance received directly from federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations are included on the schedule.

**2. BASIS OF ACCOUNTING**

The accompanying Schedule is presented using the accrual basis of accounting. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to federal funding agencies due to those reports being submitted on either cash or a modified cash basis of accounting.

**3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal expenditures are reported on the statement of functional expenses as program services. In certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency matching or in-kind contributions which are not included as federal awards.

**4. BASIS OF PRESENTATION**

The accompanying Schedule includes the federal awards of LCDS under programs of the federal government for the year ended December 31, 2018. 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 LCDS, it is not intended and does not present the financial position, changes in net assets, or cash flows of LCDS.

**5. INDIRECT COST RATE**

The Organization has elected not to use the 10-percent de minimis indirect cost rate as covered in section 200.414 in the Uniform Guidance.

**6. SUBRECIPIENTS**

The Organization provided no federal awards to sub recipients for the year ended December 31, 2018.

See Independent Auditors' Report.

**La Casa De Salud, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended December 31, 2018**

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**Section 1 – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with Section 510(a) of the Uniform Guidance	No

Identification of major programs:

CFDA/Contract Numbers	Name of Federal Program
93.224	U.S. Department of Health and Human Services, - Homeless Health Care Program

Dollar threshold used to distinguish between type A and type B programs:	\$	750,000
Auditee qualified as low-risk auditee?		No

**Section 2 – Financial Statement Findings**

None.

**Section 3 – Federal Award Findings and Questioned Costs**

None.

**La Casa De Salud, Inc.**  
**Schedule of Prior Year Findings and Questioned Costs**  
**Year Ended December 31, 2018**

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None.