

HELP/PSI SERVICES CORP. AND AFFILIATE

**CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS
(INCLUDING SINGLE-AUDIT REPORTS)**

DECEMBER 31, 2012

HELP/PSI SERVICES CORP. AND AFFILIATE

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HELP/PSI SERVICES CORP. AND AFFILIATE

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**Independent Auditor's Report on Financial Statements
and Supplementary Information**

**Board of Directors
HELP/PSI Services Corp. and Affiliate**

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of HELP/PSI Services Corp. and Affiliate, which comprise the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 HELP/PSI Services Corp. and Affiliate as of December 31, 2012, and the results of their operations, the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2013 on our consideration of HELP/PSI Services Corp. and Affiliate'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 HELP/PSI Services Corp. and Affiliate's internal control over financial reporting and compliance.

Loeb & Troper LLP

May 3, 2013, except as to the
schedule of expenditures of federal
awards, which is as of September 17, 2013

HELP/PSI SERVICES CORP. AND AFFILIATE

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2012

ASSETS

Current assets	
Cash	\$ 3,706,579
Cash - patient trust	501
Accounts receivable (Note 2)	7,244,454
Grants receivable (Note 2)	215,498
Due from Project Samaritan Health Services, Inc. (Note 10)	120,000
Due from Amidacare, Inc. (net of allowance for doubtful accounts of \$325,000 in 2012) (Note 4)	67,857
Prepaid expenses and inventory	432,642
Security deposits	<u>184,252</u>
Total current assets	11,971,783
Assets whose use is limited	
Funded depreciation escrow	
Cash	120,245
Cash - board designated	539,205
Due from Project Samaritan Health Services, Inc. (Note 10)	1,010,631
Investment in Amidacare, Inc. (Note 4)	50,000
Deferred financing costs	819,389
Fixed assets - net (Note 3)	<u>15,579,340</u>
Total assets	<u>\$ 30,090,593</u>

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HELP/PSI SERVICES CORP. AND AFFILIATE

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 2012

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 1,302,371
Deferred rent	336,271
Patient funds held in trust	501
Accrued salaries and related liabilities	1,954,872
Due to third-party payor (Note 12)	1,982,052
Mortgage and loans payable (Note 5)	706,205
Capital leases payable (Note 6)	26,656
Other	100
	<hr/>
Total current liabilities	6,309,028
Long-term liabilities	
Mortgage and loans payable (Note 5)	9,518,559
	<hr/>
Total liabilities	15,827,587
Net assets - unrestricted	
Operating	13,723,801
Board designated (Note 2)	539,205
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Total net assets (Exhibit B)	14,263,006
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Total liabilities and net assets	\$ 30,090,593
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See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT B

HELP/PSI SERVICES CORP. AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

Operating revenues	
Patient service revenues (Note 2)	
Inpatient service revenues	\$ 10,118,682
Outpatient service revenues - ADHC	12,204,275
Outpatient service revenues - COBRA/Health Home	5,375,416
Diagnostic & Treatment Centers	<u>9,992,251</u>
Total patient service revenues net of contractual allowances and discounts	37,690,624
Provision for bad debts (Note 2)	<u>(3,115,946)</u>
Net revenues less provision for bad debts	34,574,678
Government grants and other contracts	<u>1,456,537</u>
Total operating revenues	<u>36,031,215</u>
Operating expenses	
Professional care of patients	29,966,945
General and administrative	<u>4,903,461</u>
Total operating expenses (includes interest expense of \$583,768)	<u>34,870,406</u>
Change in net assets from operations	<u>1,160,809</u>
Nonoperating revenues and gains	
Interest income	3,300
Robin Hood grant	294,000
Special events	178,533
Direct cost of special events	(41,774)
Miscellaneous	<u>95,150</u>
Net nonoperating revenues and gains	<u>529,209</u>
Change in unrestricted net assets (Exhibit C)	1,690,018
Net assets - beginning of year	<u>12,572,988</u>
Net assets - end of year (Exhibit A)	<u><u>\$ 14,263,006</u></u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT C

HELP/PSI SERVICES CORP. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 1,690,018
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation and amortization	1,386,259
Amortization of deferred financing costs	62,988
Decrease (increase) in assets	
Accounts receivable	(1,417,082)
Grants receivable	(215,498)
Prepaid expenses and inventory	(100,048)
Security deposits	6,847
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	479,113
Deferred rent	114,309
Accrued salaries and related liabilities	<u>249,763</u>
Net cash provided by operating activities	<u>2,256,669</u>
Cash flows from investing activities	
Increase in assets whose use is limited	(63,220)
Purchase of fixed assets	(1,608,416)
Proceeds from Project Samaritan Health Services, Inc.	<u>60,000</u>
Net cash used by investing activities	<u>(1,611,636)</u>

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HELP/PSI SERVICES CORP. AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

Cash flows from financing activities	
Proceeds from loans	\$ 872,396
Principal payments on mortgage and loans payable	(564,184)
Principal payments on capital leases	<u>(199,330)</u>
Net cash provided by financing activities	<u>108,882</u>
Net increase in cash	753,915
Cash - beginning of year	<u>2,952,664</u>
Cash - end of year	<u>\$ 3,706,579</u>
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	<u>\$ 583,768</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

HELP/PSI SERVICES CORP. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1 - BACKGROUND

HELP/PSI Services Corp. (PSSC) (formerly known as H.E.L.P./Project Samaritan Services Corp.), a not-for-profit organization, currently operates three Diagnostic and Treatment Centers (D&TC) for patients who are infected with HIV/AIDS. The facilities are located in HELP/PSI, Inc.'s Adult Day Health Care (ADHC) programs at 1545 Inwood Avenue in the Bronx, 803 Sterling Place in Brooklyn and 105-04 Sutphin Blvd. in Queens. On January 27, 2000, HELP/PSI Services Corp. was incorporated in New York State. The D&TCs are supported primarily by patient service fees paid by Medicaid.

The D&TC programs primarily serve individuals with incomes below 200% of the federal poverty level, and provide specialized primary care for those infected with HIV. The majority of the clients are low-income persons who may have a history of substance abuse, may previously have been homeless, have histories of incarceration, or are infected with Hepatitis C.

HELP/PSI, Inc. (formerly known as Project Samaritan AIDS Services, Inc.) (PSI), a not-for-profit organization, currently operates a residential health care facility (located at 1401 University Avenue in the Bronx) for individuals who are recovering substance abusers and HIV+/Symptomatic or are diagnosed as having Acquired Immune Deficiency Syndrome (AIDS). The ADHC program provides medical care, substance abuse counseling, social services and case management, mental health, nutritional help, and education, among many other treatments of care. PSI was incorporated in New York State in March 1988. The first admission to PSI was on October 5, 1990.

As part of the COBRA program, PSI offers Comprehensive Medicaid Case Management (CMCM) services to HIV/AIDS diagnosed men, women, children and/or families. The areas of services include helping individuals and families obtain help from the Department of AIDS Services (DAS), help finding affordable and decent housing, help towards regaining custody of children, help following through with medical care, and other social services. COBRA programs are housed at 1543 and 1545 Inwood Avenue in the Bronx and at 89-31 161st Street, Jamaica, Queens.

In 2012, the COBRA program transitioned to Health Home program. Health Home program services consists of comprehensive care management, care coordination, health promotion, comprehensive transitional care and follow-up, patient and family support, and referral to community and social support services.

PSI is supported primarily by patient service fees paid by Medicaid.

HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 1 - BACKGROUND (continued)**

HELP/PSI Services Corp. and HELP/PSI, Inc. are related through a common board. HELP/PSI Services Corp. is the sole member (parent) of HELP/PSI Services Corp.

PSSC and PSI are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements - The consolidated financial statements include the financial position, change in net assets and cash flows of HELP/PSI Services Corp. and of its affiliate, HELP/PSI, Inc. These two consolidated corporations are herein referred to as PSSCA. All material intercompany transactions and balances have been eliminated in the consolidation.

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable and allowance for doubtful accounts - PSSCA records receivables based on established rates or contracts for service provided. Bad debt is charged if the receivable is determined to be uncollectible based on periodic review by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. The allowance for doubtful accounts as of December 31, 2012 was \$5,430,349. Provision for bad debts for the year ended December 31, 2012 was \$3,115,946, which reduced the patient service revenues in the statement of activities. Interest is not charged on overdue outstanding receivables.

Grants receivable and allowance for doubtful accounts - PSSCA records receivables based on expenses incurred for service provided. PSSCA determines whether an allowance for uncollectibles should be provided for outstanding receivables. Such estimates are based on management's assessment of its receivables, current economic conditions and historical information. Accounts receivable are written off when all reasonable collection efforts have been exhausted. Interest is not accrued on outstanding receivables. As of December 31, 2012, PSSCA had no allowance for doubtful accounts.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Investments in Amidacare, Inc. - Valued at cost, which approximates fair value.

Prepaid expenses - Payments made to vendors for contracts that cover more than one fiscal year are recorded as prepaid expenses.

Inventory - Inventory is stated at cost and recorded on the first-in, first-out basis.

Assets limited as to use - Assets limited as to use are set aside under regulatory requirements for the eventual replacement of assets, and debt service payments.

Deferred financing costs - Financing costs are deferred and are amortized on the straight-line basis over 20 years, the term of the related debt.

Patient trust funds - Patient trust funds are maintained in bank accounts separate from PSSCA's accounts held on behalf of the patients. Interest earned is credited to the patients' accounts.

Fixed assets - Fixed assets costing in excess of \$500 and an estimated useful life of greater than one year are capitalized. The building and furniture and equipment are depreciated and amortized over their estimated useful lives. Leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the lease. Depreciation and amortization are computed on the double-declining-balance method.

Due to third-party payors - PSSCA is responsible to report to various third parties, among which are Medicare and Medicaid. Amounts owed to these agencies are recorded as due to third-party payors.

Unrestricted net assets - Unrestricted net assets include net assets having no restriction as to use or purpose imposed by donors. The Board of Directors has designated certain unrestricted net assets for capital improvements.

Patient service revenues - Patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the health care programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from the Medicare and Medicaid programs.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Patient service revenues, net of contractual allowances and discounts, include revenues from third-party payors of \$34,143,492 and revenues from managed care of \$3,547,132 for a total of \$37,690,624 for the year ended December 31, 2012.

Operating leases - PSSCA leases space at various locations. Rent expense is recognized on the first day of each month for the current month's rent. All leases are reflected on the straight-line basis. Deferred rent is recorded when material.

Functional expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated by management among the programs and supporting services benefited.

Contributions - Unconditional contributions and grants, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are classified as unrestricted contributions in the accompanying consolidated statement of activities.

Government grants and other contracts - Government contracts are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. Revenues from government agencies are subject to audit and negotiations between PSSCA and the government agencies. No provision for any disallowance is reflected in the financial statements, since management does not anticipate any material adjustments.

Charity care - In 2011, PSSCA adopted ASU 2010-23, *Measuring Charity Care for Disclosure*, which requires health care entities to use cost as the measurement basis for the disclosure of charity care provided. PSSCA provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because PSSCA does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Measure of operations - PSSCA includes all revenues and expenses directly related to patient care in its measure of operations. Interest income, the Robin Hood grant, special events income, direct cost of special events, and miscellaneous revenues are considered nonoperating.

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HELP/PSI SERVICES CORP. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes - PSSCA has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2009 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through May 3, 2013, which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>Cost</u>	<u>Estimated Useful Lives</u>
Land	\$ 168,482	
Building and improvements	19,117,592	15-40 years
Furniture and equipment	5,206,079	3-15 years
Leasehold improvements	<u>3,664,437</u>	5-15 years
Total cost	28,156,590	
Accumulated depreciation and amortization	<u>(12,577,250)</u>	
	\$ <u>15,579,340</u>	

Equipment costing \$2,522,275 and associated accumulated amortization of \$2,044,423 are subject to capital lease agreements.

NOTE 4 - INVESTMENT IN/DUE FROM AMIDACARE, INC.

Amidacare, Inc. (formerly known as VidaCare, Inc.) is a New York State not-for-profit corporation organized to provide managed care to people who have been diagnosed with HIV/AIDS. During 2001, PSI acquired a \$50,000 subvention certificate pursuant to Section 504 of the New York State Not-for-Profit Corporation Law. This subvention certificate entitles PSI to Amidacare, Inc. board membership. HELP/PSI Services Corp. is also a participating provider within the Amidacare, Inc. network. As of December 31, 2012, PSI owned 16.67% of Amidacare, Inc.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 5 - MORTGAGE AND LOANS PAYABLE**

In January 2006, PSI refinanced with the New York City Industrial Development Agency (IDA) in the amount of \$11,740,000. Series 2006 IDA bonds were issued to refinance the loans pursuant to an indenture between IDA and U.S. Bank National Association as trustee. Principal and interest are paid monthly. The bonds bear interest of between 3.5% and 5%. The final maturity date is November 1, 2025. The balance at December 31, 2012 was \$8,960,831. The mortgage is collateralized by land, building and building improvements. These series 2006 IDA bonds are also secured by an irrevocable letter of credit issued by Citibank, N.A. expiring in January 2016.

An unsecured note of \$318,000 from Citibank bearing an interest rate of 5.150% per annum is due May 10, 2021. As of December 31, 2012, \$267,650 was outstanding.

In November 2012, PSI entered into a loan agreement of \$700,000 with Citibank with fixed monthly payments of \$8,333 and bearing interest at a rate of 3.53% per annum. The note is secured by equipment, machinery, and other materials purchased with the proceeds of the loan and is due November 15, 2019. As of December 31, 2012, \$691,667 was outstanding.

PSSC entered into a credit agreement of \$357,000 with Primary Care Development Corporation bearing interest based on the lower of prime plus 200 basis points or 8 percent. At December 31, 2012, the rate was 5.25%. The note is secured by equipment, machinery and other materials purchased with the proceeds of the loan and is due in full September 1, 2016.

As of December 31, 2012, \$304,616 was outstanding.

The total principal payments are as follows:

2013	\$	706,205
2014		730,313
2015		761,308
2016		771,107
2017		743,996
Thereafter		<u>6,511,835</u>
	\$	<u>10,224,764</u>

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HELP/PSI SERVICES CORP. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6 - CAPITAL LEASES PAYABLE

PSI has entered into various agreements to lease equipment. Future lease payments are as follows:

2013	\$ 26,927
Less amount representing interest	<u>(271)</u>
Present value of net minimum lease payments	<u>\$ 26,656</u>

NOTE 7 - BANK LINE OF CREDIT

PSI has available a \$1,500,000 bank line of credit secured by all assets of PSI. Loans or advances against the line of credit are limited to the lesser of \$1,500,000 or 85% of PSI's accounts receivable due within 90 days. The line bears interest at the prime rate, which at December 31, 2012 was 3.25%. The line of credit expires on August 31, 2013. There is no outstanding balance as of December 31, 2012.

NOTE 8 - FUNCTIONAL EXPENSES

PSI provides general patient care services as described in Note 1. Expenses related to providing these services are as follows:

Patient care services	
Inpatient services	\$ 6,218,404
Outpatient services	23,748,541
General and administrative	4,903,461
Direct cost of special events	<u>41,774</u>
	<u>\$ 34,912,180</u>

NOTE 9 - PENSION PLAN

The employees of PSI are covered under a defined contribution plan. PSI contributes 9% of total annual salary earned for the year for employees hired before January 1, 1996, 7% for employees hired on or after January 1, 1996 and 5% for employees hired after January 1, 2006. The employees are fully vested after two years of service for employees hired before January 1, 1996 and after six years of service for employees hired on or after January 1, 1996. The pension expense in 2012 was \$596,281.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 10 - DUE FROM PROJECT SAMARITAN HEALTH SERVICES, INC.**

In an effort to develop a care network, PSI provided \$1,728,332 (interest free) to Project Samaritan Health Services, Inc. (PSHS) under subvention agreements. The balances due under the subvention agreements totaled \$1,130,631 at December 31, 2012. PSHS issued five subvention certificates to PSI. These subvention certificates were issued at various dates between 1999 and 2001 and are redeemable by PSI three years after the issue date, subject to certain restrictions. Partial repayments were made during the year and PSI is in the process of renegotiating the terms of payment.

NOTE 11 - LEASE AGREEMENTS

PSSCA leases various office spaces under noncancelable operating leases. These leases expire between 2015 and 2025. Rent expense was \$897,890 for the year ended December 31, 2012. PSSCA future minimum rental commitments are as follows:

2013	\$	732,451
2014		767,315
2015		799,677
2016		807,247
2017		774,876
Thereafter		<u>3,792,028</u>
Total	\$	<u>7,673,594</u>

NOTE 12 - CONTINGENCIES

PSSCA is responsible for reporting to and is regulated by various third parties, among which are the Centers for Medicare and Medicaid Services (CMS) and the New York State Department of Health (DOH). These agencies, as well as the New York State Office of Attorney General's Medicaid Fraud Control Unit (MFCU), the Internal Revenue Service, the New York State Office of the Attorney General's Charities Bureau, the Office of Inspector General (OIG) and the New York State Department of Health's Independent Office of Medicaid Inspector General (OMIG), and other agencies have the right to audit PSSCA. These agencies have the right to audit fiscal, as well as programmatic compliance, i.e., clinical documentation and physician certifications, among other compliance requirements.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 12 - CONTINGENCIES (continued)**

The Department of Health and Human Services has designated PSSC clinics as Federally Qualified Health Centers. Based on the FQHC designation, these clinics are eligible to participate in the Medicaid Managed Care shortfall payment program. Under this program, clinics bill to Medicaid for the difference between the average Medicaid rate and the average Medicaid Managed Care rate per visit.

Management believes that amounts recorded in the financial statements are adequate and appropriate for such retroactive adjustments.

- A. Medicare Part "A" services for PSI are reimbursed under a Prospective Payment System (PPS), which is a case mix system of mutually exclusive groups with varying prices. The groupings are based on patient assessment data, which are subject to audit.
- B. PSI has filed cost reports with CMS in connection with the Medicare program. All settlements due PSI are recorded in the period when received. No provision has been recorded for possible adjustments, since PSI does not anticipate any material adjustments based on the cost reports.
- C. A portion of the amount received from Medicare for Part B services for 2005 through 2011 has been recorded as a liability in these financial statements. During March 2000, the United States District Court ruled in favor of the plaintiff in the case of Jewish Home and Hospital v. Wing. This judgment established a new Medicare Part B Recoupment Formula to be utilized by DOH for nursing facilities in New York State.
- D. DOH has increased nursing facility rates for the purposes of recruitment and retention through March 31, 2009. These rates are subject to audit.
- E. The New York State budget, effective state fiscal year April 1, 2011 and continuing into state fiscal year 2012, includes Medicaid reimbursement reduction provisions. The major provisions of the 2012 budget include a global Medicaid spending cap on the state's share of Medicaid funding for all services at \$15.9 billion, elimination of the trend factor for a two-year period, and a 2% across-the-board (ATB) reduction for two years in Medicaid payments.

Skilled nursing facilities experienced a 1.2% unreimbursed cash receipts assessment tax commencing New York State fiscal year April 1, 2011 and continuing into fiscal year 2012 in lieu of the 2% across-the-board reductions in Medicaid payments.

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HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 12 - CONTINGENCIES (continued)**

E. (continued)

Commencing January 2012, nursing facility rates are based on statewide price, utilizing the 2007 RHCF cost report data, adjusted facility-specific and regional labor factors, as well as facility-specific Medicaid case mix. The facility-specific case mix at January 1, 2011 was utilized for the January 1, 2012 through June 30, 2012 rates. The facility-specific case mix at January 1, 2012 will be utilized for the July 1, 2012 through December 31, 2012 rates. The July 1, 2012 rates are subject to a five percent (5%) positive or negative case mix adjustment.

Medicaid per diem rates for skilled nursing facilities effective for the period April 1, 2009 through December 31, 2011 were updated utilizing the 2002 RHCF cost report data. Rates prior to April 1, 2009 were based on 1983 cost report data. In accordance with Section 2808 (a) (ii) of NYS Public Health Law, rates for the periods 2007 and 2008 were adjusted by a per diem add-on amount, reflecting the proportional amount of each facility's projected Medicaid benefit of the 2002 base year methodology. However, the aggregate total of the rate adjustments made pursuant to this subparagraph was capped at \$137.5 million for 2007 and \$167.5 million for 2008. The add-on that resulted from this provision was known as the transition add-on. The transition add-on for 2007 and 2008 was issued in September 2008 based on the estimated impact of the 2002 base year methodology for each facility. At the time the transition add-on was issued, DOH indicated that the transition add-on would be reconciled based on the actual impact of the 2002 base year methodology. The result of this reconciliation is unknown at this time.

Adult day health care programs experienced a 1.2% unreimbursed cash receipts assessment tax commencing April 1, 2011 in lieu of the 2% across-the-board reductions in Medicaid payments, and imposed mandatory managed long-term care enrollment similar to the mandates for home and community-based long-term home health care, as well as implementation of hiring a transportation manager in New York City and certain other counties that would coordinate transportation authorizations for those programs utilizing "method 2" for reimbursement of transportation costs.

-continued-

HELP/PSI SERVICES CORP. AND AFFILIATE**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2012****NOTE 13 - CONCENTRATIONS**

Approximately 97% of the inpatient and outpatient services are reimbursed by Medicaid and Medicare for the year ended December 31, 2012.

Approximately 99% of the accounts receivable for inpatient and outpatient services are due from Medicaid and Medicare for the years ended December 31, 2012.

PSSCA's cash accounts are in several financial institutions which, at times, exceed the FDIC insurance limit.

NOTE 14 - CHARITY CARE

The total cost of charity care provided was approximately \$60,000 for the year ended December 31, 2012. The cost of charity care is estimated by management based on the ratio of cost to gross charges multiplied by the gross uncompensated charges associated with providing care to charity care patients.

HELP/PSI SERVICES CORP. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services HIV Emergency Relief Project Grants Pass-through program from Bailey House, Inc.	93.914	BAILEY-2012	\$ 12,588
Pass-through program from CitiWide Harm Reduction Program, Inc.		7510CITIW-001	<u>14,625</u>
Total			<u>27,213</u>
Allergy, Immunology and Transplantation Research Pass-through program from Family Health International	93.855	0080-0083	<u>73,232</u>
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		<u>136,363</u>
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)	93.224		<u>379,167</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		<u>125,000</u>
Prevention Public Health Fund 2012: Viral Hepatitis Prevention	93.736		<u>52,500</u>
Total U.S. Department of Health and Human Services			<u>793,475</u>
Corporation for National and Community Service Social Innovation Fund Pass-through program from Amida Care, Inc.	94.019	SIF-2011 SIF-2012	15,400 <u>56,886</u>
Total Corporation for National and Community Service			<u>72,286</u>
Total expenditures of federal awards			<u>\$ 865,761</u>

See independent auditor's report.

The accompanying notes are an integral part of this schedule.

HELP/PSI SERVICES CORP. AND AFFILIATE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2012

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of HELP/PSI Services Corp. and Affiliate under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of HELP/PSI Services Corp. and Affiliate, it is not intended to and does not present the financial position, changes in net assets or cash flows of HELP/PSI Services Corp. and Affiliate.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 - SUBRECIPIENTS

There were no payments made to subrecipients for federal awards received during the year ended December 31, 2012.

**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report

**Board of Directors
HELP/PSI Services Corp. and Affiliate**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of HELP/PSI Services Corp. and Affiliate, which comprise the consolidated balance sheet as of December 31, 2012 and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HELP/PSI Services Corp. and Affiliate's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of HELP/PSI Services Corp. and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of HELP/PSI Services Corp. and Affiliate'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 audit 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 HELP/PSI Services Corp. and Affiliate's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 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.

Loeb & Troper LLP

May 3, 2013

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance**

Independent Auditor's Report

**Board of Directors
HELP/PSI Services Corp. and Affiliate**

Report on Compliance for Each Major Federal Program

We have audited HELP/PSI Services Corp. and Affiliate's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HELP/PSI Services Corp. and Affiliate's major federal programs for the year ended December 31, 2012. HELP/PSI Services Corp. and Affiliate'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 HELP/PSI Services Corp. and Affiliate'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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 HELP/PSI Services Corp. and Affiliate'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 HELP/PSI Services Corp. and Affiliate's compliance.

Opinion on Each Major Federal Program

In our opinion, HELP/PSI Services Corp. and Affiliate 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, 2012.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-01. Our opinion on each major federal program is not modified with respect to these matters.

HELP/PSI Services Corp. and Affiliate's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. HELP/PSI Services Corp. and Affiliate's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of HELP/PSI Services Corp. and Affiliate 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 HELP/PSI Services Corp. and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each 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 OMB Circular A-133, 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 HELP/PSI Services Corp. and Affiliate'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2012-01, that we consider to be significant deficiencies.

HELP/PSI Services Corp. and Affiliate's response to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. HELP/PSI Services Corp. and Affiliate's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Loeb & Troper LLP

September 17, 2013

HELP/PSI SERVICES CORP. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

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? yes X no
 Significant deficiency(ies) identified? 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? X yes 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 Section 510(a) of Circular A-133? X yes no

Identification of major programs:

CFDA Numbers	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers)
94.019	Social Innovation Fund

Dollar threshold used to distinguish between
 Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes X no

HELP/PSI SERVICES CORP. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

2012-01 Program Income

Information on the Federal Program

U.S. Department of Health and Human Services - Consolidated Health Center (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care and School Based Health Centers) [CFDA Number 93.224].

Criteria

According to OMB Circular A-133 compliance supplement, health centers must have a schedule of fees or payments with locally prevailing rates or charges and designed to cover their reasonable costs of operation. They are also required to have a corresponding schedule of discounts applied and adjusted based on the patient's ability to pay (sliding fee scale) and to make every reasonable effort to collect appropriate reimbursement for their costs in providing health services to persons eligible for medical assistance.

Condition/Context

HELP/PSI Services Corp. and Affiliate (PSSCA) did not follow the policy as it relates to the sliding fee schedule.

Questioned Costs

N/A

Effect

PSSCA did not discount the services to patients based on their ability to pay.

Cause

It was an oversight by management due to this being the first year PSSCA was subjected to the OMB Circular A-133 audit guidelines.

HELP/PSI SERVICES CORP. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

Section III - Federal Award Findings and Questioned Costs (continued)

2012-01 Program Income (continued)

Recommendation

We recommend that PSSCA adhere to the sliding scale collection policy in accordance with the Health Resources and Services Administration (HRSA) guidelines. PSSCA should also include in its policies and procedures a process for recertifying clients for the discounted fee schedule.

View of Responsible Officials and Planned Corrective Action

Please see the attached corrective action plan as submitted by management.

HELP/PSI SERVICES CORPORATION

PRIMARY MEDICAL CARE

“Building Hope and Empowering Change”

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Corrective Action Plan
Year Ended December 31, 2012

ADMINISTRATION AND SENIOR STAFF

PAUL D. VITALE, MPA
President and CEO

CAROL MURPHY, MHA, RNC, NHA
*Chief Operating Officer,
Chief Nursing officer*

BARBARA C. ZELLER, MD, DAC
Chief Medical Officer

EVAN ZUCKERMAN
*Senior Vice President,
Chief Fiscal Officer*

ALAN ZUCKERMAN, LNHA, MS
Senior Vice President,

CHARLES J. DEVLIN
*Vice President,
Substance Abuse & Development*

JESSICA S. DIAMOND, MPA, CPHQ
*Vice President,
Clinical Quality Improvement*

ANDREW E. PHELPS
*Vice President,
Environmental & Support Services*

KENYA SALAUDEEN, MS, PHR
*Vice President,
Human Resources*

EVLYN MORALES
*VP Care Coordination,
Clinical Outcomes*

LEONARDO VICENTE III, MS, MPH
*Vice President,
Administrator, RHCF*

PATRICIA WILLIAMS
*Vice President,
Clinical Operations*

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DARRYL MCDANIELS

Honorary Director

2012-01 Program Income

HELP/PSI Services Corp. and affiliate established a sliding fee scale policy that conforms with the federal guidelines prior to the 2012 fiscal year. The sliding fee scale, which calculates discounts based on specific criteria, was available to all patients if they qualified for the discount. However, our internal computer systems were not capturing the data correctly during the first half of the 2012 fiscal year. The Organization has corrected this issue and all patients who qualify for the sliding fee discount are now being appropriately captured in our computer system.

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