# Services for the Aged

Financial Statements

June 30, 2017

BAKER TILLY

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## Services for the Aged

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# Independent Auditors' Report

Board of Trustees
Services for the Aged

**Report on the Financial Statements**

We have audited the accompanying financial statements of Services for the Aged, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Services for the Aged as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

New York, New York
December 12, 2017

# Services for the Aged

Statement of Financial Position
June 30, 2017

| | | |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | $ | 2,377,901 |
| Accounts receivable, net of allowance for doubtful accounts | | 6,172,246 |
| Due from affiliate | | 1,569,822 |
| Prepaid expenses and other current assets | | 129,282 |
| Total current assets | | 10,249,251 |
| **Property and Equipment, Net** | | 156,986 |
| Total assets | $ | 10,406,237 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable | $ | 331,961 |
| Due to affiliate | | 524,755 |
| Accrued payroll, payroll taxes and withholdings | | 913,357 |
| Accrued vacation and other benefits | | 1,090,400 |
| Other accrued expenses | | 631,151 |
| Total current liabilities | | 3,491,624 |
| Deferred rent payable | | 184,547 |
| Due to HRA | | 2,444,451 |
| Total liabilities | | 6,120,622 |
| **Net Assets** | | |
| Unrestricted | | 4,285,615 |
| Total net assets | | 4,285,615 |
| Total liabilities and net assets | $ | 10,406,237 |

*See notes to financial statements*

## Services for the Aged

Statement of Activities
Year Ended June 30, 2017

| | |
|---|---|
| **Unrestricted Revenues, Gains, and Other Support** | |
| Net patient service revenues | $ 41,431,725 |
| Grant income | 71,048 |
| Interest income | 19,773 |
| Total unrestricted revenues | 41,522,546 |
| **Expenses** | |
| Program expenses | 37,509,507 |
| Management and general expenses | 3,923,908 |
| Total expenses | 41,433,415 |
| Increase in net assets | 89,131 |
| **Net Assets, Beginning of Year** | 4,196,484 |
| **Net Assets, End of Year** | $ 4,285,615 |

*See notes to financial statements*

## Services for the Aged

Statement of Functional Expenses
Year Ended June 30, 2017

| | Program | Management and General | Total |
|---|---|---|---|
| Salaries | $ 27,941,675 | $ 1,282,920 | $ 29,224,595 |
| Payroll taxes and fringe benefits | 7,155,073 | 463,411 | 7,618,484 |
| Total salaries and related expense | 35,096,748 | 1,746,331 | 36,843,079 |
| Emergency answering services | 31,879 | - | 31,879 |
| Medical exams | 147,556 | - | 147,556 |
| Computer services | 209,893 | - | 209,893 |
| Administrative fees | - | 1,281,029 | 1,281,029 |
| Insurance costs | 1,478,537 | - | 1,478,537 |
| Occupancy | 233,464 | 241,929 | 475,393 |
| Professional and consulting fees | - | 479,079 | 479,079 |
| Temporary staffing | 78,784 | 6,821 | 85,605 |
| Telephone | 36,378 | 3,149 | 39,527 |
| Expensed furniture and equipment | - | 34,801 | 34,801 |
| Printing, office and training supplies | 139,093 | 12,042 | 151,135 |
| Dues, subscriptions and conferences | - | 16,748 | 16,748 |
| Transportation | 15,469 | - | 15,469 |
| Postage and messenger service | 41,706 | 3,611 | 45,317 |
| Other operational expenses | - | 82,555 | 82,555 |
| Depreciation | - | 15,813 | 15,813 |
| Total functional expenses | $ 37,509,507 | $ 3,923,908 | $ 41,433,415 |

*See notes to financial statements*

## Services for the Aged

Statement of Cash Flows
Year Ended June 30, 2017

| | |
|---|---|
| **Cash Flows from Operating Activities** | |
| Increase in net assets | $ 89,131 |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | |
| Depreciation and amortization | 15,814 |
| Change in allowance for doubtful accounts | (336,310) |
| Change in deferred rent payable | 184,547 |
| Changes in assets and liabilities: | |
| Accounts receivable | (995,596) |
| Prepaid expenses and other current assets | (80,661) |
| Accounts payable and accrued expenses | 274,832 |
| Due to affiliate | 472,347 |
| Due to HRA | 292,713 |
| Net cash used in operating activities | (83,183) |
| **Cash Flows from Investing Activities** | |
| Purchases of property and equipment | (141,230) |
| Due from affiliate | 19,950 |
| Net cash used in investing activities | (121,280) |
| Net decrease in cash and cash equivalents | (204,463) |
| **Cash and Cash Equivalents, Beginning of Year** | 2,582,364 |
| **Cash and Cash Equivalents, End of Year** | $ 2,377,901 |

*See notes to financial statements*

## 1. Description of the Organization

Services for the Aged (the "Organization") is a New York State Department of Health ("NYSDOH") licensed agency providing home health aide, personal care assistance, and nursing services to older adults and their families.

The Organization is wholly controlled by the JASA Corporation, its sole member. JASA Corporation also wholly controls the Jewish Association for Services for the Aged ("JASA") and the Association for Services for the Aged ("ASA"), in its capacity as their sole member. The Corporation is related to JASA and ASA by virtue of this control.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. In addition, the Organization presents its financial statements in accordance with the accounting principles generally accepted in the United States of America for nonprofit entities. Under this guidance, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There are no temporarily or permanently restricted net assets as of June 30, 2017. Furthermore, the Organization is required to segregate program service expenses from management and general expenses.

### 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less on the date of purchase to be cash equivalents.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at net realizable value. Receivable amounts are written off when they are determined to be uncollectible based upon management’s assessment of individual accounts. The allowance for doubtful accounts is estimated based upon a periodic review of the accounts receivable aging, payor classifications and application of historical write-off percentages. As of June 30, 2017, the allowance for doubtful accounts was $811,671.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation including amortization of leasehold improvements and equipment under capital lease is computed on the straight-line method over the estimated useful life of each class of depreciable asset. It is the Organization's policy to capitalize items of $5,000 or greater and have a useful life that is greater than one year. Useful lives range from 3 to 15 years.

### Deferred Rent

For accounting purposes, the total rent payable over the life of the lease, which escalates over time, is recognized on the straight-line basis. Actual rent payments differ from these reported amounts; actual rent paid is less than reported amounts in the early years of the lease and exceeds the reported amounts in the later years. Deferred rent reflects the difference between the straight-line calculation reported and the actual rent expense paid.

### Revenue Recognition

Patient service revenues are reported at estimated realizable amounts (net of uncollectible amounts) from patients, third-party payers, and others for services rendered and billable at agreed-upon hourly rates. It is reasonably possible that the estimates used could change in the near term. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known.

### Charity Care

The Organization subsidizes the treatment of certain patients who are covered by Medicaid and Medicare where reimbursement by such payors is below the cost of treating such patients. Services provided under these government programs are reported as patient service revenues at the net realizable amounts.

### Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and management and general services benefited.

### Income Taxes

The Organization has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the year ended June 30, 2017. Due to its tax-exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes and the Organization has no other tax positions which must be considered for disclosure.

### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. Under the requirements of ASU 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (residents) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization will be required to retrospectively adopt the guidance in ASU 2014-09 for years beginning after December 15, 2018; early application is not permitted. The Organization is currently evaluating the impact of adopting ASU 2014-09 on the financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* The core principle of ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 defines the term substantial doubt and requires an assessment for a period of one year after the date the financial statements are issued (or available to be issued). ASU 2014-15 is effective for fiscal years ending after December 15, 2016. The adoption of ASU 2014-15 did not have a material impact on the Organization's financial statements.

### Subsequent Events

Subsequent events have been evaluated through December 12, 2017, which is the date the financial statements were available to be issued.

## 3. Uncompensated Care and Community Service

The Organization provides visits under state programs where actual patient care costs exceed payor reimbursement for the related services. Costs related to these services are included in operating expenses.

## 4. Property and Equipment, net

Property and equipment, net as of June 30, 2017 consist of the following:

| | | |
|---|---|---|
| Computer equipment | $ | 6,509 |
| Furniture and fixtures | | 114,745 |
| Leasehold improvements | | 39,398 |
| Computer software | | 9,000 |
| Total | | 169,652 |
| Less accumulated depreciation and amortization | | 12,666 |
| Property and equipment, net | $ | 156,986 |

## 5. Due to HRA

The Organization has a contract with New York City Human Resources Administration ("HRA") to provide home attendant services to Medicaid-eligible individuals as determined by HRA. The contract with HRA sets a fixed direct labor cost in the reimbursement rate, plus an approved general and administration, and indirect labor ("GAIL") expense amount. Should the Organization incur GAIL expenses below the approved GAIL expense amount, the Organization must repay the difference to HRA. In addition, as a not-for-profit entity, the HRA contract stipulates that the Organization cannot generate a profit from the services performed under the contract. Consequently, revenue in excess of expenses incurred under the HRA contract is recorded as Due to HRA as of each year end.

Annual audits are conducted by HRA in accordance with the contract. The HRA audits have been completed through the fiscal year ended June 30, 2012 as of the date of these financial statements. The liability due to HRA in the amount of $2,444,451 as of June 30, 2017 reflected the results of the HRA audits through June 30, 2012 as well as the estimated amounts determined by the Organization for the fiscal years through June 30, 2017. Managements estimate of this liability could change based upon future HRA audits.

## 6. Related Party Transactions

The Organization is a participant in a general insurance plan with JASA, sponsored by the UJA-Federation, which also includes health insurance and workmen's compensation. Workmen's compensation, health insurance and other employee benefits for the year ended June 30, 2017 were $1,145,504. JASA also charges the Organization an administrative fee which amounted to $1,281,029 for the year ended June 30, 2017.

As of June 30, 2017, $524,755 remains due to JASA and is included in due to affiliate on the statement of financial position.

On November 21, 2016, the Organization entered into a Letter of Understanding with JASA to sublease office space from JASA. The lease term commenced on November 21, 2016 and terminates on May 31, 2032. See Note 9 for additional disclosure of the five year payout commitment.

As of June 30, 2017, $1,569,822 remains due from the Association for Services for the Aged and is included in due from affiliate on the statement of financial position. This receivable balance pertains to expenses paid by the Organization on behalf of Association for Services for the Aged.

## 7. Defined Contribution Plan

For administrative staff, the Organization sponsors a tax-sheltered annuity under Section 403(b) of the IRC (the "TSA Plan"). Under the TSA Plan, eligible employees can elect to invest a pretax contribution up to 20% of their salary to a maximum of $18,000 in 2017. Investments are participant-directed and accumulate on a tax-deferred basis with interest until withdrawn.

## 8. Pension Plan

For the unionized home care aides, the Organization is a participant in a pension plan that has been characterized for financial accounting purposes as a multi-employer pension plan. The District Council 1707, Local 389 Home Care and Professional Employees Pension Fund (the "Fund") is a noncontributory, multi-employer defined benefit pension fund that was established as part of a collective bargaining agreement. The Organization contributes .455 per billable work hour for the aides. The risks of participating in multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the multi-employer plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If one of the participating employers petitions to stop participating in the multi-employer plan, such employer may be required to pay the plan a withdrawal liability based on the funded status of the plan.

The Fund is designed to provide normal retirement, early retirement, and vested pension benefits for its members including the eligible employees of the Organization. Benefits are calculated utilizing specified percentages within the plan document.

The following table discloses the most recent funded status of the Fund, as of January 1, 2016 (the date of the latest actuarial valuation), inclusive of the fair value of plan assets as of December 31, 2016:

| Valuation Date | Fair Value of Plan Assets | Actuarial Present Value of Accumulated Plan Benefits | Total Contributions | Funded Status | Zone Status |
|---|---|---|---|---|---|
| January 1, 2016 | $ 55,201,790 | $ 55,321,528 | $ 2,269,322 | 99 % | Green |

As of December 31, 2016, the Fund has a certified green zone status as determined by the Fund's actuary. The Fund did not utilize any extended amortization provisions that would affect the calculation of their zone status.

The Organization is currently in the process of obtaining the funded status of the Fund as of January 1, 2016 (the date of the actuarial valuation), inclusive of the fair value of plan assets as of December 31, 2016.

The Organization is not required to file an annual zone certification under the Pension Protection Act of 2006 and disclosures concerning a financial improvement plan or rehabilitation plan are not applicable. The Plan is at least 80% funded using the most recent financial information as of December 31, 2016, the end of the Plan year.

The Organization's contribution to the Plan for the year ended June 30, 2017 was approximately $968,000.

## 9. Workers' Compensation

The Organization has a retrospective plan for workers' compensation coverage of its home care workers. The premiums for this type of plan are adjustable based on actual payroll expense recorded by category. Upon annual settlements, the Organization may be required to pay additional premiums or may be refunded excess premiums paid. The Organization does not anticipate these settlement amounts to materially affect the Organization's financial position or results of operations.

## 10. Lease Commitments

The Organization is committed under the terms of operating leases for office facilities, office equipment and other equipment, with initial terms in excess of one year.

The minimum future lease payments under operating leases as of June 30, 2017 are as follows:

| | |
|---|---|
| Years ending June 30: | |
| 2018 | $ 365,228 |
| 2019 | 374,014 |
| 2020 | 383,013 |
| 2021 | 392,229 |
| 2022 | 403,292 |
| Thereafter | 5,001,002 |
| Total | $ 6,918,778 |

Rent expense was $429,260 for the year ended June 30, 2017.

## 11. Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Organization, if any, are not presently determinable.

## 12. Concentration of Credit Risk and Major Customers

Financial instruments which potentially subject the Organization to a concentration of credit risk consist primarily of cash and cash equivalents, accounts receivable and due from affiliate. The Organization places its cash primarily in checking and money market accounts with financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). At times throughout the year, cash balances exceed the FDIC insurance limit; however, these amounts are typically accessed upon demand and therefore bear minimal risk. The Organization performs ongoing credit evaluations of its customers and generally does not require collateral.

Revenues from two major customers during fiscal 2017 amounted to 50% of total revenues, respectively. Accounts receivable from two customers accounted for 61% of total accounts receivable at June 30, 2017. Credit losses, if any, relating to these customers historically has been within management's expectations.