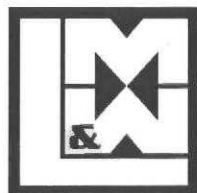


SPRINGHILL MEDICAL SERVICES, INC.
d/b/a
SPRINGHILL MEDICAL CENTER

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

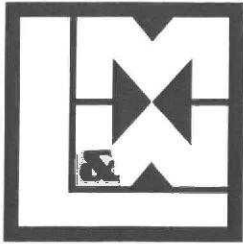


LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
YEARS ENDED DECEMBER 31, 2020 AND 2019

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LESTER, MILLER & WELLS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Springhill Medical Services, Inc.
d/b/a Springhill Medical Center
Springhill, Louisiana

We have audited the accompanying financial statements of Springhill Medical Services, Inc. d/b/a Springhill Medical Center (the "Hospital", a nonprofit health care entity), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of operations, changes in net assets, 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. 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 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 the Hospital as of December 31, 2020 and 2019, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents 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 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.



Certified Public Accountants

Alexandria, Louisiana
November 30, 2021



SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$ 6,456,328	\$ 848,776
Accounts receivable, net of allowances for uncollectibles (Note 5)	2,160,204	3,074,108
Other receivables	1,132,761	974,437
Estimated third-party payor settlements	1,855,206	1,260,619
Assets limited as to use (Note 7)	1,443,507	-0-
Inventories	516,711	492,425
Prepaid expenses	<u>394,482</u>	<u>396,858</u>
Total current assets	<u>13,959,199</u>	<u>7,047,223</u>
Non-current assets		
Nondepreciable property and equipment (Note 6)	140,940	71,308
Depreciable property and equipment (net) (Note 6)	<u>3,801,178</u>	<u>4,103,044</u>
Total non-current assets	<u>3,942,118</u>	<u>4,174,352</u>
Other assets		
Goodwill (net of amortization)	53,577	60,967
Investment (Note 8)	<u>67,000</u>	<u>67,000</u>
Total other assets	<u>120,577</u>	<u>127,967</u>
Total assets	<u>\$ 18,021,894</u>	<u>\$ 11,349,542</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF FINANCIAL POSITION (Continued)
DECEMBER 31,

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,096,732	\$ 1,777,411
Cash overdraft	51,730	-0-
Accrued salary and payroll taxes	642,928	582,927
Accrued vacation payable (Note 9)	368,905	341,793
Accrued expenses	28,619	10,253
Current portion Medicare advance payments (Note 21)	3,324,453	-0-
Current portion of long-term debt (Note 10)	<u>347,361</u>	<u>1,736,395</u>
Total current liabilities	<u>5,860,728</u>	<u>4,448,779</u>
Long-term liabilities		
Long-term debt (Note 10)	<u>2,455,747</u>	<u>2,115,297</u>
Total liabilities	<u>8,316,475</u>	<u>6,564,076</u>
Net assets		
Net assets without donor restrictions	8,261,912	4,785,466
Net assets with donor restrictions	<u>1,443,507</u>	<u>-0-</u>
Total net assets	<u>9,705,419</u>	<u>4,785,466</u>
Total liabilities and net assets	<u>\$ 18,021,894</u>	<u>\$ 11,349,542</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Revenue and other support without donor restrictions:		
Net patient service revenue (Note 11)	\$ 25,953,365	\$ 22,718,105
Operating grants	93,586	4,050
Other operating revenue	<u>2,082,765</u>	<u>1,696,196</u>
Total revenue and other support	<u>28,129,716</u>	<u>24,418,351</u>
Expenses		
Salaries	14,212,574	12,829,901
Benefits and payroll taxes	2,736,304	2,308,320
Medical supplies and drugs	2,488,187	1,900,712
Professional fees	1,984,596	1,941,429
Insurance	421,492	387,119
Interest expense	163,427	180,554
Depreciation and amortization	845,366	831,044
Other operating expenses	<u>4,769,546</u>	<u>4,111,546</u>
Total operating expenses	<u>27,621,492</u>	<u>24,490,625</u>
Excess of revenues, gains, and other support	\$ <u>508,224</u>	\$ <u>(72,274)</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Other changes in net assets without donor restrictions		
Gain (loss) on sale of assets	\$ 600	\$ -0-
Contribution Provider Relief Fund	2,934,764	-0-
Interest income	<u>32,858</u>	<u>4,262</u>
Increase in net assets without donor restrictions	3,476,446	(68,012)
Other changes in net assets with donor restrictions	<u>1,443,507</u>	<u>-0-</u>
Change in net assets	4,919,953	(68,012)
Net assets, beginning of year	<u>4,785,466</u>	<u>4,853,478</u>
Net assets, end of year	\$ <u>9,705,419</u>	\$ <u>4,785,466</u>
Net assets with donor restrictions, end of year	\$ <u>1,443,507</u>	\$ <u>-0-</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Operating activities:		
Cash received from patients and third-party payors	\$ 29,006,246	\$ 26,162,687
Other receipts from operations	1,423,439	1,091,781
Cash payments to employees and for employee-related cost	(17,026,427)	(14,976,362)
Cash payments for other operating expenses	<u>(13,877,558)</u>	<u>(11,365,425)</u>
Net cash provided (used) by operating activities	<u>(474,300)</u>	<u>912,681</u>
Investing activities:		
Acquisition of property and equipment	(605,746)	(600,962)
Proceeds from notes payable	-0-	193,705
Proceeds from sale of property and equipment	600	-0-
Interest income	<u>32,858</u>	<u>4,262</u>
Net cash provided (used) by investing activities	<u>(572,288)</u>	<u>(402,995)</u>
Financing activities:		
Contributions of net assets with donor restrictions	1,443,507	-0-
Contributions of net assets without donor restrictions	2,934,764	-0-
Proceeds from Medicare advance	3,324,453	-0-
Proceeds from Paycheck Protection Program	2,404,300	-0-
Principal payments on long-term debt	(2,252,884)	(447,488)
Principal payments on line of credit	<u>(1,200,000)</u>	<u>200,000</u>
Net cash provided (used) by financing activities	<u>6,654,140</u>	<u>(247,488)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	5,607,552	262,198
Cash, cash equivalents, and restricted cash at beginning of fiscal year	<u>848,776</u>	<u>586,578</u>
Cash, cash equivalents, and restricted cash at end of fiscal year	<u>\$ 6,456,328</u>	<u>\$ 848,776</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Reconciliation of cash, cash equivalents, and restricted cash:		
Cash and cash equivalents at beginning of fiscal year	\$ <u>848,776</u>	\$ <u>586,578</u>
Cash and cash equivalents at end of fiscal year	6,456,328	848,776
Restricted cash included in assets whose use is limited at end of fiscal year	<u>1,443,507</u>	<u>-0-</u>
Cash, cash equivalents, and restricted cash at end of fiscal year	\$ <u>7,899,835</u>	\$ <u>848,776</u>
Noncash financing transactions:		
Capital lease incurred for property and equipment	\$ <u>-0-</u>	\$ <u>132,650</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ <u>163,427</u>	\$ <u>180,554</u>
Reconciliation of income from operations to net cash provided by:		
Change in net assets	\$ 508,224	\$ (72,274)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions of net assets with donor restrictions	(1,443,507)	-0-
Depreciation and amortization	845,370	831,044
Changes in current assets (increase) decrease:		
Accounts receivable (net)	913,904	569,944
Other receivables	(158,324)	(143,991)
Estimated third-party settlements	(594,587)	(464,474)
Inventories	(24,286)	9,296
Prepaid expenses	2,376	(1,447)
Changes in current liabilities increase (decrease):		
Accounts payable	(680,679)	205,639
Cash overdraft	51,730	-0-
Accrued salary and payroll taxes	60,001	(363)
Accrued vacation payable	27,112	87,147
Accrued expenses	<u>18,366</u>	<u>(107,840)</u>
Net cash provided (used) by operating activities	\$ <u>(474,300)</u>	\$ <u>912,681</u>

See accompanying notes to financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - ORGANIZATION AND OPERATIONS

Organization

Springhill Medical Services, Inc. d/b/a Springhill Medical Center (the "Hospital") is a Louisiana nonprofit corporation which has received exemption from income taxes as an organization described under section 501(c)(3) of the Internal Revenue Code, as amended. Springhill Medical Center is a fifty-eight-bed facility located in rural northwest Louisiana on the Arkansas border. The current facility was built in 1975 with major expansions made in 1983, 1989, and 1994. On November 17, 2000, Springhill Medical Services, Inc., purchased Springhill Medical Center and became a locally-owned non-profit facility governed by a Board of Directors consisting of ten members.

Nature of Business

Located in Springhill, Louisiana, the Hospital provides inpatient acute hospital services, geriatric psychiatric, outpatient, skilled nursing (through "swing-beds"), emergency services, rural health clinics, physical therapy clinic and home health services (through joint venture) primarily for residents of northwestern Louisiana.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Hospital uses the accrual basis of accounting in accordance with the American Hospital Association recommendations.

Cash and Cash Equivalents

Cash consists primarily of deposits in checking accounts. Cash equivalents are certificates of deposit with original maturities of ninety (90) days or less. Restricted cash is cash held for certain purposes. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Concentrations of Credit Risk

The Hospital provides medical care to patients and grants credit to patients even though they may lack adequate insurance or may be covered under contractual arrangements that do not pay full charges. As a result, the Hospital is exposed to certain credit risks. The Hospital manages such risk by regularly reviewing its accounts and contracts, and by providing appropriate allowances. As discussed in Notes 5 and 11, substantial numbers of patients are insured through third-party payor agreements, predominately Medicare and Medicaid. Estimated uncollectible amounts due from patients are generally considered implicit price concessions, presented as a direct reduction to patient service revenue, and not presented separately as provision for bad debts. The provision for bad debts is determined considering historical experience, trends in health coverage, geographical data, and other collection indicators.

As described in Note 3, the Hospital has deposits in one financial institution that exceeded the Federal Depository Insurance Corporation (FDIC) limits. This financial institution has a strong credit rating and management believes that credit risk related to these deposits is minimal.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Concentration of Economic Dependence

The Hospital has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 11. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenue

Revenues consist primarily of net patient service revenues that are recorded based upon established billing rates less allowances for contractual adjustments. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from the patients and third-party payers, including federal and state agencies, managed care health plans, commercial insurance companies, and employers. Estimates of contractual allowances under third-party payer arrangements are based upon the payment terms specified in the related contractual agreements. Third-party payer contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates, or discounted fee-for-service rates.

Laws and regulations governing the Medicare and Medicaid programs are complex and are routinely modified for provider reimbursement. All health care providers participating in the Medicare and Medicaid programs are required to meet certain financial reporting requirements. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each facility to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments.

Advertising Costs

Advertising costs are expensed as incurred. The advertising costs included in other expenses for the years ended December 31, 2020 and 2019, were \$47,553 and \$53,253, respectively.

Inventories

Inventories are stated at the lower of cost determined by the first-in, first-out method, or net realizable value.

Income Taxes

The Hospital is exempt from federal income tax under Section 501(c)(3) of the 1954 Internal Revenue code.

Accounting Pronouncements Adopted

On January 1, 2020, the Hospital adopted the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the FASB ASC as Topic 606 (ASC 606). The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, are satisfied. This standard also requires improved disclosures (Note 11) regarding the Hospital's revenue recognition policies and significant judgments employed in the determination of revenue. Changes under this ASC did not have a material effect on the financial statements.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In January 2016, the FASB issued ASU 2016-18, Restricted Cash, as an update to ASC 230, Statement of Cash Flows. This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Hospital adopted the guidance in ASU 2016-18 on January 1, 2020, using a retrospective approach. As a result of the adoption of ASU 2016-18, the Hospital has included restricted cash and cash equivalents in the reconciliation of cash on the statement of cash flows for the years ended December 31, 2020 and 2019. The adoption of this guidance did not result in any changes to previously reported net cash provided by operating activities. Cash and cash equivalents is now captioned cash, cash equivalents, and restricted cash.

Recently Issued Accounting Standards

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet. Differing from previous GAAP, lessees will be required to recognize lease assets and lease liabilities for those leases classified as operating leases under previous GAAP. The new guidance maintains two classifications of leases, finance leases and operating leases; however, substantially all leases will be required to be recognized on the balance sheet. Accounting by lessors is largely unchanged from previous GAAP. Both qualitative and quantitative disclosures will be required to supplement the amounts recorded in the financial statements. This guidance is effective for annual reporting periods beginning after June 15, 2021. The new guidance must be adopted using a modified retrospective approach, which includes numerous, optional practical expedients. Management is currently assessing the impact the adoption of this standard will have on the financial statements.

Net Assets

The Hospital classifies net assets into two classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose. These net assets may be used at the discretion of the Hospital'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 Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as an increase 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 statement of operations. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use restricted resources first, then unrestricted resources as they are needed.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Performance Indicator

The performance indicator is excess revenues over expenses, which includes operating income and nonoperating income (expenses). The performance indicator excludes, when present, receipt of donor restricted contributions, net assets released from property acquisitions, and other changes not required to be included within the performance indicator.

Property and Equipment

Property and equipment are recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method over their estimated useful lives of determining depreciation for financial reporting and third-party reimbursement.

Land improvements	8 to 20 years
Buildings and improvements	10 to 40 years
Furniture and equipment	3 to 20 years

Expenditures for additions, major renewals and betterments over \$5,000 are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Revenue and Expenses

The Hospital's statements of operations distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Hospital's principal activity. Nonexchange or contribution revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Grants and Contributions

From time to time, the Hospital receives grants and contributions from the State of Louisiana, individuals, or private and public organizations. Revenues from grants are recognized when all eligibility requirements, including time requirements, are met. Grants may be restricted for either a specific operating purpose or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The cost of providing program and other activities have been summarized on a functional basis in Note 12. Accordingly, certain costs have been allocated among program (healthcare) services, supporting services and fundraising services. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of allocation</u>
Salaries	Time and effort
Benefits and payroll taxes	Full time equivalent
Medical supplies and drugs	Time and effort
Professional services	Time and effort
Insurance	Time and effort
Depreciation and amortization	Square footage
Interest expense	Time and effort
Other operating expenses	Time and effort

Reclassifications

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Environmental Matters

The Hospital is subject to laws and regulations relating to the protection of the environment. The Hospital's policy is to accrue environmental and cleanup related costs of a non-capital nature when it is both probable that a liability has been incurred and when the amount can be reasonably estimated. Although it is not possible to quantify, with any degree of certainty, the potential financial impact of the Hospital's continuing compliance efforts, management believes any future remediation or other compliance related costs will not have a material adverse effect on the financial condition or reported results of operations of the Hospital. At December 31, 2020 and 2019, management is not aware of any liability resulting from environmental matters.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 3 - CASH AND CASH EQUIVALENTS

The following is a summary of cash and cash equivalents which are classified as current assets:

	<u>2020</u>	<u>2019</u>
Checkings and savings	\$ 6,452,978	\$ 845,426
Petty cash	<u>3,350</u>	<u>3,350</u>
 Total cash and cash equivalents	 \$ <u>6,456,328</u>	 \$ <u>848,776</u>

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's deposits were not entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name. As of December 31, 2020 and 2019, the Hospital had cash in bank totaling \$8,295,629 and \$1,183,305, respectively, that was secured by \$250,000 FDIC insurance with the remaining balances unsecured.

NOTE 4 - AVAILABILITY AND LIQUIDITY

The following represents the Hospital's financial assets at December 31:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 6,456,328	\$ 848,776
Net accounts receivable	2,160,204	3,074,108
Other receivables	1,132,761	974,437
Assets limited as to use	<u>1,443,507</u>	<u>-0-</u>
Total financial assets	11,192,800	4,897,321
Less assets held for limited use		
Cash account held for limited use	<u>1,443,507</u>	<u>-0-</u>
Financial assets available to meet general expenditures over the next twelve months	\$ <u>9,749,293</u>	\$ <u>4,897,321</u>

To manage liquidity, the Hospital structures its financial assets to be available as its general expenditures and liabilities come due. One of the financial assets was subject to contractual restrictions. The Hospital anticipates covering its general expenses by collecting sufficient revenues. As of December 31, 2020, the Hospital has sufficient resources to respond to an event of an anticipated liquidity need.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 5 - ACCOUNTS RECEIVABLE

The Hospital adopted ASC 606 during fiscal year 2020. As a result of that adoption, estimated uncollectible amounts due from patients are generally considered implicit price concessions, presented as a direct reduction to patient service revenue, and not presented separately as provision for bad debts. The provision for bad debts is determined considering historical experience, trends in health coverage, geographical data, and other collection indicators.

A summary of accounts receivable at December 31 is presented below:

	<u>2020</u>	<u>2019</u>
Hospital patients	\$ 2,877,957	\$ 3,026,263
Estimated allowances for uncollectibles	<u>(1,075,429)</u>	<u>(1,287,073)</u>
Net hospital accounts receivable	<u>1,802,528</u>	<u>1,739,190</u>
Clinic patients	1,513,533	2,462,000
Estimated allowances for uncollectibles	<u>(1,155,857)</u>	<u>(1,127,082)</u>
Net clinic accounts receivable	<u>357,676</u>	<u>1,334,918</u>
Net accounts receivable	\$ <u>2,160,204</u>	\$ <u>3,074,108</u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The following is a summary of the mix of receivables from patients and third-party payors at December 31:

	<u>2020</u>	<u>2019</u>
Medicare	35%	30%
Medicaid	24%	36%
Blue Cross	9%	11%
Other third-party payors	21%	20%
Patients	<u>11%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

The Medicare, Medicaid, and third-party payor receivables are shown net of contractual allowances.

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NOTE 6 - PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, and related accumulated depreciation at December 31:

	<u>2019</u>		<u>Additions</u>		<u>Disposals</u>		<u>Transfers</u>		<u>2020</u>
Nondepreciable property and equipment									
Land	\$ 71,308	\$	-0-	\$	-0-	\$	-0-	\$	71,308
Construction in progress	<u>-0-</u>		<u>69,632</u>		<u>-0-</u>		<u>-0-</u>		<u>69,632</u>
Total nondepreciable property and equipment	<u>\$ 71,308</u>	\$	<u>69,632</u>	\$	<u>-0-</u>	\$	<u>-0-</u>	\$	<u>140,940</u>
Depreciable property and equipment									
Buildings and fixtures	\$ 8,796,286	\$	203,698	\$	82,925	\$	-0-	\$	8,917,059
Equipment	<u>6,251,271</u>		<u>336,192</u>		<u>20,649</u>		<u>-0-</u>		<u>6,566,814</u>
Total depreciable property and equipment	15,047,557		539,890		103,574		-0-		15,483,873
Accumulated depreciation and amortization	<u>10,944,513</u>		<u>837,980</u>		<u>99,798</u>		<u>-0-</u>		<u>11,682,695</u>
Total depreciable property and equipment, net	<u>\$ 4,103,044</u>	\$	<u>(298,090)</u>	\$	<u>3,776</u>	\$	<u>-0-</u>	\$	<u>3,801,178</u>

The following is a summary of property and equipment, and related accumulated depreciation at December 31:

	<u>2018</u>		<u>Additions</u>		<u>Disposals</u>		<u>Transfers</u>		<u>2019</u>
Nondepreciable property and equipment									
Land	\$ 71,308	\$	-0-	\$	-0-	\$	-0-	\$	71,308
Construction in progress	<u>14,855</u>		<u>65,825</u>		<u>15,462</u>		<u>(65,218)</u>		<u>-0-</u>
Total nondepreciable property and equipment	<u>\$ 86,163</u>	\$	<u>65,825</u>	\$	<u>15,462</u>	\$	<u>(65,218)</u>	\$	<u>71,308</u>
Depreciable property and equipment									
Buildings and fixtures	\$ 8,593,395	\$	146,673	\$	-0-	\$	56,218	\$	8,796,286
Equipment	<u>5,937,335</u>		<u>403,924</u>		<u>98,988</u>		<u>9,000</u>		<u>6,251,271</u>
Total depreciable property and equipment	14,530,730		550,597		98,988		65,218		15,047,557
Accumulated depreciation and amortization	<u>10,219,849</u>		<u>823,652</u>		<u>98,988</u>		<u>-0-</u>		<u>10,944,513</u>
Total depreciable property and equipment, net	<u>\$ 4,310,881</u>	\$	<u>(273,055)</u>	\$	<u>-0-</u>	\$	<u>65,218</u>	\$	<u>4,103,044</u>

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NOTE 6 - PROPERTY AND EQUIPMENT (Continued)

Accumulated amortization for equipment under capital lease obligations was \$628,128 and \$458,439 at December 31, 2020 and 2019, respectively.

NOTE 7 - ASSETS LIMITED AS TO USE

Assets limited as to use are summarized below at December 31:

	<u>2020</u>	<u>2019</u>
Restricted by Third Parties		
Limited as to use for COVID-19 expenses	\$ <u>1,433,507</u>	\$ <u>-0-</u>

NOTE 8 - INVESTMENTS

The Hospital purchased one class N unit (no par value) in a home health company for \$67,000 in August 2004. Subsequently, they entered into an operating agreement with the same company to provide home health services. The Hospital shares in thirty-three percent (33%) of the profits and losses of the branch office located in Springhill, Louisiana. The investment is accounted for using the cost method. Income reported as other revenue was \$92,935 and \$119,751, for the years ended December 31, 2020 and 2019, respectively.

NOTE 9 - COMPENSATED ABSENCES

Employees of the Hospital are entitled to paid days off and sick days depending on length of service. The Hospital accrued \$368,905 and \$341,793 of vacation pay at December 31, 2020 and 2019. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The Hospital's policy is to recognize the cost of unvested sick pay when actually paid to employees.

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NOTE 10 - LONG-TERM DEBT

The following is a summary of long-term debt at December 31,

	<u>2020</u>	<u>2019</u>
Note payable, maturing March 14, 2023, plus interest payable monthly at variable rates, collateralized by the property and improvements, rents and leases, present and future accounts receivable, and deposit accounts of the Hospital	\$ -0-	\$ 1,756,338
Note payable, for IOP settlement, maturing July 15, 2021, plus interest payable annually at rate of 1.875%	-0-	246,706
Note payable, maturing September 1, 2020, plus interest at rate of 4.25%	-0-	65,514
Note payable, maturing September 1, 2020, plus interest at imputed rate of 4.25%	52,560	52,560
Note payable, maturing March 1, 2020, plus interest at imputed rate of 0%	-0-	53,423
Line of credit, maturing July 20, 2020, plus interest payable monthly at variable rates	-0-	500,000
Line of credit, maturing October 1, 2020, plus interest payable monthly at rate of 3.5%	-0-	700,000
Paycheck Protection Program loan, plus interest payable monthly at rate of 1%; deferred 11 months; at which time any principal or interest which has not been forgiven will be paid in 60 monthly installments	2,404,300	-0-
Capital lease obligations at imputed interest rates from 1.4% to 5.15% collateralized by leased equipment	<u>346,248</u>	<u>477,151</u>
Total long-term debt	2,803,108	3,851,692
Less current portion of long-term debt	<u>347,361</u>	<u>1,736,395</u>
Long-term debt net of current maturities	\$ <u><u>2,455,747</u></u>	\$ <u><u>2,115,297</u></u>

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NOTE 10 - LONG-TERM DEBT (Continued)

Scheduled principal maturities on long-term debt and leases are as follows:

Year Ending December 31:	Notes Payable		Capital Lease Payable	
	Principal	Interest	Principal	Interest
2021	\$ 220,593	\$ 40,043	\$ 126,768	\$ 11,357
2022	479,213	20,170	124,249	6,128
2023	484,027	15,356	65,995	2,564
2024	488,889	10,494	29,236	796
2025	493,801	5,582	-0-	-0-
2026	290,337	969	-0-	-0-
Totals	\$ 2,456,860	\$ 92,614	\$ 346,248	\$ 20,845

As a result of problems identified in fiscal year ended December 31, 2014 with the billing practices of the contracted management of the Intensive Outpatient Psychiatric Program (IOP), an agreement with the Office of Inspector General (OIG) was reached on December 31, 2015 to pay a loss settlement of \$700,000 at 1.87% interest rate over 5 years. This IOP payable was paid off in fiscal year 2020 and was included in the note payable category.

On April 5, 2020, the Hospital received a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan for employee expenses in the amount of \$2,404,300. The loan repayment originally commenced six months after the loan date of April 5, 2020; however, a 10-month deferment was granted, commencing after the Hospital's 24-week covered period. The Hospital has applied for loan forgiveness through the Small Business Administration. If the loan is not forgiven, then it will be repaid in monthly installments of \$41,615 and interest at 1%.

Debt covenants for the \$1,756,338 mortgage consist of the following:

- The Hospital to present audited balance sheet and income statement for the year ended no later than 90 days after fiscal year.
- The Hospital to present balance sheet and profit and loss statement for the period ended no later than 45 days after the end of the fiscal quarter certified by management as true and correct.
- Unless waived in writing by the Lender, the Hospital's Chief Financial Officer or other officer to provide a certificate, at least annually, certifying the representations and warranties as set forth are true and correct and no default exists.
- The Hospital will not incur or assume indebtedness for borrowed money, including capital leases, will not encumber assets or sell with recourse any of the Hospital's accounts without prior written consent of the lender.
- The Hospital must maintain deposits totaling \$750,000 at Citizens National Bank.

The mortgage was paid off in fiscal year 2020.

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NOTE 10 - LONG-TERM DEBT (Continued)

Assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are amortized over their estimated useful lives. Amortization of assets under capital leases in the amount of \$169,689 is included in the depreciation expense. Net book value of capital leases is \$402,395 in 2020.

NOTE 11 - NET PATIENT SERVICE REVENUE

The Hospital's revenues generally relate to contracts with patients in which the Hospital's performance obligations are to provide healthcare services to patients. Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients and third-party payers (including government programs, managed care, and commercial insurance companies) and include variable consideration for retroactive revenue adjustments due to reviews and investigations. Generally, the Hospital bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied. The Hospital determines the transaction price based on standard charges, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Hospital measures the performance obligation from admission into the Hospital to the point when it is no longer required to provide services to the patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at the point of time, which includes outpatient services, is generally recognized when services are provided to patients and the Hospital does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a, and therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days of the end of the reporting period.

The Hospital has also elected to apply the practical expedients under FASB ASC 606 for applying a portfolio of contracts with similar characteristics as well as for applying the financing component. The hospital accounts for the contracts within each portfolio as a collective group, rather than individual contracts. Based on historical collection trends and other analysis, the Hospital has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis. The period of time between the service being provided and the time the patient pays for service is typically one year or less.

The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Estimates of contractual adjustments under managed care and commercial insurance plans are based upon the payment terms

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NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

specified in the related contractual agreements. The payment arrangements with third-party payers provide for payments to the Hospital at amounts different from its estimated rates.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. For fiscal year 2020 and 2019, adjustments due to changes in the Hospital's estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior year were not significant. Subsequent changes that are significant and determined to be the result of an adverse change in the patient's ability to pay, determined on a portfolio base, are recorded as bad debt expense.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has provided implicit price concessions to uninsured patients and patients with other uninsured balances. Estimated implicit price concessions are recorded for uninsured accounts, which includes uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage, regardless of the aging of those accounts. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections as a primary source of information in estimating the collectability of accounts receivable. The Hospital performs a hindsight analysis, utilizing historical accounts receivable collection and write-off data. The Hospital believes its updates to the estimated implicit price concession amounts at the Hospital facility to provide reasonable valuation estimates of the Hospital's revenues and accounts receivable.

The Hospital provides medical services to government program beneficiaries and has agreements with other third-party payors that provide payments at amounts different from established rates. The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per visit, discounts from established charges, and fee schedules.

The Hospital has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines, method of reimbursement, geography, and timing of when revenue is recognized.

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NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

Patient service revenue by payer for the years ended December 31, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 17,026,423	\$ 16,507,928
Medicaid	13,070,131	12,004,858
Blue Cross	3,676,761	5,170,851
Commercial	11,361,937	8,207,159
Self-pay	<u>1,212,880</u>	<u>685,580</u>
Gross patient service revenue	\$ <u>46,348,132</u>	\$ <u>42,576,376</u>

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries were paid based on a set fee per diagnosis. The Hospital qualified for a Medicare low volume add-on for inpatient payments. These payments are effective for discharges occurring October 1, 2015 until September 30, 2022, if not extended by Congress. The additional payments received under the Medicare low volume add-on were approximately \$569,640 and \$469,218 for the years ended December 31, 2020 and 2019. Swing bed services are reimbursed based on a prospectively determined rate per patient day. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. As of December 31, 2020, Medicare reports have been audited and final settled with the fiscal intermediary through December 31, 2017.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. As of December 31, 2020, Medicaid reports have been audited and final settled with the fiscal intermediary through December 31, 2013.

The Louisiana Legislature, through the Healthcare Reform Act of 2007 and Act I of 2010, tasked the Louisiana Department of Health (LDH) to create a new system of care. In response, the LDH reformed its reimbursement methodology for Medicaid patients from a fee-for-service system to the use of a Coordinated Care Network (CCN). During 2011, the LDH enabled certain third-party payor companies to contract with providers under the CCN methodology. The Hospital is currently contracted and enrolled with payors participating in the Coordinated Care Network.

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NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

Beginning in 2015, the Hospital contracted with Louisiana Medicaid managed care organizations (MCO) which paid supplemental payments to maintain access to and provide inpatient and outpatient hospital services to MCO patients. These payments supplement per claim payments by the MCO in the amount of \$2,300,021 for 2020 and \$1,663,200 for 2019, which are included in patient service revenues as Medicaid revenue.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The Hospital's previous reimbursements are also subject to secondary review by Medicare and Medicaid representatives. These representatives have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

The following is a summary of the Hospital's net patient revenue for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Gross charges	\$ 46,505,361	\$ 43,210,101
Less charges associated with charity patients	<u>(157,229)</u>	<u>(633,725)</u>
Gross patient service revenue	46,348,132	42,576,376
Less deductions from revenue:		
Contractual adjustments	(17,974,347)	(15,367,316)
Policy and other discounts	(464,471)	(1,433,402)
Implicit price concessions	<u>(1,955,949)</u>	<u>(3,057,553)</u>
Net patient service revenue (net of contractual adjustments and discounts)	\$ <u>25,953,365</u>	\$ <u>22,718,105</u>

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NOTE 11 - NET PATIENT SERVICE REVENUE (Continued)

The Hospital receives a substantial portion of its revenue from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenue for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Medicare and Medicaid patient charges	\$ 30,096,554	\$ 28,512,786
Contractual adjustments	<u>(14,721,190)</u>	<u>(13,823,181)</u>
Program patient service revenue	<u>\$ 15,375,364</u>	<u>\$ 14,689,605</u>
Percent of total gross charges	<u>65%</u>	<u>66%</u>
Percent of total net patient revenue	<u>59%</u>	<u>65%</u>

The Hospital experiences differences between the amounts initially recorded on its cost settlements with Medicare and Medicaid and the finalized amounts. In fiscal year 2020, there were no adjustments resulting in material increases or decreases in cost settlements.

NOTE 12 - FUNCTIONAL EXPENSES

The Hospital provides general health care services primarily to residents within its geographical location. Expenses related to providing these services for the years ended December 31 are as follows:

	<u>2020</u>			
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 12,898,526	\$ 1,314,048	\$ -0-	\$ 14,212,574
Benefits and payroll taxes	2,418,511	317,793	-0-	2,736,304
Medical supplies and drugs	2,488,187	-0-	-0-	2,488,187
Professional services	1,984,596	-0-	-0-	1,984,596
Insurance	338,159	83,333	-0-	421,492
Depreciation and amortization	764,833	80,533	-0-	845,366
Interest expense	163,427	-0-	-0-	163,427
Other operating expenses	2,923,367	1,845,207	972	4,769,546
Total Expenses	<u>\$ 23,979,606</u>	<u>\$ 3,640,914</u>	<u>\$ 972</u>	<u>\$ 27,621,492</u>

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NOTE 12 - FUNCTIONAL EXPENSES (Continued)

2019

	Program Services	General and Administrative	Fund Raising	Total
Salaries	\$ 11,606,159	\$ 1,223,742	\$ -0-	\$ 12,829,901
Benefits and payroll taxes	2,052,237	256,083	-0-	2,308,320
Medical supplies and drugs	1,900,712	-0-	-0-	1,900,712
Professional services	1,941,429	-0-	-0-	1,941,429
Insurance	306,792	80,327	-0-	387,119
Depreciation and amortization	755,935	75,109	-0-	831,044
Interest expense	180,554	-0-	-0-	180,554
Other operating expenses	2,379,137	1,731,384	1,025	4,111,546
Total Expenses	<u>\$ 21,122,955</u>	<u>\$ 3,366,645</u>	<u>\$ 1,025</u>	<u>\$ 24,490,625</u>

NOTE 13 - CONTINGENCIES

The Hospital evaluates contingencies based upon the best available evidence. The Hospital believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the Hospital's estimates, future earnings will be charged or credited. The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 11) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. 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.

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NOTE 13 - CONTINGENCIES (Continued)

Professional Liability Risk - The Hospital participates in the Louisiana Patients Compensation Fund established by the State of Louisiana to provide medical professional liability coverage to health care providers. The fund provides \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the Patients Compensation Fund, the State of Louisiana enacted legislation limiting the amount of settlement for professional liability to \$500,000 per occurrence. Legal action in an attempt to overturn this legislation on constitutional grounds is in process.

The Hospital's membership in the Louisiana Hospital Association Trust Fund provides additional coverage for professional medical malpractice and general liability. The trust fund bills members in advance, based upon an estimate of their exposure. At policy year-end, premiums are redetermined utilizing actual losses of all participating hospitals. The trust fund presumes to be a "Grantor Trust" and, accordingly, income and expenses are prorated to member hospitals. The Hospital has included these allocations of income as reductions of insurance expense and prepaid insurance.

Workmen's Compensation Risk - The Hospital participates in the Louisiana Hospital Association Self Insurance Workmen's Compensation Trust Fund. Should the fund's assets not be adequate to cover claims made against it, the Hospital may be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any.

As with many small rural hospitals, most Hospital admissions are from a limited number of local physicians. Should any of these local physicians stop referring patients to the Hospital, the financial impact, which cannot reasonably be determined, could be significant.

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or result from operations.

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a global pandemic. As a result, uncertainties have arisen that may have a significant impact on the operating activities and results of the Hospital. The occurrence and extent of such an impact will depend on future developments, including the duration and spread of the virus, government quarantine measures, voluntary and precautionary restriction on travel or meeting, the effects on the financial markets, and effects on the economy overall, all of which are uncertain. The Hospital received \$4,378,271 in Provider Relief Funds, as described in Note 20, to prevent, prepare for and respond to the coronavirus and as reimbursement to the Hospital for eligible expenses and lost revenues. Additionally, the Hospital applied for and received a Payroll Protection Program (PPP) loan, described in Note 22, in order to continue paying employee salaries and wages during the COVID-19 pandemic.

NOTE 14 - RETIREMENT PLAN

The Springhill Medical Services, Inc. pension plan is a 401k savings plan. The Hospital is the administrator of the plan. Under the terms of the plan, the Hospital matches 100% of the employees' contributions up to 5% of the employees' salaries. Once the matching contributions are made, the Hospital has no further liability. To participate in the plan, employees must be 18 years of age and must have completed one year of service. Employees are fully vested in the Hospital's contributions at the time contributions are submitted. The 401k

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NOTE 14 - RETIREMENT PLAN (Continued)

matching contribution expense for the years ended December 31, 2020 and 2019 was \$334,683 and \$300,519, respectively.

NOTE 15 - EMPLOYEE MEDICAL BENEFIT PLAN

During 2014 the Hospital became self-insured to provide group medical and prescription coverage for its employees up to a predetermined stop-loss amount. The Hospital entered into an agreement with a third-party administrator to administer the plan. The third-party administrator is Gilsbar, LLC. The plan year runs from January through December. The Hospital funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier covers individual claims in excess of \$50,000 or aggregate claims exceeding \$1,616,871 per plan year. A liability is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims' experience, recently settled claims, and frequency of claims. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

The following is a summary of the changes in the Hospital's claims liability for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Beginning of the year	\$ 92,377	\$ 160,038
Plus: Claims incurred and changes in estimate	1,820,968	1,383,834
Less: Claims paid	<u>(1,788,536)</u>	<u>(1,451,495)</u>
End of year	\$ <u>124,809</u>	\$ <u>92,377</u>

NOTE 16 - OPERATING LEASES

The Hospital entered into a non-cancellable operating lease agreement for Omnicell equipment during the year ended December 31, 2020. Future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 58,164
2022	58,164
2023	58,164
2024	58,164
2025	<u>19,369</u>
Total minimum lease payments	\$ <u>252,025</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 16 - OPERATING LEASES (Continued)

Total lease expense under noncancelable operating leases for the years ended December 31, 2020 and 2019, was \$38,776 and \$91,008, respectively.

NOTE 17 - CHARITY CARE

The Hospital provides services without charge or at amounts less than its rates to patients who meet the criteria of its charity care policy. Accordingly, the Hospital does not report the amount it expects not to collect in net operating revenue or in the allowance for doubtful accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including wages and related benefits, supplies and other operating expenses. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated \$157,229 and \$633,725 for the years ended December 31, 2020 and 2019, respectively, at costs of \$99,998 and \$404,000.

NOTE 18 - INCOME TAXES

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and recognize a tax liability if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. Management has concluded that there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any periods in progress. Hospital management believes it is no longer subject to income tax examinations for periods prior to January 1, 2016.

NOTE 19 - GOODWILL

The Hospital elected to implement Accounting Standards Codification 350 (an alternative accounting method available for private companies) and amortize goodwill over 10 years.

NOTE 20 - PROVIDER RELIEF FUNDS

The Hospital received \$4,378,271 in Provider Relief Funds (the funds) via the Coronavirus Aid Relief and Economic Security (CARES) Act during the fiscal year ending December 31, 2020. The funds were issued by the U.S. Department of Health & Human Services (HHS) in response to the coronavirus pandemic to be utilized for healthcare related expenses and lost revenues attributable to coronavirus. The Hospital recognized \$2,934,764 as non-restricted contributions in the fiscal year ending December 31, 2020, based on the information available as of December 31, 2020. The unrecognized amount is reported in donor restricted contributions in the accompanying statement of net position. The Hospital will submit a report of healthcare related expenses and lost revenues attributable to coronavirus. Funds received in excess of the reported expenses and lost revenues, if any, will be owed to HHS. As a result, the amount recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. This difference could be materially different from current estimates.

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 21 - MEDICARE ADVANCE PAYMENTS

During April 2020, the Hospital received \$3,324,453 from the Centers for Medicare & Medicaid (CMS) under the Accelerated and Advance Payment (AAP) Program. Repayment begins one year after payment was issued at 25 percent of Medicare payments otherwise owed to the Hospital. After eleven months, the recoupment rate will increase to 50 percent for another six months. If the Hospital is unable to repay the total amount of the AAP during this time period (29 months), CMS will require repayment of the remaining outstanding balance with an interest rate of four percent.

NOTE 22 - PAYCHECK PROTECTION PROGRAM

In response to the uncertainties surrounding the COVID-19 pandemic, the Hospital applied for, and received, \$2,404,300 under a SBA loan as part of the Paycheck Protection Program (PPP) in April 2020. Stipulations of the PPP loan's forgiveness provision require loan proceeds to be used for payroll and certain other operating expenses. It is management's intent to use these funds for such purposes.

NOTE 23 - SUBSEQUENT EVENTS

Events have been evaluated through November 30, 2021, for subsequent event disclosure and management has determined that no material events occurred that require disclosure, except those noted below. This date is the date the financial statements were available to be issued.

Subsequent to year end the Hospital repaid the full amount of the Medicare Advance payments of \$3,324,453. The PPP loan was forgiven in full in June, 2021.

SUPPLEMENTARY INFORMATION

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Routine services:		
Adults and pediatric	\$ 3,117,795	\$ 1,956,449
Intensive care unit	373,016	198,300
Swing bed	186,200	158,760
Psychiatric unit	<u>2,471,520</u>	<u>1,986,000</u>
Total routine services	<u>6,148,531</u>	<u>4,299,509</u>
Other professional services:		
Operating room	1,701,741	2,440,766
Anesthesia	166,750	263,169
Radiology	4,904,425	5,490,832
Laboratory	8,099,318	7,803,526
Respiratory care	459,733	556,696
Physical therapy	850,684	750,364
EKG	1,055,440	876,150
Central supply	341,536	445,135
Pharmacy	3,055,826	3,013,668
IV therapy	679,912	695,511
Wound care	14,249	76,441
Emergency room	6,478,105	5,194,266
Observation room	1,097,260	1,152,355
Hospital based physicians	1,334,351	1,565,371
Doctors Clinic	3,636,202	2,863,551
North Webster Medical Clinic	1,469,165	1,191,335
Homer Medical Clinic	2,371,933	2,181,362
Butler-Abshire Medical Clinic	2,178,988	2,080,415
Bradley Medical Clinic	<u>461,212</u>	<u>269,679</u>
Total other professional services	<u>40,356,830</u>	<u>38,910,592</u>
Gross charges	\$ <u>46,505,361</u>	\$ <u>43,210,101</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE (Continued)
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Less charges associated with charity patients	\$ <u>(157,229)</u>	\$ <u>(633,725)</u>
Gross patient service revenue	46,348,132	42,576,376
Less deductions from revenue:		
Contractual adjustments - Medicare and Medicaid	(14,721,190)	(13,823,181)
Contractual adjustments - Other	(5,553,178)	(3,207,335)
Medicaid managed care supplemental payments	2,300,021	1,663,200
Policy and other discounts	<u>(464,471)</u>	<u>(1,433,402)</u>
Net patient service revenue	27,909,314	25,775,658
Less implicit price concessions:	<u>(1,955,949)</u>	<u>(3,057,553)</u>
Net patient service revenue	\$ <u><u>25,953,365</u></u>	\$ <u><u>22,718,105</u></u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUE
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Cafeteria sales	\$ 78,301	\$ 116,941
Community care fees	37,684	20,684
Home health joint venture	92,935	119,751
Physician office rentals	35,444	44,800
340B pharmacy revenue	1,522,567	1,150,808
Springhill physical therapy	-0-	202,536
Vending revenue	4,601	3,074
Caravan ACO	255,279	-0-
Miscellaneous revenue	<u>55,954</u>	<u>37,602</u>
 Total other operating revenue	 \$ <u>2,082,765</u>	 \$ <u>1,696,196</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF SALARIES AND BENEFITS
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Administration	\$ 1,398,318	\$ 1,320,841
Plant operations and maintenance	213,525	235,957
Laundry	22,638	19,831
Housekeeping	228,870	201,567
Dietary	231,829	218,156
Central supply	103,230	97,807
Pharmacy	394,482	363,928
Nursing administration	185,473	125,616
Medical records	398,410	324,612
Nursing services, acute care	1,688,037	1,426,694
Nursing services, psych	801,670	692,200
Operating room	211,803	217,980
Radiology	570,672	496,734
Laboratory	502,613	427,543
Respiratory care	188,689	184,600
Physical therapy	405,421	264,430
Wound care	-0-	668
Doctors Clinic	2,553,253	2,168,425
North Webster Medical Clinic	493,430	471,301
Homer Medical Clinic	1,575,828	1,434,711
Butler-Abshire Medical Clinic	1,099,288	1,071,567
Bradley Medical Clinic	218,196	238,524
Emergency room	720,430	662,863
Outpatient physical therapy clinic	-0-	142,989
Senior Friends	6,469	20,357
	<u>14,212,574</u>	<u>12,829,901</u>
 Total salaries		
	<u>14,212,574</u>	<u>12,829,901</u>
Payroll taxes	984,527	880,054
Health insurance	1,267,668	965,004
Pension plan	334,683	300,519
Workers compensation	119,857	94,856
Other	29,569	67,887
	<u>2,736,304</u>	<u>2,308,320</u>
 Total benefits		
	<u>2,736,304</u>	<u>2,308,320</u>
 Total salaries and benefits	<u>\$ 16,948,878</u>	<u>\$ 15,138,221</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF MEDICAL SUPPLIES AND DRUGS
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Nursing services, acute care	\$ 193,217	\$ 176,737
Nursing services, psych	5,011	4,169
Operating room	76,220	50,831
Anesthesiology	1,051	1,769
Radiology	84,716	81,646
Laboratory	887,320	529,145
Respiratory care	277,239	182,170
Physical therapy	2,058	1,787
EKG	749	2,613
Pharmacy	554,685	402,568
Doctors Clinic	141,037	177,470
North Webster Medical Clinic	73,806	81,623
Homer Medical Clinic	64,108	90,048
Butler-Abshire Medical Clinic	67,473	68,868
Bradley Medical Clinic	22,959	14,504
Wound care	898	9,477
Emergency room	35,640	24,117
Outpatient physical therapy clinic	<u>-0-</u>	<u>1,170</u>
 Total medical supplies and drugs	 \$ <u>2,488,187</u>	 \$ <u>1,900,712</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF PROFESSIONAL FEES
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Nursing services, acute care	\$ 68,925	\$ 31,948
Nursing services, psych	122,130	145,060
Operating room	-0-	129
Anesthesiology	104,263	137,844
Radiology	93,493	112,875
Laboratory	4,150	8,315
Physical therapy	5,939	19,406
Pharmacy	21,705	25,307
Doctors Clinic	391,817	343,984
North Webster Medical Clinic	25,775	12,916
Homer Medical Clinic	68,482	36,190
Butler-Abshire Medical Clinic	24,101	20,114
Bradley Medical Clinic	12,797	8,493
Emergency room	861,763	859,239
Hospitalist	178,369	178,609
Senior Friends	<u>887</u>	<u>1,000</u>
 Total professional fees	 \$ <u>1,984,596</u>	 \$ <u>1,941,429</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF OTHER OPERATING EXPENSES
YEARS ENDED DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Administration	\$ 725,073	\$ 569,956
Miscellaneous purchased services	951,648	897,779
Supplies	774,990	604,712
Repairs and maintenance	320,386	279,916
Utilities	302,781	301,415
Telephone	93,839	77,924
Travel	198,765	140,972
Rentals	357,920	366,673
Education	27,294	54,085
Advertising	47,553	53,253
Dues and subscriptions	293,518	220,484
Sales and property taxes	306,508	267,247
340B pharmacy	328,979	250,793
Access health	-0-	-0-
Foundation	972	1,025
Miscellaneous expense	<u>39,320</u>	<u>25,312</u>
 Total other operating expenses	 \$ <u>4,769,546</u>	 \$ <u>4,111,546</u>

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULES OF PER DIEM AND OTHER COMPENSATION PAID TO BOARD MEMBERS
YEARS ENDED DECEMBER 31,

	-Compensation-	
	<u>12/31/2020</u>	<u>12/31/2019</u>
Board Members		
Dianne Stephens	None	None
Mary Armwood	None	None
Bob Bush	None	None
Bob Colvin	None	None
Don Teague	None	None
Patricia McMurray	None	None
David Anderson	None	None
Ray Huddleston	None	None
Wayne McMahan	None	None
J.W. Sessions, M.D., Chief of Medical Staff	None	None
Will Lynd	None	None

SPRINGHILL MEDICAL SERVICES, INC.
d/b/a SPRINGHILL MEDICAL CENTER
SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER PAYMENTS TO CHIEF EXECUTIVE OFFICER
YEARS ENDED DECEMBER 31,

Agency Head Name: Michael Patronis
Position: Chief Executive Officer
Time Period: January 1, 2020 to December 31, 2020

<u>Purpose</u>	<u>Amount</u>
Salary	153,808
Health insurance	-0-
Retirement (FICA replacement plan)	-0-
Car allowance	-0-
Vehicle provided by government	-0-
Per diem	-0-
Reimbursements	-0-
Travel	219
Registration fees	-0-
Conference travel	-0-
Continuing professional education fees	-0-
Housing	-0-
Unvouchered expenses	-0-
Special meals	-0-