



CPAs & BUSINESS ADVISORS

ST. FRANCIS HEALTH SERVICES OF MORRIS, INC. & SUBSIDIARIES

Consolidated Financial Statements

Year Ended September 30, 2020 and Fifteen Months Ended September 30, 2019

REQUIRED AUDITOR'S COMMUNICATION (1 OF 3)

Communication with the Board

1. Auditor's Responsibility Under Generally Accepted Auditing Standards
 - Responsibility for basic consolidated financial statements – management
 - Audit consists of tests, not complete verification – we obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free of material misstatements
 - Engaged to perform audit in accordance with auditing standards generally accepted in the United States of America
2. Planned Scope and Timing of the Audit
 - Audit conducted consistent with planned scope and timing
3. Independence
 - Complied with all relevant ethical requirements regarding independence
4. Significant Accounting Policies
 - Described in notes to consolidated financial statements
 - Adoption of Accounting Standards Update 2016-18
5. Management Judgments and Accounting Estimates and Qualitative Aspects of Accounting Practices
 - Collectability of resident receivables
 - Self-funded health insurance liability
 - Provider relief funds

REQUIRED AUDITOR'S COMMUNICATION (2 OF 3)

6. Difficulties Encountered in Performing the Audit

- None

7. Corrected Misstatements and Uncorrected Misstatements

- Corrected misstatements:
 - \$1,241,000 understatement of receivable and payable for estimated workers compensation claims.
 - \$546,000 understatements of allowance for doubtful accounts and bad debt expense.
- Uncorrected misstatements (determined to be immaterial):
 - \$372,000 understatement of receivable and payable for credit balances.

8. Disagreements with Management

- None

9. Management Consultations with Other Independent Accountants

- None noted

REQUIRED AUDITOR'S COMMUNICATION (3 OF 3)

10. Other Matters

- Modification of auditor's report (implementation of new accounting standard)

11. New or emerging accounting matters

- Leases

Internal Control Matters

1. Internal control over the preparation and review of the consolidated financial statements and material audit adjustments

PERFORMANCE OVERVIEW

The following represent the ratios used to analyze current performance levels.

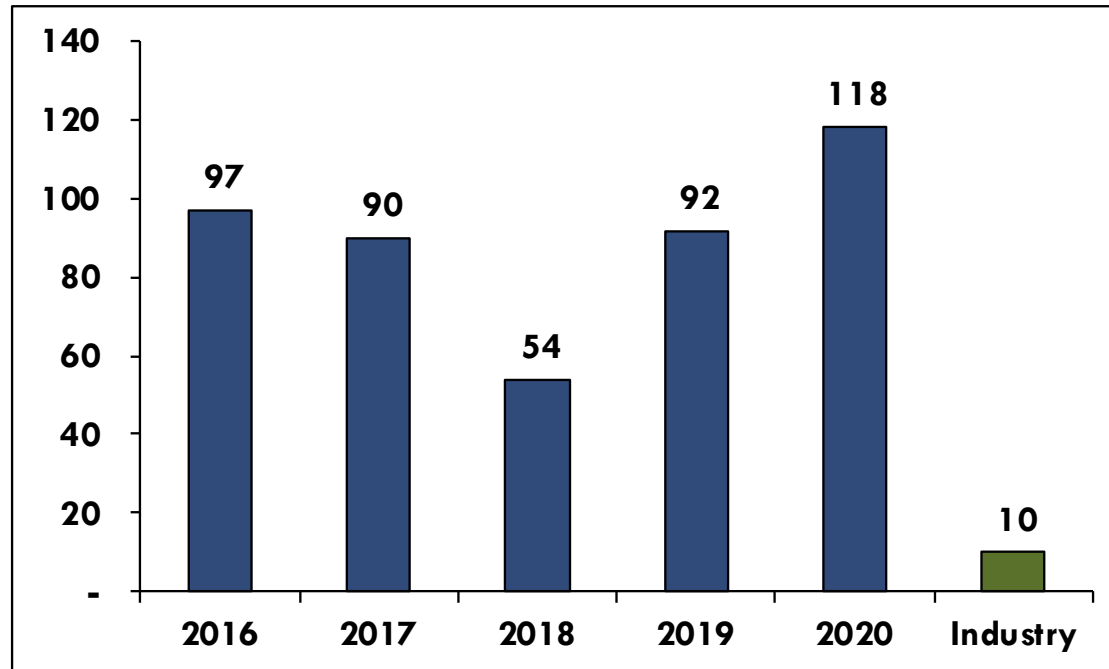
- Liquidity Ratios
 - Days Cash on Hand
 - Days in Receivable
- Capital Structure
 - Long-Term Debt to Capitalization
- Profitability
 - Revenues
 - Total Expenses
 - Operating Margin
 - EBITDA
 - Total Profit Margin
 - Debt Service Coverage

CONSOLIDATED BALANCE SHEET

	<u>2019</u>	<u>2020</u>	<u>Change</u>	<u>Percentage Change</u>
Assets				
Current Assets	\$ 42,024,569	\$ 53,396,547	\$ 11,371,978	27.1%
Assets Limited as to Use	1,642,322	1,971,913	329,591	20.1%
Property and Equipment	118,792,412	115,810,327	(2,982,085)	-2.5%
Other Assets	<u>257,877</u>	<u>1,122,468</u>	<u>864,591</u>	335.3%
Total Assets	<u>\$ 162,717,180</u>	<u>\$ 172,301,255</u>	<u>\$ 9,584,075</u>	5.9%
Liabilities and Net Assets				
Current Liabilities	\$ 15,035,642	\$ 19,269,482	\$ 4,233,840	28.2%
Resident Trust Funds and Tenant Security Deposits Payable	389,660	406,205	16,545	4.2%
Deferred Compensation Payable	345,599	268,637	(76,962)	-22.3%
Workers' Compensation Insurance Payable	-	867,103	867,103	N/A
Long-Term Debt	80,657,214	84,542,182	3,884,968	4.8%
Net Assets	<u>66,289,065</u>	<u>66,947,646</u>	<u>658,581</u>	1.0%
Total Liabilities and Net Assets	<u>\$ 162,717,180</u>	<u>\$ 172,301,255</u>	<u>\$ 9,584,075</u>	5.9%

DAYS CASH ON HAND

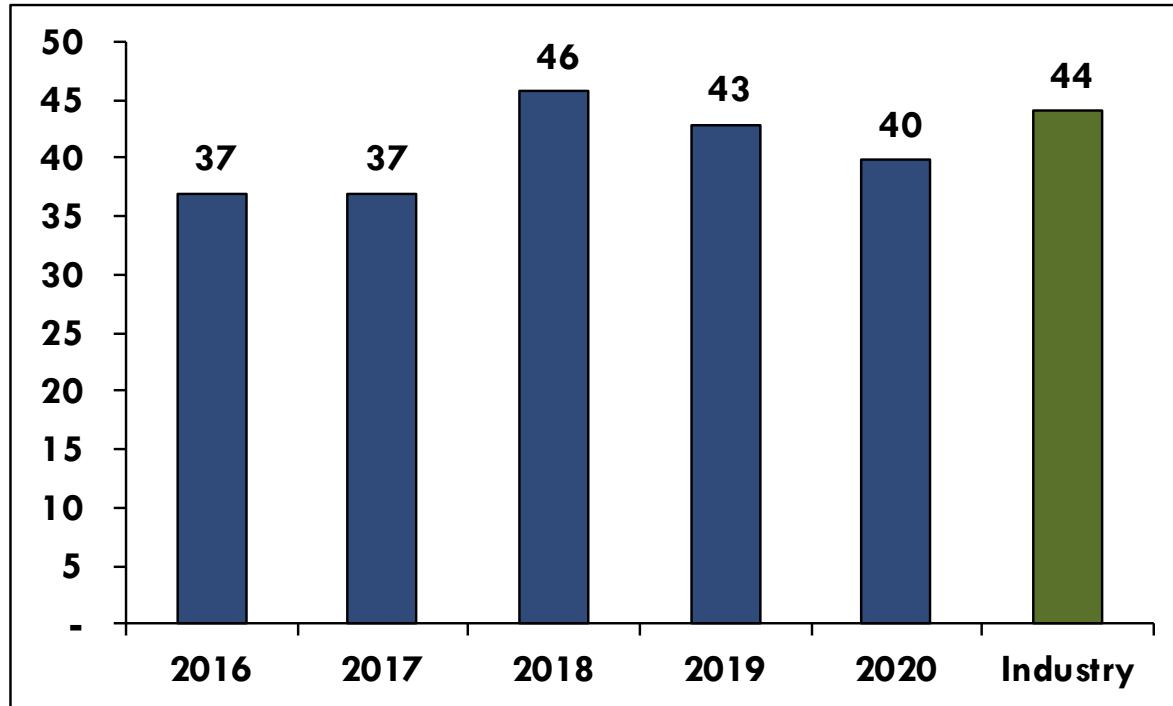
Days cash on hand from all sources is a measure of the average number of days St. Francis could operate without additional receipts.



Does management have a target level for Days Cash on Hand for effective management of funds?

NET DAYS IN AR

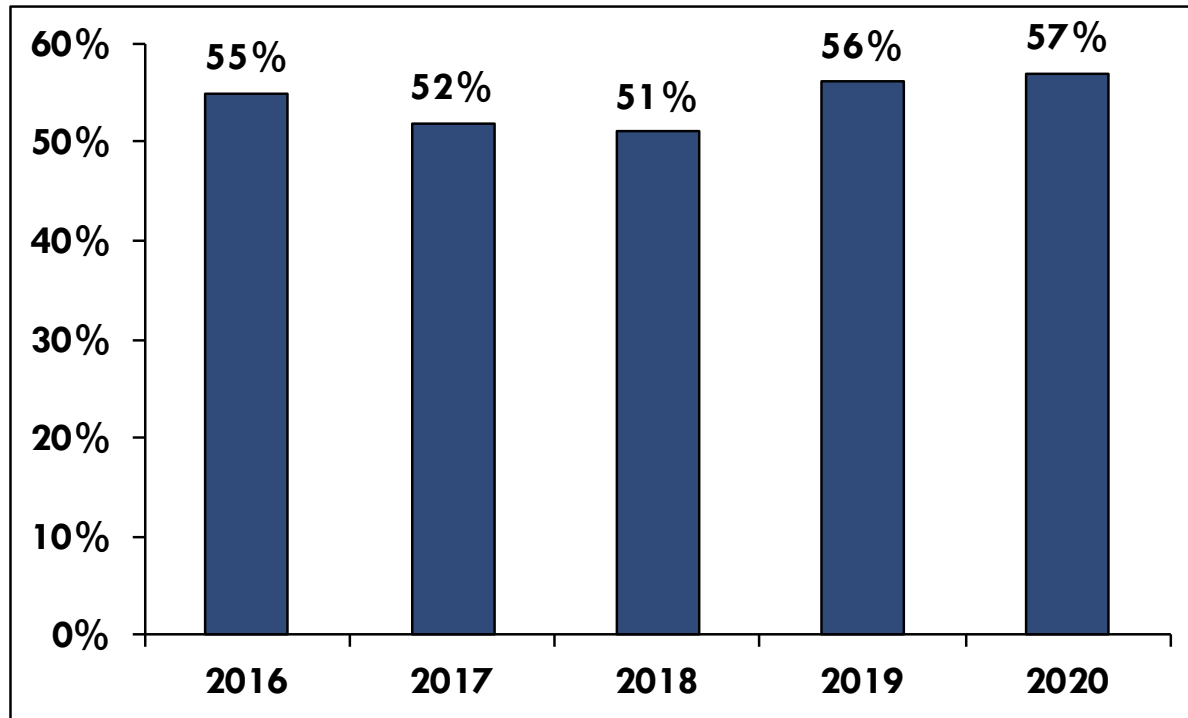
Net days revenue in receivables is used to estimate how long a charge is held in receivables before being collected.



St. Francis has shown consistent management of accounts receivables.

LONG-TERM DEBT TO CAPITALIZATION

The following represents the long-term debt to capitalization ratio which compares St. Francis' long-term debt compared to its total capitalization.

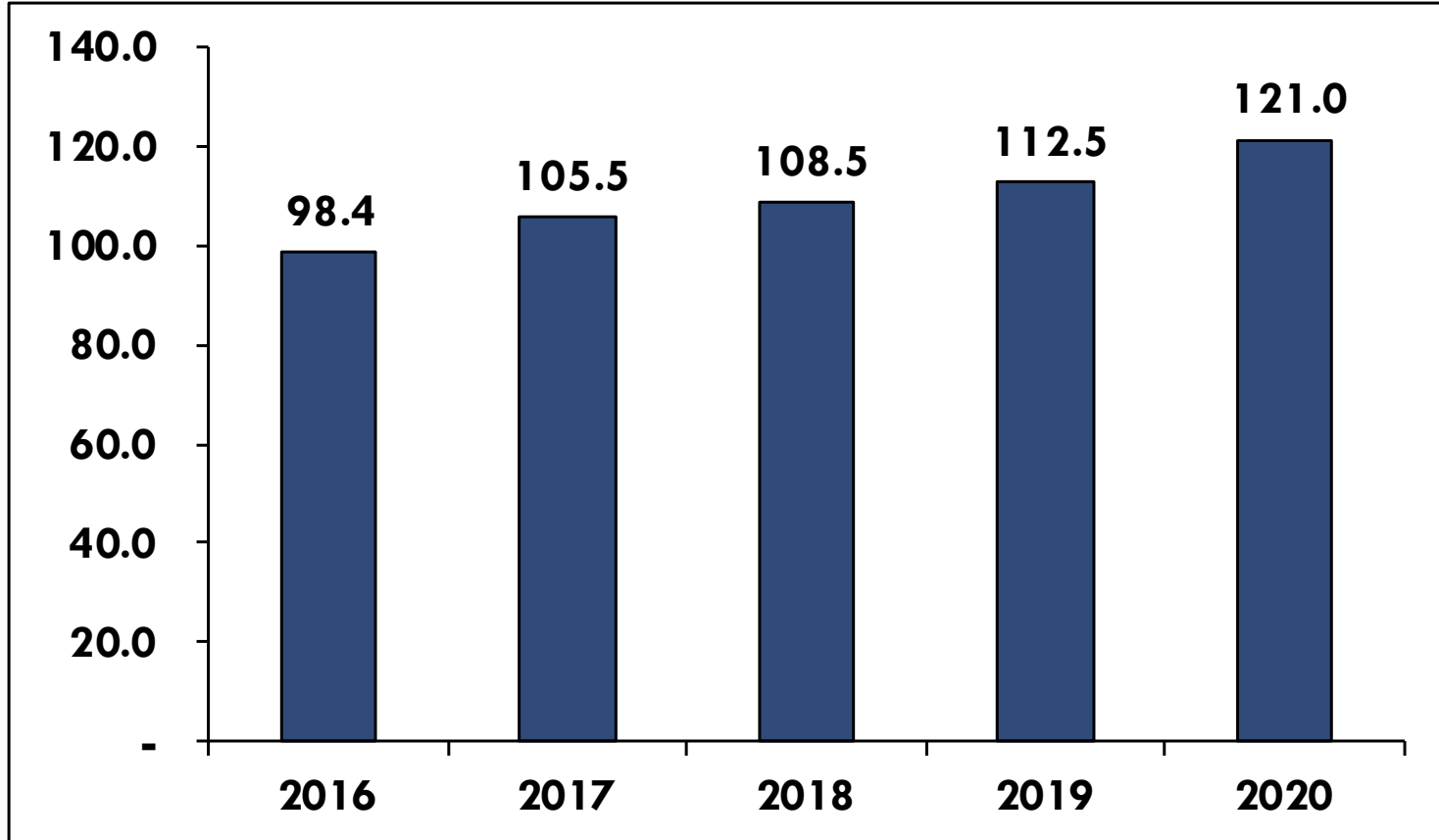


St. Francis' long-term debt to capitalization has remained consistent the past five years.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2020 AND FIFTEEN MONTHS ENDED SEPTEMBER 30, 2019

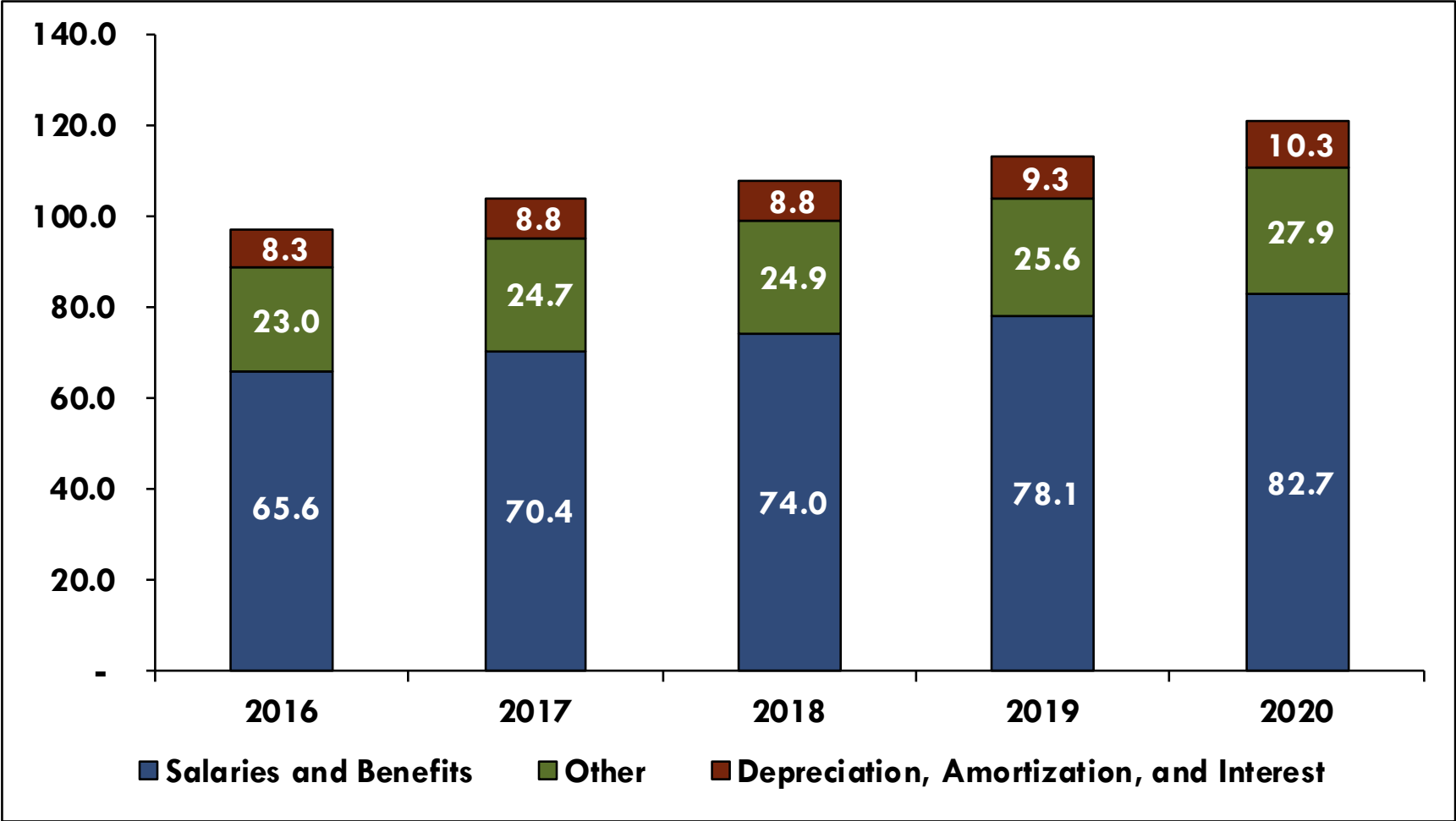
	2019	2020	Change	Percentage Change
Revenues, Gains, and Other Support Without Donor Restrictions				
Resident service and other revenue	\$ 140,660,541	\$ 117,188,489	(23,472,052)	-16.7%
Provider relief funds contribution	-	3,854,522	3,854,522	N/A
Total revenues, gains, and other support without donor restrictions	<u>140,660,541</u>	<u>121,043,011</u>	<u>(19,617,530)</u>	-13.9%
Expenses				
Salaries and benefits	97,608,498	82,699,640	(14,908,858)	-15.3%
Other	31,981,453	27,867,036	(4,114,417)	-12.9%
Depreciation	8,219,762	6,853,276	(1,366,486)	-16.6%
Interest	<u>3,453,632</u>	<u>3,447,384</u>	<u>(6,248)</u>	-0.2%
Total expenses	<u>141,263,345</u>	<u>120,867,336</u>	<u>(20,396,009)</u>	-14.4%
Operating Income (Loss)	<u>(602,804)</u>	<u>175,675</u>	<u>778,479</u>	129.1%
Other Income				
Interest income	111,736	105,059	(6,677)	-6.0%
Gain on disposal of PPE	117,834	250,902	133,068	112.9%
Equity earnings of investment in MHCA	111,088	(2,512)	(113,600)	-102.3%
Donations and other	<u>219,313</u>	<u>129,457</u>	<u>(89,856)</u>	-41.0%
Total other income	<u>559,971</u>	<u>482,906</u>	<u>(77,065)</u>	-13.8%
Revenues in Excess of (Less Than) Expenses and Change in Net Assets Without Donor Restrictions	(42,833)	658,581	701,414	1637.6%
Net Assets, Beginning of Period	<u>66,331,898</u>	<u>66,289,065</u>	<u>(42,833)</u>	-0.1%
Net Assets, End of Period	<u>\$ 66,289,065</u>	<u>\$ 66,947,646</u>	<u>\$ 658,581</u>	1.0%

REVENUES (MILLIONS)



2019 has been adjusted to reflect 12 months of revenue for comparability purposes

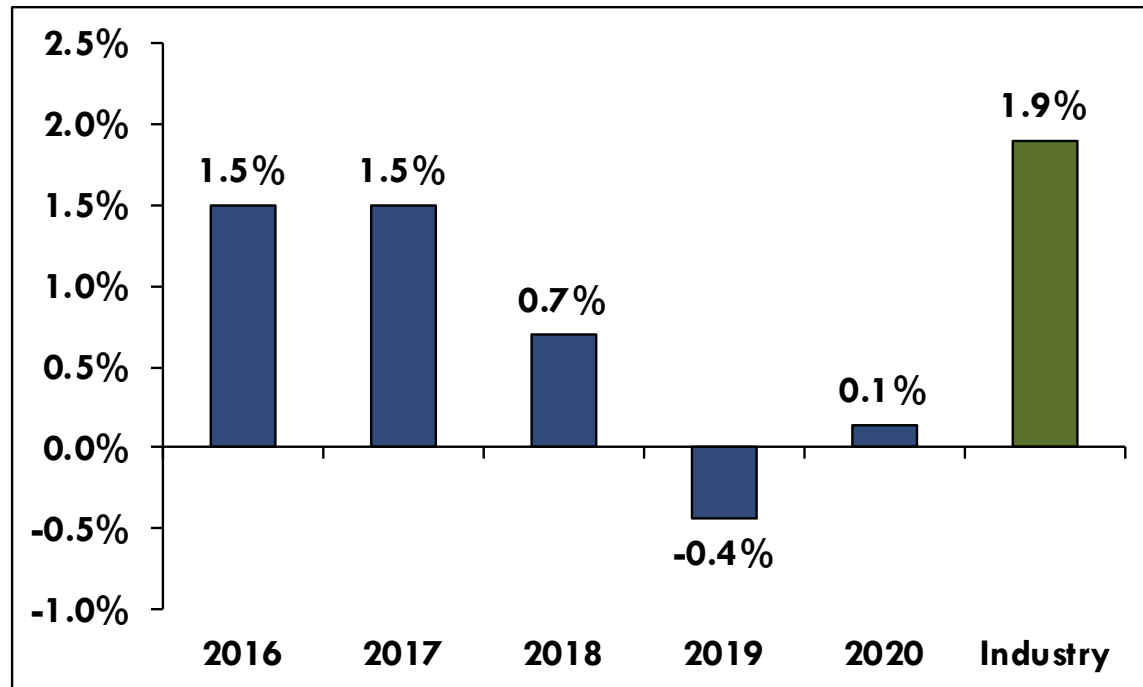
TOTAL EXPENSES (MILLIONS)



2019 has been adjusted to reflect 12 months of expenses for comparability purposes

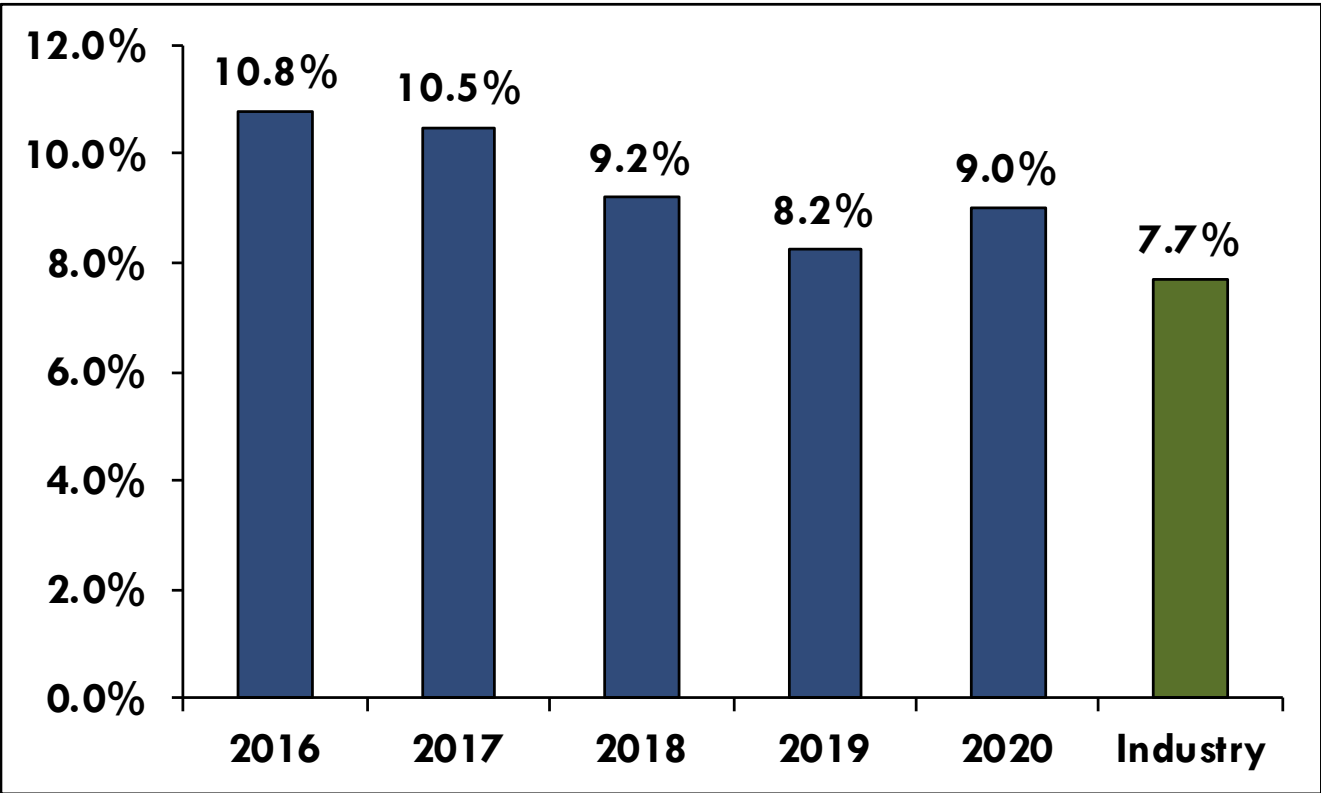
OPERATING MARGIN

Operating margin is a measure of profitability from operating activities.



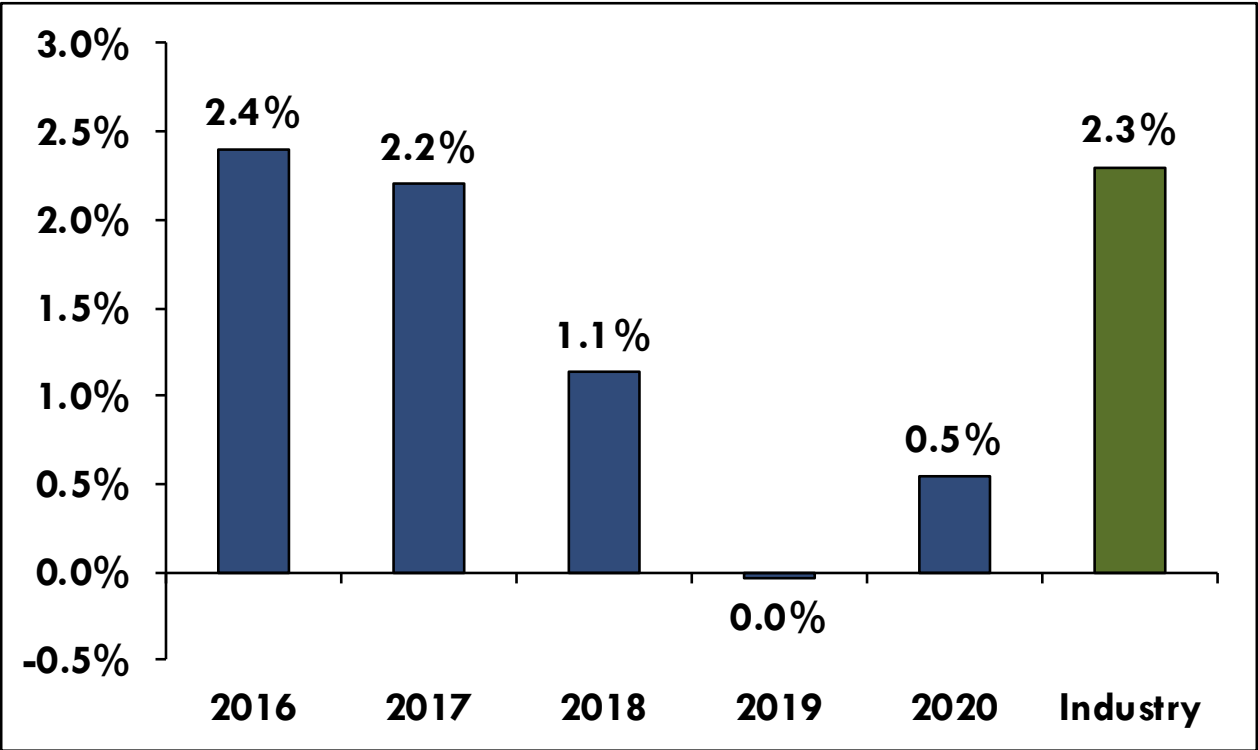
EBITDA

The EBITDA provides a measure of profitability excluding the impact of capital costs.



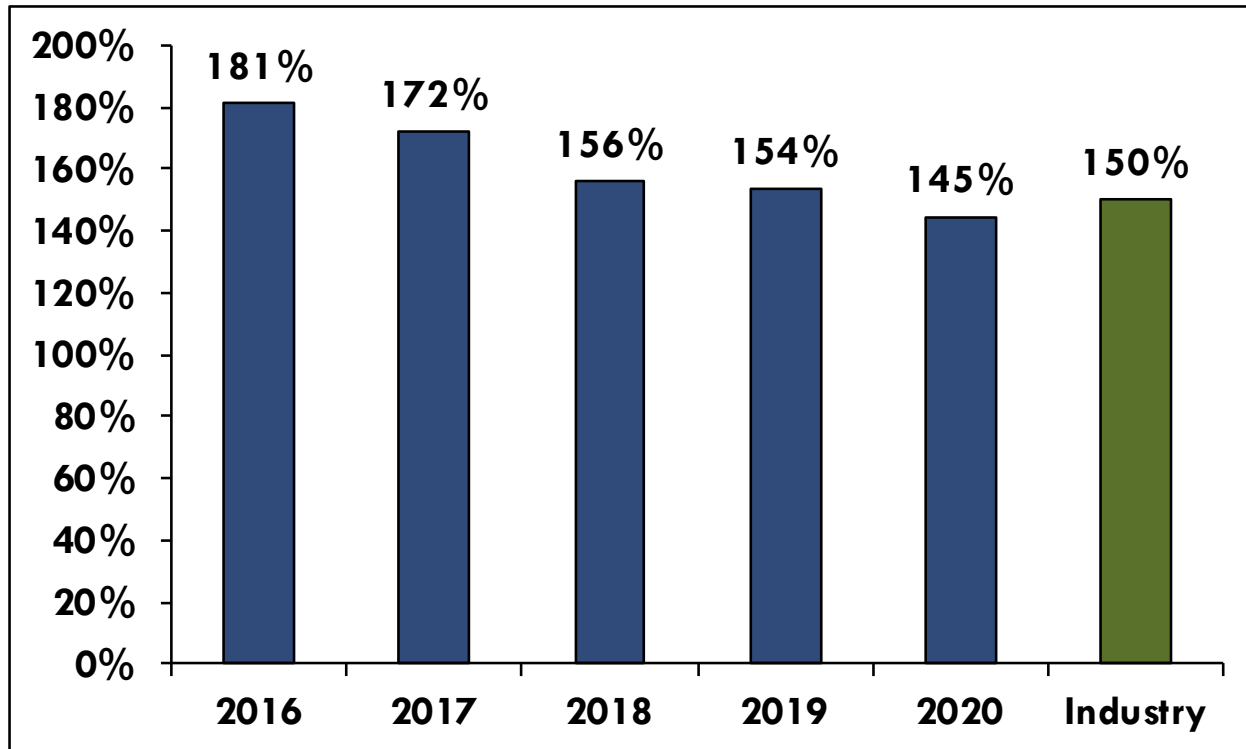
TOTAL PROFIT MARGIN

Total profit margin is a measure of profitability from operating activities plus other revenue sources.



DEBT SERVICE COVERAGE

Debt service coverage represents the ability to pay principal and interest payments related to debt service.



St. Francis' debt service coverage percentage has been strong the past five years.

“SWOT” ANALYSIS

The following analysis provides an opportunity to identify St. Francis’ next steps:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Strong margins • Strong cash balance • Positive receivable management • Strong and active Board of Directors • Updated facilities • Reputation 	<ul style="list-style-type: none"> • Return on investments • Profitability
Opportunities	Threats
<ul style="list-style-type: none"> • Aging population • Cost based reimbursement • Covid vaccines (positive impact to occupancy) 	<ul style="list-style-type: none"> • Competition for Medicare population • Future potential State budget shortfalls • Staff shortages • Ongoing pandemic expenses • Occupancy • Potential rate swings from cost report impact of PRF funding

CONCLUDING THOUGHTS

*Thank you for allowing us to share our
observations and suggestions.*

We look forward to continuing to serve you.