

HGS HEALTHCARE, LLC
FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2020 AND 2019



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**HGS HEALTHCARE, LLC
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INDEPENDENT AUDITORS' REPORT

Board of Managers
HGS Healthcare, LLC
Lisle, Illinois

We have audited the accompanying financial statements of HGS Healthcare, LLC, which comprise the balance sheets as of March 31, 2020 and 2019, and the related statements of operations, changes in members' equity, 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.

Board of Managers
HGS Healthcare, LLC

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HGS Healthcare, LLC as of March 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Transactions with Affiliated Companies

As discussed in Note 2 to the financial statements, HGS Healthcare, LLC is part of an affiliated group of companies and has entered into transactions with the group members. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Peoria, Illinois
June 18, 2020

**HGS HEALTHCARE, LLC
BALANCE SHEETS
MARCH 31, 2020 AND 2019**

ASSETS	2020	2019
CURRENT ASSETS		
Accounts Receivable, Less Allowance for Doubtful Accounts of \$-0- and \$166,102 in 2020 and 2019, Respectively	\$ 28,908,815	\$ 40,755,187
Due from Related Parties	320,794,004	182,944,788
Unbilled Revenue	30,739,150	22,406,464
Prepaid Expenses and Other Assets	320,331	272,838
Total Current Assets	380,762,300	246,379,277
DEFERRED TAX ASSET	297,452	231,051
PROPERTY AND EQUIPMENT		
Furniture and Fixtures	871,808	704,892
Leasehold Improvements	363,469	236,227
Equipment	2,968,418	2,628,309
Total Property and Equipment	4,203,695	3,569,428
Less: Accumulated Depreciation and Amortization	2,273,469	1,429,893
Total Property and Equipment, Net	1,930,226	2,139,535
Total Assets	\$ 382,989,978	\$ 248,749,863
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Bank Overdraft	\$ 60	\$ 12,378
Accounts Payable	5,973,166	864,613
Due to Related Parties	331,501,790	218,836,428
Accrued Sales Commissions	4,922,344	2,471,247
Other Accrued Expenses	2,694,175	1,588,658
Provision for Income Tax	4,344,094	3,790,894
Total Current Liabilities	349,435,629	227,564,218
ACCRUED DEFERRED COMPENSATION	140,000	-
Total Liabilities	349,575,629	227,564,218
MEMBERS' EQUITY		
Contributed Capital	251,000	251,000
Retained Earnings	33,163,349	20,934,645
Total Members' Equity	33,414,349	21,185,645
Total Liabilities and Members' Equity	\$ 382,989,978	\$ 248,749,863

See accompanying Notes to Financial Statements.

HGS HEALTHCARE, LLC
STATEMENTS OF OPERATIONS
YEARS ENDED MARCH 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
SALES	\$ 316,350,111	\$ 272,638,594
COST OF SERVICES	<u>267,844,745</u>	<u>233,104,581</u>
GROSS PROFIT	48,505,366	39,534,013
SELLING EXPENSES	19,918,280	17,357,953
GENERAL AND ADMINISTRATIVE EXPENSES	<u>12,055,509</u>	<u>6,456,900</u>
NET INCOME BEFORE INCOME TAXES	16,531,577	15,719,160
INCOME TAXES	<u>4,302,873</u>	<u>3,862,335</u>
NET INCOME	<u><u>\$ 12,228,704</u></u>	<u><u>\$ 11,856,825</u></u>

See accompanying Notes to Financial Statements.

HGS HEALTHCARE, LLC
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED MARCH 31, 2020 AND 2019

	<u>Contributed Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
BALANCE - APRIL 1, 2018	\$ 251,000	\$ 9,077,820	\$ 9,328,820
Net Income	<u>-</u>	<u>11,856,825</u>	<u>11,856,825</u>
BALANCE - MARCH 31, 2019	251,000	20,934,645	21,185,645
Net Income	<u>-</u>	<u>12,228,704</u>	<u>12,228,704</u>
BALANCE - MARCH 31, 2020	<u>\$ 251,000</u>	<u>\$ 33,163,349</u>	<u>\$ 33,414,349</u>

See accompanying Notes to Financial Statements.

HGS HEALTHCARE, LLC
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 12,228,704	\$ 11,856,825
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	844,997	773,604
Reserve for Uncollectible Accounts	(166,102)	88,000
Deferred Income Taxes	(66,401)	71,441
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	12,012,474	(17,370,225)
Due from Related Parties	(137,849,216)	(101,519,322)
Unbilled Revenue	(8,332,686)	(2,460,914)
Prepaid Expenses and Other Assets	(47,493)	(116,429)
Accounts Payable	5,108,553	(516,589)
Due to Related Parties	108,874,468	106,945,060
Provision for Income Tax	4,344,094	3,790,894
Accrued Expenses	3,696,614	38,006
Net Cash Provided by Operating Expenses	648,006	1,580,351
 CASH FLOWS FROM INVESTING ACTIVITIES		
Property and Equipment Purchases	(635,688)	(1,297,503)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Bank Overdraft	(12,318)	(282,848)
 NET CHANGE IN CASH	-	-
Cash - Beginning of Year	-	-
 CASH - END OF YEAR	\$ -	\$ -
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Provision for Income Tax Relieved through Related Party Payable	\$ 3,790,894	\$ 5,226,494

See accompanying Notes to Financial Statements.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HGS Healthcare, LLC (the Company) was formed in the state of Illinois for the purpose of providing health care related Business Process Outsourcing (BPO). HGS Healthcare, LLC is a majority owned subsidiary of HGS (USA) LLC. The BPO is performed by client service representatives which provide claims processing assistance for medical and dental, healthcare registration sign-up assistance, and other related services. The fiscal year-end for the Company is March 31.

Use of Estimates

The preparation of financial statements in accordance 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Standards

In 2020, the Company adopted the Financial Accounting Standards Board's Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606), which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. There was no material impact on the Company's financial position and results of operations upon adoption of the new standard.

Revenue Recognition

Under the scope of ASC 606, the Company recognizes revenues when control of the product or service has been delivered to the customer, in an amount that reflects the consideration that the Company expects to be entitled in the exchange. To determine revenue recognition arrangements that an entity determines to be in the scope of ASC 606, the Company performs the following five step evaluation: 1) identify the contract with a customer, 2) identify performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations, 5) recognize revenue when or as the entity satisfies a performance obligation.

The Company's Business Process Management (BPM) service revenues are primarily generated from healthcare related customers based in the United States of America. Services are delivered from both onshore locations as well as offshore locations. The Company's principal revenue generating activities typically involve claims processing and call center services for its clients.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

For many of these arrangements the Company provides specified BPM claim processing and call center services as outlined in the customer agreements. The Company considers each agreement a contract. The Company identifies its performance obligations based on the customer's agreement and the services promised to be performed. The transaction price is the rates set out in each agreement and generally pertain to each performance obligation. The Company recognizes the transaction price upon completion of the performance obligation, which is typically billed to the customer on a monthly basis.

The Company's agreements contain service level agreements ("SLA"), which are considered variable consideration adjustments to the monthly invoice to the Company's customers. The SLAs provide monetary penalties and/or rewards to the Company, based upon the performance of the Company's agents during a given month. The SLAs are accounted for and are included in the invoice to the client on a monthly basis. To a lesser extent, certain of the Company's agreements contain volume discounts, which are also calculated and accounted for on a monthly basis.

The Company may incur incremental costs to obtain a sales contract, which under ASC 606 are required to be capitalized and amortized over the life of the contract. The Company has elected the practical expedient to allow the Company to expense these costs since the majority of as the BPM services provided are strictly provided on a real-time basis and not for the purpose of building a long-term asset for the customer.

The costs incurred by the Company to obtain an agreement with a customer primarily pertain to sales commission costs. The Company accrues sales commission costs as expense over the term of the sales commission agreement, and payments are generally made as the related customer billings are collected.

The Company disaggregates its revenue from contracts with customers by geographic location, as the Company believes it best depicts the nature, amount, timing, and uncertainty of its revenue and cash flows as follows:

<u>Description</u>	<u>2020</u>	<u>2019</u>
Revenue by Major Geographic Market:		
Domestic	\$ 46,011,043	\$ 35,868,145
Offshore	270,339,068	236,770,449
Total	<u>\$ 316,350,111</u>	<u>\$ 272,638,594</u>
Timing of Revenue:		
At a Point of Time	<u>\$ 316,350,111</u>	<u>\$ 272,638,594</u>

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contract assets recorded as unbilled revenue on the balance sheets were \$30,739,150 and \$22,406,464, at March 31, 2020 and 2019, respectively. The Company's does not have significant contract liabilities at March 31, 2020 and 2019, respectively.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations, which generally require payment within 60 days from the invoice date. Accounts receivable are carried at original invoice amount less estimated allowances for discounts and doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition and credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. The estimated allowance for doubtful accounts was \$-0- and \$166,102 as of March 31, 2020 and 2019, respectively.

Unbilled Revenue

Unbilled revenue represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date, net of recognized losses.

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line method over the useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the assets or terms of the related leases, whichever is shorter. The estimated useful lives are as follows:

Furniture and Fixtures	7 Years
Leasehold Improvements	3 to 7 Years
Equipment	3 to 5 Years

Depreciation and amortization charged to operations for 2020 and 2019 was \$844,997 and \$773,604, respectively.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising costs are charged to operations when incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed by management for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In cases in which undiscounted expected future cash flows are less than the carrying value, an impairment loss is recorded equal to the amount by which the carrying value exceeds the fair value of assets.

Income Taxes

The Company has elected to be treated as a flow through entity for federal income tax purposes. Under the election, the net income or loss of the Company is passed to the members and reported on their individual returns. The Company is a member of a group that files a consolidated tax return under HGS International. Consolidated taxable income of the group is allocated to the member entities based on their pro rata portion of the taxable income.

Leases

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2021. This means it will be effective for the Company on April 1, 2022. Early adoption is permitted. Management is evaluating the impact of the amended lease guidance on the Company's financial statements.

Subsequent Events

Management has evaluated subsequent events through June 18, 2020, the date the financial statements were available to be issued.

The Coronavirus Disease 2019 (COVID-19) has recently affected global markets, supply chains, employees of companies, and our communities. Specific to the Company, COVID-19 may impact various parts of its 2021 operations and financial results including potential reduced revenues caused by business interruption, economic hardships effecting consumer demand for the Company's products and services and effects on the Company's workforce. Management believes the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as of March 31, 2020.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 2 RELATED PARTY TRANSACTIONS

The Company is part of the controlled group of Hinduja Global Solutions Limited (HGS). As part of normal operations of the group, assets are moved between the subsidiaries as management of HGS directs. As a result of this activity, the Company has balances due from the following related parties as of March 31:

	<u>2020</u>	<u>2019</u>
Hinduja Global Solutions LTd.	\$ 721,156	\$ 50
HGS Colibrium Inc. USA	12,112	-
Team HGS LTd., Jamaica	14,384	-
HGS Axispoint Health LLC	117,802	61,280
HGS (USA), LLC	319,604,688	182,656,832
HGS EBOS, LLC	323,862	226,626
Total Due from Related Parties	<u>\$ 320,794,004</u>	<u>\$ 182,944,788</u>

The Company has balances due to the following related parties as of March 31:

	<u>2020</u>	<u>2019</u>
Hinduja Global Solutions LTd.	\$ 43,668,709	\$ 37,238,059
HGSL Manila	31,113,759	29,382,777
Team HGS LTd., Jamaica	5,045,515	2,411,684
HGS Colibrium Inc. USA	411,841	29,068
HGS EBOS, LLC	127,056	135,506
HGS Canada Inc.	-	7,769
HGS Axispoint Health LLC	5,134	-
Caytel Contracting Limited	-	1,255,594
Hinduja Global Solutions Inc. USA	251,129,776	148,375,971
Total	<u>\$ 331,501,790</u>	<u>\$ 218,836,428</u>

During the years ended March 31, 2020 and 2019, the Company incurred \$229,889,046 and \$197,497,258, respectively, in sub-contract labor costs and other reimbursable expenses to various related parties under the controlled group.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 3 LEASE COMMITMENTS

The Company has an operating lease for office space. Rental expense for the operating lease was \$704,542 and \$687,319 for the years ended March 31, 2020 and 2019, respectively.

Future minimum lease payments under this operating lease as of March 31, 2020 are as follows:

<u>Year Ending March 31,</u>	<u>Amount</u>
2021	\$ 722,288
2022	<u>365,622</u>
Total Minimum Lease Payments	<u><u>\$ 1,087,910</u></u>

NOTE 4 CONCENTRATION OF CREDIT RISK

Approximately 87% and 89% of the Company's net sales for the years ended March 31, 2020 and 2019, respectively, were derived from three client contracts. The Company also had accounts receivable and unbilled revenue from these customers of approximately \$53,277,000 and \$57,761,000 for the years ended March 31, 2020 and 2019, respectively.

NOTE 5 EMPLOYEE CONTRIBUTIONS

The Company has a discretionary contribution plan, in which employees who meet plan eligibility requirement may participate. Eligible employees may receive matching contributions from the Company. The Company's expense on behalf of the employees for the plan was \$66,030 and \$49,834 for the years ended March 31, 2020 and 2019, respectively.

NOTE 6 CONTINGENCIES

In the normal course of business, the Company is involved in various legal proceedings. Due to their nature, such legal proceedings involve inherent uncertainties including, but not limited to, court rulings, negotiations between affected parties and governmental actions. Management assesses the probability of loss for such contingencies and accrues a liability and/or discloses the relevant circumstances, as appropriate.

NOTE 7 COMPANY INCENTIVE PROGRAM

During the year ended March 31, 2019, the Company introduced an incentive program to certain employees with various levels of potential bonuses tied to periodic goals, net income, and earnings per share. Total bonus expense was \$140,000 and \$-0- for the years ended March 31, 2020 and 2019, respectively.

HGS HEALTHCARE, LLC
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

NOTE 8 INCOME TAXES

The Company is a single member limited liability company that is disregarded for income tax purposes in the U.S. federal jurisdiction. Accordingly, income taxes payable to (refundable from) the tax authorities is recognized on the financial statements of the single member. This allocation approximates the amounts that would be reported if the Company was separately filing its tax returns. Any income tax implications as a result of any federal or local jurisdiction exam attributable to the company would not exist prior to the tax year beginning April 1, 2017.

Significant components of the Company's net deferred tax assets at March 31 were approximately as follows:

	<u>2020</u>	<u>2019</u>
Deferred Tax Assets:		
Bad Debts	\$ -	\$ 1,453
Accrued Salaries	439,621	3,052
Other Accrued Liabilities	33,627	186,528
	<u>473,248</u>	<u>191,033</u>
Deferred Tax Liabilities:		
Property and Equipment	(175,796)	40,018
Net Deferred Tax Assets	<u>\$ 297,452</u>	<u>\$ 231,051</u>

The components of income tax expense for the years ended March 31 were as follows:

	<u>2020</u>	<u>2019</u>
Current	\$ 4,369,273	\$ 3,790,894
Deferred	(66,400)	71,441
Total	<u>\$ 4,302,873</u>	<u>\$ 3,862,335</u>
Income Taxes at Statutory Rate (21.00%)	\$ 3,471,632	\$ 3,301,029
State Income Taxes, Net	667,056	427,338
Other Accruals	108,054	188,978
Other	56,131	(55,010)
Total	<u>\$ 4,302,873</u>	<u>\$ 3,862,335</u>

On March 27, 2020, the President of the United States signed into law the CARES Act tax legislation. This legislation makes significant changes in the U.S. tax law, including a temporary suspension of the limitation on the utilization of post-2017 net operating loss carryforwards. This legislation increased the allowed post-2017 NOL usage per year from 80% to 100% for losses utilized in the 2019, 2020, and 2021 tax years and allows for a five-year carryback period. The Act also temporarily increases the interest expense limitation, from 30% to 50%, for 2019 and 2020. The Act allows for the acceleration of the corporate alternative minimum tax credit refund. These and other provisions of the Coronavirus Aid, Relief, and Economic Security Act are not expected to have a material impact on the current or future financial statements.