

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Independent Auditor's Report and Financial Statements

May 31, 2016 and 2015

Independent Auditor's Report

Board of Directors
Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Ellington, Missouri

We have audited the accompanying financial statements of Big Springs Medical Association, Inc., d/b/a Missouri Highlands Health Care (the "Organization"), which comprise the balance sheets as of May 31, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Springs Medical Association, Inc., d/b/a Missouri Highlands Health Care, as of May 31, 2016 and 2015, and the results of its operations, the 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.

BKD, LLP

Springfield, Missouri
December 15, 2016

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

**Balance Sheets
May 31, 2016 and 2015**

Assets

	2016	2015
Current Assets		
Cash	\$ 237,344	\$ 38,400
Patient accounts receivable, net of allowance; 2016 - \$1,049,484, 2015 - \$654,090	759,108	390,061
Grants and other receivables	163,635	308,147
Contributions receivable - current	20,000	12,500
Prepaid expenses and other	94,199	53,042
Total current assets	1,274,286	802,150
Property and Equipment, At Cost		
Land and land improvements	676,248	737,388
Buildings	5,537,498	5,584,690
Furniture and fixtures	4,230,354	4,004,476
Construction in progress	5,080	5,820
	10,449,180	10,332,374
Less accumulated depreciation	3,154,691	2,787,470
	7,294,489	7,544,904
Investment in Equity Investees		
	84,122	40,848
Total assets	\$ 8,652,897	\$ 8,387,902

Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current maturities of long-term debt	\$ 50,943	\$ 91,077
Accounts payable	364,993	308,565
Estimated amounts due to third-party payers	550,000	295,000
Accrued expenses	428,944	314,066
	<hr/>	<hr/>
Total current liabilities	1,394,880	1,008,708
Notes Payable to Bank	185,000	190,000
Long-Term Debt	<hr/>	<hr/>
	184,826	302,675
	<hr/>	<hr/>
Total liabilities	1,764,706	1,501,383
	<hr/>	<hr/>
Net Assets		
Unrestricted	6,783,566	6,860,348
Temporarily restricted	104,625	26,171
	<hr/>	<hr/>
Total net assets	6,888,191	6,886,519
	<hr/>	<hr/>
Total liabilities and net assets	\$ 8,652,897	\$ 8,387,902
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Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Operations
Years Ended May 31, 2016 and 2015

	2016	2015
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 6,867,430	\$ 5,105,247
Provision for uncollectible accounts	396,931	164,277
Net patient service revenue less provision for uncollectible accounts	6,470,499	4,940,970
Grant revenue	3,011,687	2,816,437
Contribution and other revenue	79,806	43,364
Net assets released from restriction used for operations	76,670	120,822
Total unrestricted revenues, gains and other support	9,638,662	7,921,593
Expenses and Losses		
Salaries and wages	5,033,846	4,544,948
Employee benefits	814,038	845,437
Purchased services and professional fees	1,595,525	1,177,558
Supplies and other	1,971,590	2,165,462
Rent	63,998	64,962
Depreciation and amortization	452,174	457,288
Interest	22,003	23,500
Loss on disposal of property and equipment	8,324	-
Federal grants passed through to subrecipients	112,738	111,325
Total expenses and losses	10,074,236	9,390,480
Operating Loss	(435,574)	(1,468,887)
Other Income (Expense)		
Investment return	1,854	3,044
Gain (loss) on investment in equity investee	52,433	(8,853)
Total other income (expense)	54,287	(5,809)
Deficiency of Revenues Over Expenses	(381,287)	(1,474,696)
Contributions for acquisition of property and equipment	67,550	-
Net assets released from restriction used for purchase of property and equipment	44,876	78,891
Grants for acquisition of property and equipment	192,079	6,214
Decrease in Unrestricted Net Assets	\$ (76,782)	\$ (1,389,591)

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Changes in Net Assets
Years Ended May 31, 2016 and 2015

	2016	2015
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (381,287)	\$ (1,474,696)
Contributions for acquisition of property and equipment	67,550	-
Net assets released from restriction used for purchase of property and equipment	44,876	78,891
Grants for acquisition of property and equipment	192,079	6,214
Decrease in unrestricted net assets	(76,782)	(1,389,591)
Temporarily Restricted Net Assets		
Contributions received	200,000	50,000
Net assets released from restriction	(121,546)	(199,713)
Increase (decrease) in temporarily restricted net assets	78,454	(149,713)
Change in Net Assets	1,672	(1,539,304)
Net Assets, Beginning of Year	6,886,519	8,425,823
Net Assets, End of Year	\$ 6,888,191	\$ 6,886,519

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

**Statements of Cash Flows
Years Ended May 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating Activities		
Change in net assets	\$ 1,672	\$ (1,539,304)
Items not requiring (providing) cash		
Loss on disposal of property and equipment	8,324	-
Depreciation and amortization	452,174	457,288
(Gain) loss on investment in equity investee	(52,433)	8,853
Contributions of or for acquisition of property and equipment	(186,426)	-
Grants for acquisition of property and equipment	(192,079)	(6,214)
Changes in		
Patient accounts receivable, net	(369,047)	109,779
Estimated amounts due from third-party payers	255,000	45,000
Grants and other receivables	143,298	(38,678)
Contributions receivable	(7,500)	45,442
Accounts payable and accrued expenses	166,306	44,608
Deferred grant revenue	-	(19,224)
Other current assets	(41,157)	49,765
Net cash provided by (used in) operating activities	<u>178,132</u>	<u>(842,685)</u>
Investing Activities		
Investment in equity investees	(103)	(3,283)
Distributions from equity investees	9,262	-
Purchase of property and equipment	(299,883)	(130,342)
Proceeds from sale of property and equipment	94,800	-
Net cash used in investing activities	<u>(195,924)</u>	<u>(133,625)</u>
Financing Activities		
Principal payments on long-term debt	(157,983)	(65,437)
Proceeds from issuance of notes payable to bank	-	190,000
Principal payments on notes payable to bank	(5,000)	-
Proceeds from contributions for acquisition of property and equipment	186,426	-
Proceeds from grants for acquisition of property and equipment	193,293	-
Net cash provided by financing activities	<u>216,736</u>	<u>124,563</u>
Increase (Decrease) in Cash	198,944	(851,747)
Cash, Beginning of Year	<u>38,400</u>	<u>890,147</u>
Cash, End of Year	<u>\$ 237,344</u>	<u>\$ 38,400</u>
Supplemental Cash Flows Information		
Interest paid	\$ 22,350	\$ 22,688
Property and equipment acquisitions in accounts payable	\$ 5,000	\$ -
Capital lease obligation incurred for property and equipment	\$ -	\$ 55,468

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Notes to Financial Statements
May 31, 2016 and 2015

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Big Springs Medical Association, Inc., d/b/a Missouri Highlands Health Care, (the “Organization”) primarily earns revenues by providing physician and related health care services through clinics located in the Missouri counties of Carter, Shannon, Reynolds, Iron, Butler, Wayne and Ripley.

Use of Estimates

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

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

The Organization's allowance for uncollectible accounts for self-pay patients decreased from 83% of self-pay accounts receivable at May 31, 2015, to 82% of self-pay accounts receivable at May 31, 2016. The Organization's write-offs decreased approximately \$58,000 from approximately \$60,000 for the year ended May 31, 2015, to approximately \$2,000 for the year ended May 31, 2016.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	5-40 years
Furniture and fixtures	2-30 years

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grants objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended May 31, 2016 and 2015.

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

Investment in Equity Investees

The Organization owns a 3.19% and 3.10% membership interest in Missouri Community Health Access, LLC (MCHA) at May 31, 2016 and 2015, respectively. The Organization and 12 other Missouri federally qualified health centers purchased membership interests in MCHA, which will be one of the two sole shareholders of Healthy Missouri Holdings, Inc. (HMH), which in turn will be the sole owner of Home State Health Plan (HSHP). HSHP will operate a Medicaid managed care plan in the state of Missouri. The Organization accounts for its investment in MCHA under the equity method of accounting.

The Organization also owns a 3.70% and 3.85% membership interest in Missouri Health Plus, LLC (MHP) at May 31, 2016 and 2015, respectively. MHP is a joint venture with other Missouri federally qualified health centers. The Organization accounts for its investment in MHP under the equity method of accounting.

340B Revenue

The Organization participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Organization has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Organization. Reported 340B revenue consists of the gross pharmacy reimbursements.

	2016	2015
Gross receipts	\$ 691,040	\$ 1,109,707
Drug replenishment costs	(217,600)	(366,954)
Administrative and filling fees	(250,548)	(321,514)
Net revenue	<u>\$ 222,892</u>	<u>\$ 421,239</u>

The 340B gross receipts are included in net patient service revenue on the statements of operations. The drug replenishment costs and administrative and filling fees are included in contract pharmacy expense on the statements of operations. The net 340B revenue from this program is used in furtherance of the Organization’s mission.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of pediatric vaccines and professional services from various private donors. It is the policy of the Organization to record the estimated fair value of certain in-kind contributions as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended May 31, 2016 and 2015, \$30,684 and \$15,107, respectively, were received in in-kind contributions.

Government Grant Revenue

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Notes to Financial Statements
May 31, 2016 and 2015

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Deficiency of Revenues Over Expenses

The statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions or grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for the medically underserved populations of rural southeast Missouri. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended May 31, 2016 and 2015, the Organization recognized \$2,628,541 and \$2,324,350 in CHC grant funds, respectively. The Organization has been authorized for funding in the amount of \$3,087,909 for the year ending May 31, 2017.

In addition to this grant, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for service provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries were paid based on a cost reimbursement methodology until May 31, 2015. Under that methodology, the Organization was reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Effective June 1, 2015, these services are now paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, will now be paid based on the lesser of the health center's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicaid fiscal intermediary.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended May 31, 2016 and 2015, was:

	2016	2015
Medicaid	\$ 3,879,328	\$ 2,668,107
Medicare	982,425	421,407
Self-pay	341,029	303,644
Other third-party payers	1,664,648	1,712,089
Total	\$ 6,867,430	\$ 5,105,247

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

**Notes to Financial Statements
May 31, 2016 and 2015**

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at May 31, 2016 and 2015, was:

	2016	2015
Medicare	16%	16%
Medicaid	62%	60%
Self-pay	13%	19%
Other third-party payers	9%	5%
	100%	100%

Note 5: Investment in Equity Investees

The Organization participates in a joint venture along with 12 other Missouri FQHCs to purchase membership interests in Missouri Community Health Access, LLC (MCHA). MCHA will be one of the two sole shareholders of Healthy Missouri Holdings, Inc. (HMH), which in turn will be the sole owner of Home State Health Plan (HSHP). HSHP will operate a Medicaid managed care plan in the state of Missouri. The Organization is a 3.19% and 3.10% member of MCHA at May 31, 2016 and 2015, respectively. Unaudited financial position as of June 30, 2016 and 2015, and results of operations for the years then ended of MCHA are summarized below:

	2016	2015
Current assets	\$ 295,516	\$ 294,830
Total assets	1,276,935	1,276,250
Current liabilities	1,935	1,250
Total liabilities	1,935	1,250
Equity	\$ 1,275,000	\$ 1,275,000
Revenues	\$ -	\$ -
Net income (loss)	\$ (4,382)	\$ (4,362)

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

The Organization's proportionate share of net income (loss) in MCHA amounted to \$1,158 and \$(141) for the years ended May 31, 2016 and 2015, respectively. The Organization's investment in MCHA is included in investment in equity investees on the balance sheets.

The Organization entered into a joint venture with other Missouri FQHCs to purchase membership interests in Missouri Health Plus, LLC (MHP). The Organization is a 3.70% and 3.85% member of MHP at May 31, 2016 and 2015, respectively. Unaudited financial position as of June 30, 2016 and 2015, and results of operations for the years then ended of MHP are summarized below:

	2016	2015
Current assets	\$ 1,312,211	\$ 211,862
Total assets	1,312,211	211,862
Current liabilities	129,673	176,487
Total liabilities	129,673	176,487
Equity	\$ 1,182,538	\$ 35,375
Revenues	\$ 1,520,196	\$ 162,814
Net income (loss)	\$ 989,495	\$ (225,133)

The Organization's proportionate share of net income (loss) in MHP amounted to \$51,275 and \$(8,712) for the years ended May 31, 2016 and 2015, respectively. The Organization's investment in MHP is included in investment in equity investees on the balance sheets.

Note 6: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating physicians and other licensed or certified health care practitioners, covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended May 31, 2016 and 2015. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

**Notes to Financial Statements
May 31, 2016 and 2015**

Note 7: Notes Payable to Bank

The Organization had a \$250,000 bank line of credit bearing interest at the bank's prime rate (3.25% at May 31, 2016 and 2015), that expired August 30, 2016. Subsequent to May 31, 2016, the line was extended through August 30, 2017, bearing interest at the bank's prime rate with a floor of 3.50%. The line of credit is secured by certain real property of the Organization. The outstanding principal balance on the line of credit was \$185,000 and \$190,000, at May 31, 2016 and 2015, respectively.

Note 8: Long-Term Debt

Long-term debt at May 31, 2016 and 2015, consisted of the following:

	2016	2015
Note payable, bank (A)	\$ 97,298	\$ 127,127
Note payable, bank (B)	54,433	86,341
Note payable, bank (C)	-	82,277
Capital lease obligations (D)	84,038	98,007
	235,769	393,752
Less current maturities	50,943	91,077
	\$ 184,826	\$ 302,675

- (A) Due August 2019; payable \$2,792 monthly, including interest at 5.5% with a final payment of remaining principal and interest on the due date; secured by certain property.
- (B) Due September 2022; payable \$878 monthly, including interest at 5.95%, with a final payment of remaining principal and interest on the due date; secured by certain property.
- (C) Due March 2018; payable \$2,544 monthly, including interest at 3.40%, with a final payment of remaining principal and interest on the due date; secured by certain property. During 2016, note was paid in full.
- (D) At varying rates of imputed interest from 6.95% to 7.0%, due through December 2031; collateralized by property and equipment. Property and equipment include the following property under capital leases:

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

**Notes to Financial Statements
May 31, 2016 and 2015**

	2016	2015
Building	\$ 55,000	\$ 55,000
Equipment	48,044	48,044
	103,044	103,044
Less accumulated depreciation	33,509	21,701
	\$ 69,535	\$ 81,343

Aggregate annual maturities of long-term debt and payments on capital lease obligations at May 31, 2016, are:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
2017	\$ 36,380	\$ 19,945
2018	38,468	19,945
2019	40,676	19,231
2020	14,641	6,065
2021	9,510	4,391
Thereafter	12,056	46,103
	\$ 151,731	115,680
Less amount representing interest		31,642
Present value of future minimum lease payments		84,038
Less current maturities		14,563
Noncurrent portion		\$ 69,475

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Notes to Financial Statements
May 31, 2016 and 2015

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available at May 31, 2016 and 2015, for the following future purposes:

	<u>2016</u>	<u>2015</u>
Oral health	\$ 72,685	\$ -
Cancer education and screenings	<u>31,940</u>	<u>26,171</u>
	<u>\$ 104,625</u>	<u>\$ 26,171</u>

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amount of \$121,546 and \$199,713, respectively.

Note 10: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Health care services	\$ 6,761,243	\$ 5,960,934
General and administrative	3,200,255	3,318,221
Pass through	<u>112,738</u>	<u>111,325</u>
	<u>\$ 10,074,236</u>	<u>\$ 9,390,480</u>

Note 11: Retirement Plan

The Organization has a defined contribution retirement plan covering all full-time employees who have completed at least 90 days of service. The Organization's contribution rate, as determined by the Board of Directors, was 3% in 2016 and 2015. Contribution rates are determined by the Board of Directors. Retirement expense was \$70,957 and \$57,767 for the years ended May 31, 2016 and 2015, respectively.

Big Springs Medical Association, Inc. d/b/a Missouri Highlands Health Care

Notes to Financial Statements May 31, 2016 and 2015

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Grant Revenues

Concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Malpractice Claims

Estimates related to the accrual for professional liability claims are described in *Note 6*.

Providers

The Organization is served by three providers whose patients comprise more than 10% of the Organization's net patient service revenue.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The ongoing implementation of the *Affordable Care Act* will continue to directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change and negatively impact the Organization. The Organization is taking steps to address these possible future negative impacts on their financial position which include plans to increase patient volume and provider productivity. Additionally, the Organization is aligning itself with future requirements for value-based reimbursements of care from third-party payers through quality improvements as part of the patient-centered medical home model of care. By taking the necessary steps now, the financial impact to the Organization will be reduced.

**Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care**

Notes to Financial Statements

May 31, 2016 and 2015

Note 13: Subsequent Events

Subsequent to year end, it was discovered that one of the buildings that the Organization owns has structural issues that may have been caused by contractor negligence. Management has retained legal counsel and is pursuing remedies against the contractor. Any amount of financial settlement that the Organization could receive is currently unknown. The cost to fix the building is also unknown.

Subsequent events have been evaluated through December 15, 2016, which is the date the financial statements were available to be issued.