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

Independent Auditor's Report and Financial Statements

May 31, 2018 and 2017

BKD
CPAs & Advisors

BKD
CPAs & Advisors

910 E. St. Louis Street, Suite 200 | P.O. Box 1190 | Springfield, MO 65801-1190
417.865.8701 | Fax 417.865.0682 | bkd.com

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, 2018 and 2017, 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.

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, 2018 and 2017, and the results of its operations, changes in net assets and 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 13, 2018

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Balance Sheets
May 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	$ 821,146	$ 171,611
Patient accounts receivable, net of allowance; 2018 – $1,013,956, 2017 – $974,273	838,101	731,385
Grants and other receivables	97,245	246,832
Contributions receivable	29,750	7,500
Estimated amounts due from third-party payers	548,690	533,533
Pharmacy inventory	182,588	20,905
Prepaid expenses and other	264,154	72,153
Total current assets	2,781,674	1,783,919
Property and Equipment, At Cost		
Land and land improvements	1,537,248	731,248
Buildings and leasehold improvements	9,506,312	8,044,681
Furniture and fixtures	1,880,126	2,099,778
Construction in progress	451,462	1,187,045
	13,375,148	12,062,752
Less accumulated depreciation	3,831,579	3,642,918
	9,543,569	8,419,834
Investment in Equity Investees	57,317	108,094
Total assets	$ 12,382,560	$ 10,311,847

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	$ 129,946	$ 56,824
Accounts payable	538,317	499,985
Estimated amounts due to third-party payer – current	79,640	283,747
Accrued expenses	724,808	639,586
Total current liabilities	1,472,711	1,480,142
Estimated Amounts Due to Third-Party Payer	134,879	-
Notes Payable to Bank	185,000	120,000
Long-Term Debt	1,663,754	125,367
Total liabilities	3,456,344	1,725,509
Net Assets		
Unrestricted	8,714,590	8,586,338
Temporarily restricted	211,626	-
Total net assets	8,926,216	8,586,338
Total liabilities and net assets	$ 12,382,560	$ 10,311,847

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Operations
Years Ended May 31, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 10,067,923	$ 8,370,004
Provision for uncollectible accounts	92,021	441
Net patient service revenue less provision for uncollectible accounts	9,975,902	8,369,563
Capitation revenue	378,879	366,772
Grant revenue	4,285,150	3,787,442
Contribution and other revenue	578,392	180,687
Net assets released from restriction used for operations	-	104,625
Total unrestricted revenues, gains and other support	15,218,323	12,809,089
Expenses and Losses		
Salaries and wages	6,867,645	5,910,249
Employee benefits	1,220,740	1,012,710
Purchased services and professional fees	2,764,724	2,124,554
Supplies and other	3,566,932	2,671,818
Rent	86,437	105,087
Depreciation and amortization	635,646	493,503
Interest	64,705	19,820
Federal grants passed through to subrecipients	155,830	130,010
Total expenses and losses	15,362,659	12,467,751
Operating Income (Loss)	(144,336)	341,338
Other Income		
Investment return	3,556	3,110
Gain on investment in equity investee	27,362	39,538
Total other income	30,918	42,648
Excess (Deficiency) of Revenues Over Expenses	(113,418)	383,986
Contributions for acquisition of property and equipment	-	200,000
Grants for acquisition of property and equipment	241,670	1,218,786
Increase in Unrestricted Net Assets	$ 128,252	$ 1,802,772

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Changes in Net Assets
Years Ended May 31, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	$ (113,418)	$ 383,986
Contributions for acquisition of property and equipment	-	200,000
Grants for acquisition of property and equipment	241,670	1,218,786
Increase in unrestricted net assets	128,252	1,802,772
Temporarily Restricted Net Assets		
Contributions received	211,626	-
Net assets released from restriction	-	(104,625)
Increase (decrease) in temporarily restricted net assets	211,626	(104,625)
Change in Net Assets	339,878	1,698,147
Net Assets, Beginning of Year	8,586,338	6,888,191
Net Assets, End of Year	$ 8,926,216	$ 8,586,338

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ 339,878	$ 1,698,147
Items not requiring (providing) cash		
(Gain) loss on disposal of property and equipment	56,071	(556)
Depreciation and amortization	635,646	493,503
Interest attributable to debt issuance costs	988	-
Gain on investment in equity investee	(27,362)	(39,538)
Contributions for acquisition of property and equipment	-	(200,000)
Grants for acquisition of property and equipment	(241,670)	(1,218,786)
Changes in		
Patient accounts receivable, net	(106,716)	98,873
Grants and other receivables	149,587	(212,320)
Contributions receivable	(22,250)	12,500
Estimated amounts due from third-party payers	(84,385)	(746,134)
Accounts payable and accrued expenses	256,968	206,420
Pharmacy inventory	(161,683)	(4,273)
Prepaid expenses and other	(192,001)	4,735
Net cash provided by operating activities	603,071	92,571
Investing Activities		
Investment in equity investees	(160)	(140)
Distributions from equity investees	78,299	15,706
Purchase of property and equipment	(1,949,166)	(1,488,072)
Proceeds from sale of property and equipment	300	8,994
Net cash used in investing activities	(1,870,727)	(1,463,512)
Financing Activities		
Proceeds from issuance of long-term debt	1,737,806	-
Principal payments on long-term debt	(65,785)	(53,578)
Proceeds from issuance of notes payable to bank	135,000	-
Principal payments on notes payable to bank	(70,000)	(65,000)
Payment of debt issuance costs	(61,500)	-
Proceeds from contributions for acquisition of property and equipment	-	200,000
Proceeds from grants for acquisition of property and equipment	241,670	1,223,786
Net cash provided by financing activities	1,917,191	1,305,208
Increase (Decrease) in Cash	649,535	(65,733)
Cash, Beginning of Year	171,611	237,344
Cash, End of Year	$ 821,146	$ 171,611
Supplemental Cash Flows Information		
Interest paid	$ 63,717	$ 19,820
Property and equipment acquisitions in accounts payable	$ 10,800	$ 144,214

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.

Cash

At May 31, 2018, the Organization's cash accounts exceeded federally insured limits by approximately $541,000.

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.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 89% of self-pay accounts receivable at May 31, 2017, to 91% of self-pay accounts receivable at May 31, 2018. The Organization's write-offs decreased approximately $20,000 from approximately $76,000 for the year ended May 31, 2017, to approximately $56,000 for the year ended May 31, 2018.

Pharmacy Inventory

The Organization states pharmacy inventory at the lower of cost, determined using the first-in, first-out method, or market.

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:

Land improvements	2 – 8 years
Buildings and leasehold improvements	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, 2018 and 2017.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest rate method.

Investment in Equity Investees

The Organization owns a 3.19% membership interest in Missouri Community Health Access, LLC (MCHA) at May 31, 2018 and 2017. The Organization and 12 other Missouri federally qualified health centers purchased membership interests in MCHA, which is one of the two sole shareholders of Healthy Missouri Holdings, Inc. (HMH), which in turn is the sole owner of Home State Health Plan (HSHP). HSHP operates 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 3.69% membership interest in Missouri Health Plus, LLC (MHP) at May 31, 2018 and 2017. 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.

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.

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.

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.

	2018	2017
Gross receipts	$ 772,405	$ 901,815
Drug replenishment costs	(205,569)	(207,854)
Administrative and filling fees	(306,725)	(321,481)
Net revenue	$ 260,111	$ 372,480

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

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 vaccines and pharmaceuticals and telecommunications 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, 2018 and 2017, $476,275 and $118,922, 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.

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. The Organization files tax returns in the U.S. federal jurisdiction.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (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).

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net 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, 2018 and 2017, the Organization recognized $3,197,514 and $3,192,877 in CHC grant funds, respectively. The Organization has been authorized for funding in the amount of $3,515,722 for the year ending May 31, 2019.

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.

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 are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of the Organization'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, 2018 and 2017, was:

	2018	2017
Medicaid	$ 6,026,036	$ 5,482,897
Medicare	1,055,435	923,916
Self-pay	482,466	341,344
Other third-party payers	2,503,986	1,621,847
Total	$ 10,067,923	$ 8,370,004

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, 2018 and 2017, was:

	2018	2017
Medicare	12%	20%
Medicaid	57%	44%
Self-pay	6%	5%
Other third-party payers	25%	31%
	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 is one of the two sole shareholders of Healthy Missouri Holdings, Inc. (HMH), which in turn is the sole owner of Home State Health Plan (HSHP). HSHP operates a Medicaid managed care plan in the state of Missouri. The Organization is a 3.19% member of MCHA at May 31, 2018 and 2017. Unaudited financial position as of June 30, 2018 and 2017, and results of operations for the twelve months then ended of MCHA are summarized below:

	2018	2017
Current assets	$ 293,716	$ 294,201
Total assets	1,275,136	1,275,621
Current liabilities	136	621
Total liabilities	136	621
Equity	$ 1,275,000	$ 1,275,000
Revenues	$ -	$ -
Net loss	$ (7,457)	$ (3,124)

The Organization's proportionate share of net loss in MCHA amounted to $160 and $100 for the years ended May 31, 2018 and 2017, 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 3.69% member of MHP at May 31, 2018 and 2017. Unaudited financial position as of May 31, 2018 and June 30, 2017, and results of operations for the eleven and twelve months, respectively, then ended of MHP are summarized below:

	2018	2017
Current assets	$ 1,908,224	$ 2,701,708
Total assets	2,000,877	3,403,071
Current liabilities	1,527,131	1,551,714
Total liabilities	1,527,131	1,551,714
Equity	$ 473,746	$ 1,851,357
Revenues	$ 4,822,869	$ 2,429,637
Net income	$ 819,616	$ 1,074,713

Due to the availability of financial data of MHP, the Organization historically recognized its proportionate share of net income in MHP based on MHP's unaudited June 30 financial statements. During 2018, the Organization transitioned to capturing its proportionate share of net income in MHP based on MHP's unaudited May 31 financial statements. The change in reporting period had an immaterial impact on the Organization's proportionate share of net income in MHP in 2018.

The Organization's proportionate share of net income in MHP amounted to $27,522 and $39,638 for the years ended May 31, 2018 and 2017, respectively. The Organization's investment in MHP is included in investment in equity investees on the balance sheets.

In addition, the Organization has certain agreements through MHP with certain Medicaid Managed Care Organizations for which it can earn incentive payments on quality and other performance criteria specified in each agreement. During 2018 and 2017, the Organization recorded incentive revenue of $36,035 and $14,425, respectively, which is recorded in other revenue in the statements of operations.

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, 2018 and 2017. 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.

Note 7: Notes Payable to Bank

The Organization had a $250,000 bank line of credit bearing interest at the bank's prime rate (4.75% and 4.00% at May 31, 2018 and 2017, respectively), that expired August 30, 2018. Subsequent to May 31, 2018, the line was extended through August 30, 2019, 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 $120,000, at May 31, 2018 and 2017, respectively.

Note 8: Long-Term Debt

Long-term debt at May 31, 2018 and 2017, consisted of the following:

	2018	2017
Note payable, bank (A)	$ 32,209	$ 65,671
Note payable, bank (B)	38,898	46,930
Note payable, bank (C)	191,216	-
Note payable, bank (D)	1,537,806	-
Capital lease obligations (E)	54,083	69,590
	1,854,212	182,191
Less unamortized debt issuance costs	60,512	-
Less current maturities	129,946	56,824
	$ 1,663,754	$ 125,367

(A) Due July 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 real property.

(B) Due August 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 real property.

(C) Due June 2022; payable $1,563 monthly, including interest at 4.75%, with a final payment of remaining principal and interest on the due date; secured by certain real property.

(D) Due October 2023, with maximum principal draws available through September 2018 of $2,325,000; payable interest-only monthly at 4.69% through October 2018; payable $14,950 monthly, including interest at 4.69%, through November 2020; payable $15,558 monthly, including interest based on the weekly average yield of United States Treasury Securities plus a margin of 3%, resulting in an initial interest rate of 5.21%, with a final payment of remaining principal and interest on the due date; secured by certain real property and a certain life insurance policy. Unamortized debt issuance costs were $60,512 and $0 at May 31, 2018 and 2017, respectively.

(E) Eighty percent of note payable principal is guaranteed by a United States Department of Agriculture Rural Development Business and Industry Loan Guarantee.

(F) At varying rates of imputed interest from 6.95% to 7.09%, due through December 2031; collateralized by property and equipment. Property and equipment include the following property under capital leases:

	2018	2017
Building	$ 55,000	$ 55,000
Equipment	48,044	48,044
	103,044	103,044
Less accumulated depreciation	57,126	45,318
	$ 45,918	$ 57,726

Aggregate annual maturities of long-term debt and payments on capital lease obligations at May 31, 2018, are:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
2019	$ 113,812	$ 19,231
2020	131,621	6,065
2021	138,636	4,391
2022	146,191	4,391
2023	282,747	4,391
Thereafter	987,122	37,321
	$ 1,800,129	75,790
Less amount representing interest		21,707
Present value of future minimum lease payments		54,083
Less current maturities		16,134
Noncurrent portion		$ 37,949

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available at May 31, 2018 and 2017, for the following future purposes:

	2018	2017
Telecommunications services	$ 29,750	$ -
Pharmaceuticals and vaccines	181,876	-
	$ 211,626	$ -

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amount of $0 and $104,625, 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:

	2018	2017
Health care services	$ 9,748,308	$ 7,900,964
General and administrative	5,458,521	4,436,777
Pass through	155,830	130,010
	$ 15,362,659	$ 12,467,751

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 2018 and 2017. Retirement expense was $85,619 and $82,125 for the years ended May 31, 2018 and 2017, respectively.

Note 12: Construction in Progress

At May 31, 2018, the Organization had $408,627 of construction in progress related to the acquisition of a building in Poplar Bluff, Missouri, in January 2018. The Organization intends to rehabilitate the property to house the Poplar Bluff Dental Clinic. The remaining estimated cost of the project is $1,044,700. Financing for this project include a $2,325,000 construction loan of which $1,537,806 was disbursed as of May 31, 2018 (see *Note 8)*.

In addition, the Organization had $42,835 of construction in progress at May 31, 2018, related to the implementation of a new electronic dental record platform. This platform was placed in service in June 2018 at a total cost of $60,844.

Note 13: 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 one provider 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. Any changes to the *Affordable Care Act* will 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. 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. Each of these factors could have an adverse impact on the Organization's future operating results.

Facilities Issues

During 2016, it was discovered that one of the buildings that the Organization owns has structural issues caused by design flaws in the original construction. The cost to fix the building is estimated at $130,000.

Note 14: Subsequent Events

Subsequent to year end, the Organization began operating a rural health clinic in Doniphan, Missouri. As the building and personal property is owned by the County, the Organization has entered into a lease agreement with Ripley County, Missouri, to lease the building and personal property for a five-year lease term beginning December 1, 2018, with two renewable five-year terms.

Also subsequent to year end, the Organization received a donation of real property located Viburnum, Missouri. The property was donated by the Doe Run Resources Corporation and has an appraised value of $238,000.

Subsequent events have been evaluated through December 13, 2018, which is the date the financial statements were available to be issued.