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

Independent Auditor's Report and Financial Statements

May 31, 2019 and 2018

BKD
CPAs & Advisors

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2019, the organization adopted *ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

BKD, LLP

Springfield, Missouri
June 26, 2020

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Balance Sheets
May 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	$ 740,691	$ 821,146
Patient accounts receivable, net of allowance; 2019 – $1,199,337, 2018 – $1,013,956	1,039,982	838,101
Grants and other receivables	61,283	97,245
Contributions receivable	31,521	29,750
Estimated amounts due from third-party payers	213,847	548,690
Pharmacy inventory	69,890	182,588
Prepaid expenses and other	204,836	264,154
Total current assets	2,362,050	2,781,674
Property and Equipment, At Cost		
Land and land improvements	1,551,164	1,537,248
Buildings and leasehold improvements	9,506,312	9,506,312
Furniture and fixtures	2,112,351	1,880,126
Construction in progress	633,834	451,462
	13,803,661	13,375,148
Less accumulated depreciation	4,475,152	3,831,579
	9,328,509	9,543,569
Investment in Equity Investees	140,652	57,317
Total assets	$ 11,831,211	$ 12,382,560

See Notes to Financial Statements

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 80,219	$ 129,946
Accounts payable	586,036	538,317
Estimated amounts due to third-party payer – current	658,141	79,640
Accrued expenses	721,033	724,808
Total current liabilities	2,045,429	1,472,711
Estimated Amounts Due to Third-Party Payer	48,149	134,879
Notes Payable to Bank	-	185,000
Long-Term Debt	1,669,546	1,663,754
Total liabilities	3,763,124	3,456,344
Net Assets		
Without donor restrictions	7,976,805	8,714,590
With donor restrictions	91,282	211,626
Total net assets	8,068,087	8,926,216
Total liabilities and net assets	$ 11,831,211	$ 12,382,560

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Operations
Years Ended May 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	$ 10,451,670	$ 10,067,923
Provision for uncollectible accounts	267,736	92,021
Net patient service revenue less provision for uncollectible accounts	10,183,934	9,975,902
Capitation revenue	477,263	378,879
Grant revenue	4,392,720	4,285,150
Contribution and other revenue	525,048	578,392
Net assets released from restriction used for operations	29,750	-
Total revenues, gains and other support without donor restrictions	15,608,715	15,218,323
Expenses and Losses		
Salaries and wages	7,922,327	6,867,645
Employee benefits	1,438,324	1,220,740
Purchased services and professional fees	2,732,160	2,764,724
Supplies and other	3,651,732	3,566,932
Rent	61,913	86,437
Depreciation and amortization	692,424	635,646
Interest	110,696	64,705
Federal grants passed through to subrecipients	175,460	155,830
Total expenses and losses	16,785,036	15,362,659
Operating Loss	(1,176,321)	(144,336)
Other Income		
Investment return	3,812	3,556
Gain on investment in equity investee	79,498	27,362
Total other income	83,310	30,918
Deficiency of Revenues Over Expenses	(1,093,011)	(113,418)
Contributions for acquisition of property and equipment	245,550	-
Grants for acquisition of property and equipment	109,676	241,670
Increase (Decrease) in Net Assets Without Donor Restrictions	$ (737,785)	$ 128,252

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Changes in Net Assets
Years Ended May 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	$ (1,093,011)	$ (113,418)
Contributions for acquisition of property and equipment	245,550	-
Grants for acquisition of property and equipment	109,676	241,670
Increase (decrease) in net assets without donor restrictions	(737,785)	128,252
Net Assets With Donor Restrictions		
Contributions received	91,282	211,626
Contributions returned to donors	(181,876)	-
Net assets released from restriction	(29,750)	-
Increase (decrease) in net assets with donor restrictions	(120,344)	211,626
Change in Net Assets	(858,129)	339,878
Net Assets, Beginning of Year	8,926,216	8,586,338
Net Assets, End of Year	$ 8,068,087	$ 8,926,216

Big Springs Medical Association, Inc.
d/b/a Missouri Highlands Health Care
Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (858,129)	$ 339,878
Items not requiring (providing) cash		
Loss on disposal of property and equipment	968	56,071
Depreciation and amortization	692,424	635,646
Interest attributable to debt issuance costs	2,964	988
Gain on investment in equity investee	(79,498)	(27,362)
Contributions for acquisition of property and equipment	(238,000)	-
Grants for acquisition of property and equipment	(109,676)	(241,670)
Changes in		
Patient accounts receivable, net	(201,881)	(106,716)
Grants and other receivables	35,962	149,587
Contributions receivable	(1,771)	(22,250)
Estimated amounts due from third-party payers	826,614	(84,385)
Accounts payable and accrued expenses	54,744	256,968
Pharmacy inventory	112,698	(161,683)
Prepaid expenses and other	59,318	(192,001)
Net cash provided by operating activities	296,737	603,071
Investing Activities		
Investment in equity investees	(3,837)	(160)
Distributions from equity investees	-	78,299
Purchase of property and equipment	(251,132)	(1,949,166)
Proceeds from sale of property and equipment	-	300
Net cash used in investing activities	(254,969)	(1,870,727)
Financing Activities		
Proceeds from issuance of long-term debt	48,600	1,737,806
Principal payments on long-term debt	(95,499)	(65,785)
Proceeds from issuance of notes payable to bank	100,000	135,000
Principal payments on notes payable to bank	(285,000)	(70,000)
Payment of debt issuance costs	-	(61,500)
Proceeds from grants for acquisition of property and equipment	109,676	241,670
Net cash provided by (used in) financing activities	(122,223)	1,917,191
Increase (Decrease) in Cash	(80,455)	649,535
Cash, Beginning of Year	821,146	171,611
Cash, End of Year	$ 740,691	$ 821,146
Supplemental Cash Flows Information		
Interest paid	$ 107,732	$ 63,717
Property and equipment acquisitions in accounts payable	$ -	$ 10,800
Property and equipment acquired through noncash contributions	$ 238,000	$ -

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.

Missouri Highlands Health Care Foundation (the "Foundation") was formed during 2006 to offer educational scholarships, attract funding to help area patients in financial need, and to promote the health services infrastructure in south central Missouri. The Foundation does not have members. The Foundation has not been granted exempt status under Section 501. Since inception, no material account balances or transactions have been recorded by the Foundation; therefore, consolidated financial statements are not presented.

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, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $401,000.

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 91 percent of self-pay accounts receivable at May 31, 2018, to 96 percent of self-pay accounts receivable at May 31, 2019. The Organization's write-offs increased approximately $26,000 from approximately $56,000 for the year ended May 31, 2018, to approximately $82,000 for the year ended May 31, 2019.

Pharmacy Inventory

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

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	3 – 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.

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, 2019 and 2018.

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 percent membership interest in Missouri Community Health Access, LLC (MCHA) at May 31, 2019 and 2018. 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 4.43 percent membership interest in Missouri Health Plus, LLC (MHP) at May 31, 2019 and 2018. 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.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity.

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 receives benefits 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.

	2019	2018
Gross receipts	$ 817,737	$ 772,405
Drug replenishment costs	(172,864)	(205,569)
Administrative and filling fees	(294,356)	(306,725)
Net revenue	$ 350,517	$ 260,111

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

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

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, 2019 and 2018, $379,771 and $476,275, 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 net assets without donor restrictions 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).

Change in Accounting Principle

In 2019, the Organization adopted ASU 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total 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, 2019 and 2018, the Organization recognized $3,366,454 and $3,197,514 in CHC grant funds, respectively. Funding for the grant year ended May 31, 2020, was approved at $4,385,708. The Organization has been approved for funding in the amount of $3,702,600 for the grant year ending May 31, 2021.

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, 2019 and 2018, was:

	2019	2018
Medicaid	$ 6,111,720	$ 6,026,036
Medicare	1,325,326	1,055,435
Self-pay	400,096	482,466
Other third-party payers	2,614,528	2,503,986
Total	$ 10,451,670	$ 10,067,923

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, 2019 and 2018, was:

	2019	2018
Medicare	19%	12%
Medicaid	46%	57%
Self-pay	0%	6%
Other third-party payers	35%	25%
	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 percent member of MCHA at May 31, 2019 and 2018. Unaudited financial position as of June 30, 2019 and 2018, and results of operations for the twelve months then ended of MCHA are summarized below:

	2019	2018
Current assets	$ 293,821	$ 293,716
Total assets	1,275,240	1,275,136
Current liabilities	240	136
Total liabilities	240	136
Equity	$ 1,275,000	$ 1,275,000
Revenues	$ -	$ -
Net loss	$ (2,886)	$ (7,457)

The Organization's proportionate share of net loss in MCHA amounted to $191 and $160 for the years ended May 31, 2019 and 2018, 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 4.43 percent member of MHP at May 31, 2019 and 2018. Unaudited financial position as of May 31, 2019 and 2018, and results of operations for the twelve months then ended of MHP are summarized below:

	2019	2018
Current assets	$ 2,880,849	$ 1,908,224
Total assets	2,880,849	2,000,877
Current liabilities	602,670	1,527,131
Total liabilities	602,670	1,527,131
Equity	$ 2,278,179	$ 473,746
Revenues	$ 2,866,598	$ 4,822,869
Net income	$ 1,707,666	$ 819,616

The Organization's proportionate share of net income in MHP amounted to $79,689 and $27,522 for the years ended May 31, 2019 and 2018, 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 2019 and 2018, the Organization recorded incentive revenue of $27,018 and $36,035, 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, 2019 and 2018. 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 percent and 4.00 percent at May 31, 2019 and 2018, respectively), that expired August 30, 2019. Subsequent to May 31, 2019, the line was extended through August 30, 2020, bearing interest at the bank’s prime rate with a floor of 3.50 percent. The line of credit is secured by certain real property of the Organization. The outstanding principal balance on the line of credit was $0 and $185,000 at May 31, 2019 and 2018, respectively.

Note 8: Long-Term Debt

Long-term debt at May 31, 2019 and 2018, consisted of the following:

	2019	2018
Note payable, bank (A)	$ -	$ 32,209
Note payable, bank (B)	30,516	38,898
Note payable, bank (C)	181,426	191,216
Note payable, bank (D)	1,510,435	1,537,806
Note payable, government (E)	48,600	-
Capital lease obligations (F)	36,336	54,083
	1,807,313	1,854,212
Less unamortized debt issuance costs	57,548	60,512
Less current maturities	80,219	129,946
	$ 1,669,546	$ 1,663,754

(A) Due July 2019; payable $2,792 monthly, including interest at 5.5 percent, 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 percent, with a final payment of remaining principal and interest on the due date; secured by certain real property. This note was paid in full during 2019.

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

(D) Due October 2038, payable $14,950 monthly, including interest at 4.69 percent, through September 2019, at which time the loan amount decreased and payment terms were revised; payable interest-only monthly at 4.69 percent through March 2020; payable $13,216 monthly, including interest at 4.69 percent, through September 2022; payable $13,216 monthly, including interest based on the weekly average yield of United States Treasury Securities plus a margin of 3 percent, resulting in an initial interest rate of 4.69 percent, 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 $57,548 and $60,512 at May 31, 2019 and 2018, respectively.

At May 31, 2019, $787,194 of the original principal authorized was available for disbursement. As a result of the September 2019 revision, the undisbursed principal available decreased to $416,000. During 2020, the Organization received disbursements of the $416,000. In May 2020, the agreement was revised to increase the principal available for disbursement by $296,924, resulting in a loan with a total principal amount of $2,250,730, and further revised payment terms upon disbursement of the additional principal amount. In June 2020, the remaining $296,924 was disbursed and is payable monthly through October 28, 2022 in the amount of $15,314, including interest at 4.69 percent. All disbursements subsequent to year end have been utilized for renovation costs incurred (see *Note 13*).

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

(E) Due February 2024; payable $10,879 monthly, including interest at 3.88 percent, with a final payment of remaining principal and interest on the due date; secured by substantially all of the Organization's assets.

The note payable is due to the United States Department of Agriculture as a Community Facilities Loan.

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

	2019	2018
Building	$ 55,000	$ 55,000
Equipment	-	48,044
	55,000	103,044
Less accumulated depreciation	29,700	57,126
	$ 25,300	$ 45,918

Aggregate annual maturities of long-term debt and payments on capital lease obligations at May 31, 2019, are:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
2020	$ 78,344	$ 4,391
2021	120,706	4,391
2022	126,606	4,391
2023	261,751	4,391
2024	115,388	4,391
Thereafter	1,068,182	32,930
	$ 1,770,977	54,885
Less amount representing interest		18,549
Present value of future minimum lease payments		36,336
Less current maturities		1,875
Noncurrent portion		$ 34,461

Note 9: Net Assets With Donor Restrictions

Temporarily restricted net assets are available at May 31, 2019 and 2018, for the following future purposes:

	2019	2018
Telecommunications services	$ 21,522	$ 29,750
Pharmaceuticals and vaccines	69,760	181,876
	$ 91,282	$ 211,626

During 2019 and 2018, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of $29,750 and $0, respectively.

Note 10: Liquidity and Availability

The Organization's financial assets available within one year of the balance sheet date for general expenditures are:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 740,691	$ 821,146
Patient accounts receivable, net	1,039,982	838,101
Grants and other receivables	61,283	97,245
Contributions receivable	31,521	29,750
Estimated amounts due from third-party payers	213,847	548,690
Total financial assets	2,087,324	2,334,932
Less amounts not available to be used within one year		
Contributions receivable	21,521	29,750
Estimated amounts due from third-party payers	76,689	471,825
Financial assets not available to be used within one year	98,210	501,575
Financial assets available to meet general expenditures within one year	$ 1,989,114	$ 1,833,357

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of $250,000, which it could draw upon.

Note 11: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, pass through, and general and administrative functional expense classifications based on various methods. The following schedule presents the natural classification of expenses by function:

	Health Care Services	Pass Through	General and Administrative	Total
Salaries and wages	$ 5,116,283	$ -	$ 2,806,044	$ 7,922,327
Employee benefits	1,027,720	-	410,604	1,438,324
Purchased services and professional fees	1,739,866	-	992,294	2,732,160
Supplies and other	2,991,046	-	660,686	3,651,732
Rent	59,754	-	2,159	61,913
Depreciation and amortization	450,172	-	242,252	692,424
Interest	30,602	-	80,094	110,696
Federal grants passed through to subrecipients	-	175,460	-	175,460
	$ 11,415,443	$ 175,460	$ 5,194,133	$ 16,785,036

For 2018, the Organization had $9,748,308 of expenses related to the provision of health care services, $155,830 of federal grants passed through to subrecipients as expenses, and $5,458,521 of general and administrative expenses.

Note 12: 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 percent in 2019 and 2018. Retirement expense was $114,738 and $85,619 for the years ended May 31, 2019 and 2018, respectively.

Note 13: Construction in Progress

At May 31, 2019, the Organization had $408,312 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 clinic locations by summer 2020. The remaining estimated cost of the project is $1,606,700. Financing for this project includes a $1,953,806 construction loan of which $1,537,806 was disbursed as of May 31, 2018 and an additional $712,924 was disbursed subsequent to year end (see *Note 8).*

In addition, the Organization had $225,522 of construction in progress at May 31, 2019, related to the donation of real property in Viburnum, Missouri. The Organization intends to rehabilitate the property to house its Viburnum Medical Clinic. No formal estimates regarding future construction have been completed.

Note 14: 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 percent 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.

Note 15: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition with the issuance of Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for the Organization's annual period beginning June 1, 2020, and any interim periods therein. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Clarifying Accounting Contributions

The FASB issued ASU 2018-08, *Not-For-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the recipient organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, *Revenue from Contracts with Customers*, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, *i.e.*, the transaction is nonexchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional. The standard should be applied on a modified prospective basis for the Organization's annual period beginning June 1, 2019, and any interim periods therein. Retrospective application is permitted. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Note 16: Liquidity Concerns

The Organization has incurred recurring operating losses and significant estimated amounts due to third-party payors that have continued subsequent to year end. Management has since focused efforts towards improving operations. Provider scheduling and expectations have been revised to achieve sufficient encounters for the financial sustainability of the Organization. The Organization has also reallocated resources and staffing amongst clinics to be as productive as possible for the Organization as a whole.

As referenced in *Note 17*, the Organization has received significant relief funding in response to COVID-19. With the influx of stimulus funding and continued improvements in operations, management believes the Organization will be able to meet its obligations as they become due within the next year.

Note 17: Subsequent Events

Missouri Highlands Health Care of Wayne County

Subsequent to year end, the Organization received a New Access Point Grant from HRSA to begin operating a medical clinic in year one and a dental clinic in year two in Wayne County, Missouri. The medical clinic began operating in January 2020 in a leased building. The building lease agreement is between a physician and the Organization for a five-year term beginning January 1, 2020, through December 31, 2024.

COVID-19 Pandemic

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically an increased no-show rate as well as reduction in services at certain locations.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. In response to the economic impact of COVD-19, the Organization received the following:

- In April 2020, the Organization was approved for a Paycheck Protection Program (PPP) Loan in the amount of $1,605,900. This program was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and has certain allowable uses over a covered period of eight-weeks from the initial distribution date. There is a forgiveness provision which if followed could result in an all or partial loan forgiveness. Any unforgiven portion of the loan will have a term of two years at an interest rate of 1 percent.

- In April and May of 2020, the Organization received additional federal grant awards from the Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding totaling $1,360,364. Each grant award contains specific terms and conditions that must be followed when utilizing this funding.
- In April and May of 2020 the Organization received $1,681,505 of additional funding support from the Provider Relief Fund of the CARES Act. The funding must be utilized for healthcare-related expenses or lost revenue attributable to COVID-19.

The overall financial impact and duration of COVID-19 cannot be reasonably estimated at this time.

Doniphan Urgent Care

The Doniphan Urgent Care began operations in late March 2020 as a "sick clinic" and COVID-19 testing site. Prior to the COVID-19 pandemic, the Organization planned to begin operations of an urgent care in early 2020 in response to the closure of the local rural hospital in late 2018. The Organization plans to transition the clinic to a traditional urgent care, which would be available to serve patients after normal business hours and on weekends, and is actively recruiting providers for the clinic. The Organization entered into a five-year lease, with the option to renew for an additional five-year period, with Ripley County, Missouri, effective February 1, 2020, to lease the building at 109 Plum Street, Doniphan, Missouri, and equipment, which were formerly the Ripley County Hospital, for $2,000 per month.

MO Highlands Women's Clinic

The Organization has announced the oncoming opening of a Women's Clinic in Poplar Bluff, Missouri on July 6, 2020. The Clinic will operate from the property under renovation at year-end (see *Note 13*). An OB/GYN and Nurse Practitioner under contract to join the Organization currently practice at an established practice in Poplar Bluff. The Organization has also entered into a lease agreement for ultrasound equipment for $50,000 per year over a five-year term.

Subsequent events have been evaluated through June 26, 2020, which is the date the financial statements were available to be issued.