

Northwest Health Services, Inc.

Independent Auditor's Reports and Financial Statements

January 31, 2014 and 2013

Northwest Health Services, Inc.
January 31, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Health Services, Inc. (the "Organization"), which comprise the balance sheets as of January 31, 2014 and 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Northwest Health Services, Inc. as of January 31, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2014, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwest Health Services, Inc.'s internal controls over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
May 29, 2014

Northwest Health Services, Inc.

Balance Sheets

January 31, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents	\$ 3,992,052	\$ 4,166,560
Patient accounts receivable, net of allowance; 2014 - \$379,883, 2013 - \$335,100	1,150,039	1,013,178
Grants and other receivables	193,537	363,465
Estimated amounts due from third-party payers	225,000	275,000
Supplies	300,867	281,469
Prepaid expenses and other	81,329	26,145
	<u>5,942,824</u>	<u>6,125,817</u>
Total current assets		
	<u>5,942,824</u>	<u>6,125,817</u>
Investment in Equity Investee	<u>14,817</u>	<u>-</u>
Property and Equipment, At Cost		
Land and land improvements	419,433	419,433
Buildings and leasehold improvements	3,339,334	3,303,958
Equipment	3,004,261	2,712,005
	<u>6,763,028</u>	<u>6,435,396</u>
Less accumulated depreciation	4,041,796	3,489,743
	<u>2,721,232</u>	<u>2,945,653</u>
Total assets	<u>\$ 8,678,873</u>	<u>\$ 9,071,470</u>

Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Current maturities of long-term debt	\$ 107,181	\$ 120,156
Accounts payable	955,093	968,255
Accrued expenses	1,067,489	1,151,282
Deferred revenue	3,673	1,720
Estimated amounts due to third-party payers	<u>2,925,000</u>	<u>2,690,000</u>
Total current liabilities	5,058,436	4,931,413
Long-Term Debt	<u>256,672</u>	<u>386,018</u>
Total liabilities	5,315,108	5,317,431
Net Assets		
Unrestricted	<u>3,363,765</u>	<u>3,754,039</u>
Total liabilities and net assets	<u>\$ 8,678,873</u>	<u>\$ 9,071,470</u>

Northwest Health Services, Inc.
Statements of Operations
Years Ended January 31, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 14,899,523	\$ 14,168,164
Provision for uncollectible accounts	(536,210)	(488,104)
Net patient service revenue less provision for uncollectible accounts	14,363,313	13,680,060
Grant revenue	3,019,160	3,136,003
Contributions and other revenue	1,535,422	1,864,523
Total unrestricted revenues, gains and other support	18,917,895	18,680,586
Expenses and Losses		
Salaries and wages	9,137,665	9,112,972
Employee benefits	1,716,662	1,632,252
Purchased services and professional fees	2,181,576	1,319,422
Supplies and other	5,835,044	5,617,021
Depreciation	552,052	517,488
Interest	20,218	27,059
Loss on disposal of property and equipment	-	77,308
Total expenses and losses	19,443,217	18,303,522
Operating Income (Loss)	(525,322)	377,064
Other Income (Expense)		
Investment return	2,038	1,978
Loss on investment in equity investee	(13,235)	-
Total other income (expense)	(11,197)	1,978
Excess (Deficiency) of Revenues Over Expenses	(536,519)	379,042
Contributions of property and equipment	32,350	-
Grants of or for acquisition of property and equipment	113,895	-
Increase (Decrease) in Unrestricted Net Assets	\$ (390,274)	\$ 379,042

Northwest Health Services, Inc.
Statements of Changes in Net Assets
Years Ended January 31, 2014 and 2013

	2014	2013
Excess (Deficiency) of Revenues Over Expenses	\$ (536,519)	\$ 379,042
Contributions of property and equipment	32,350	-
Grants of or for acquisition of property and equipment	113,895	-
Change in Net Assets	(390,274)	379,042
Unrestricted Net Assets, Beginning of Year	3,754,039	3,374,997
Unrestricted Net Assets, End of Year	\$ 3,363,765	\$ 3,754,039

Northwest Health Services, Inc.
Statements of Cash Flows
Years Ended January 31, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ (390,274)	\$ 379,042
Items not requiring (providing) operating cash flow		
Loss on disposal of property and equipment	-	77,308
Depreciation	552,052	517,488
Loss on investment in equity investee	13,235	-
Contributions of or for acquisition of property and equipment	(32,350)	-
Grants for acquisition of property and equipment	(113,895)	-
Changes in		
Patient accounts receivable, net	(136,861)	98,431
Grants and other receivables	169,928	(193,413)
Estimated amounts due from and to third-party payers	285,000	103,430
Accounts payable and accrued expenses	(96,955)	(60,381)
Deferred revenue	1,953	(23,173)
Other current assets and liabilities	(74,582)	101,516
	<u>177,251</u>	<u>1,000,248</u>
Investing Activities		
Advances to and investments in equity investee	(28,052)	-
Purchase of property and equipment	(295,281)	(23,293)
	<u>(323,333)</u>	<u>(23,293)</u>
Financing Activities		
Principal payments on long-term debt	(142,321)	(138,107)
Proceeds from grants for acquisition of property and equipment	113,895	-
	<u>(28,426)</u>	<u>(138,107)</u>
Increase (Decrease) in Cash and Cash Equivalents	(174,508)	838,848
Cash and Cash Equivalents, Beginning of Year	4,166,560	3,327,712
Cash and Cash Equivalents, End of Year	\$ 3,992,052	\$ 4,166,560
Supplemental Cash Flows Information		
Interest paid	\$ 20,218	\$ 27,059
Property and equipment acquired by noncash contributions	\$ 32,350	\$ -

Northwest Health Services, Inc.
Notes to Financial Statements
January 31, 2014 and 2013

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

Nature of Operations

Northwest Health Services, Inc. (the "Organization") primarily earns revenues by providing physician and related health care services through clinics located in northwest Missouri.

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 and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At January 31, 2014 and 2013, cash equivalents consisted primarily of securities purchased under agreements to resell. The amounts advanced under these agreements are book-entry securities and are subject to a written custodial agreement that explicitly recognizes the Organization's interest in the securities. Securities purchased under agreements to resell amount to \$3,269,338 and \$2,769,766 at January 31, 2014 and 2013, respectively, and are included in cash and cash equivalents. At January 31, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$8,000.

Investments in Equity Investee and Investment Return

The investment in equity investee is reported on the equity method of accounting. Investment return is comprised of interest income and is reported in the statement of operations as a component of unrestricted net assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility 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 doubtful 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 doubtful accounts.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful 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 services 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 doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients decreased from 74% of self-pay accounts receivable at January 31, 2013, to 71% of self-pay accounts receivable at January 31, 2014. In addition, the Organization's write-offs increased approximately \$10,000 from approximately \$480,000 for the year ended January 31, 2013, to approximately \$490,000 for the year ended January 31, 2014. This is the result of continuing claims experience in the collection of amounts from self-pay patients during 2014.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and 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.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed if not used to further the grant's objectives.

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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

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 January 31, 2014 and 2013.

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.

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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

Donated Supplies

The Organization recognizes donated medical supplies at fair value. Donated medical supplies totaling \$12,012 and \$3,737 are recorded as contribution revenue and other expenses for the years ended January 31, 2014 and 2013, respectively.

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible federally qualified health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the State, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the State, fiscal intermediary or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of approximately \$276,250 and \$803,250 for the years ended January 31, 2014 and 2013, respectively, which is included in other operating revenue in the statements of operations.

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 permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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 residents of northwest 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 January 31, 2014 and 2013, the Organization received \$2,842,647 and \$2,748,514 in CHC grant funds, respectively.

During January 2014, the Organization received a notice of grant award for the CHC grant covering the budget period for the year ending January 31, 2015. This notice of grant award includes prorated support in the amount of \$941,139 for the period beginning February 1, 2014, through May 31, 2014. A notice of grant award is expected to be issued later in the budget period based on the final fiscal year 2014 Congressional appropriation for the Health Center program. This notice of grant award is expected to provide additional grant support for the project/budget periods that is consistent with Congressional intent for the Health Center program for fiscal year 2014.

In addition to the aforementioned grants, 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 services 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.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

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 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 Medicare administrative contractor. 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 January 31, 2014 and 2013, was approximately:

	2014	2013
Medicare	\$ 4,094,134	\$ 3,519,957
Medicaid	5,441,651	5,142,830
Other third-party payers	3,453,373	3,716,373
Self-pay	1,910,365	1,789,004
Total	<u>\$ 14,899,523</u>	<u>\$ 14,168,164</u>

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

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 January 31, 2014 and 2013, was:

	2014	2013
Medicare	20%	23%
Medicaid	40%	39%
Other third-party payers	27%	27%
Patients	13%	11%
	100%	100%

Note 5: Investment in Equity Investee

In 2014, the Organization entered into a joint venture with other Missouri FQHCs to purchase membership interests in Missouri Community Health IPA, LLC (the "LLC"). During 2014, the Organization made an initial purchase of interests in the LLC totaling \$12,684, which represents an approximate 7.5% ownership. The Organization made a commitment for two additional capital calls for the purchase of interests. The first commitment of \$7,684 was paid by November 2013 and the second commitment of \$7,684 was paid by December 2013, leaving no remaining commitments.

Missouri Community Health IPA, LLC was created in 2013 and commenced operations during its fiscal year ended December 31, 2013. Financial position and results of operations of the investee are summarized below:

	2013	2012
Current assets	\$ 201,688	\$ -
Total assets	201,688	-
Current liabilities	-	-
Total liabilities	-	-
Equity	\$ 201,688	\$ -
Revenues	\$ -	\$ -
Net loss	\$ (180,309)	\$ -

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

The Organization's proportionate share of net loss in Missouri Community Health IPA, LLC amounted to \$13,234 and \$0 for the years ended January 31, 2014 and 2013, respectively. The Organization's investment in the LLC is included in investment in equity investee on the balance sheet.

Note 6: Medical Malpractice Liability Coverage and Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing physicians 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.

Based upon the Organization's claim experience, no accrual has been made for medical malpractice costs for the years ended January 31, 2014 and 2013. 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: Long-Term Debt

	<u>2014</u>	<u>2013</u>
Installment note payable (A)	\$ 18,676	\$ 42,511
Note payable (B)	159,571	198,665
Note payable (C)	185,606	231,078
Note payable (D)	<u>-</u>	<u>33,920</u>
	363,853	506,174
Less current maturities	<u>107,181</u>	<u>120,156</u>
	<u>\$ 256,672</u>	<u>\$ 386,018</u>

(A) Due October 1, 2014; payable \$2,118 monthly, including interest at 5%; secured by certain real property.

(B) Due August 15, 2016; payable \$3,945 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.50%. The note is secured by certain real property and is partially guaranteed (50%) by Heartland Regional Medical Center.

Northwest Health Services, Inc.

Notes to Financial Statements

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- (C) Due August 15, 2016; payable \$4,589 monthly with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.50%. The note is secured by certain real property and is fully guaranteed by Heartland Regional Medical Center.
- (D) The promissory note is due March 1, 2017; payable in fifty-nine monthly installments of \$1,160 with one final payment of remaining principal at the due date; the monthly payment includes interest at 4.99%. The note is secured by a deed of trust. The note was paid in full during the year ended January 31, 2014.

Aggregate annual maturities of long-term debt at January 31, 2014, are:

2015	\$ 107,181
2016	92,648
2017	<u>164,024</u>
	<u>\$ 363,853</u>

Note 8: Functional Expenses

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

	<u>2014</u>	<u>2013</u>
Health care services	\$ 13,669,449	\$ 12,697,465
General and administrative	<u>5,773,768</u>	<u>5,606,057</u>
	<u>\$ 19,443,217</u>	<u>\$ 18,303,522</u>

Note 9: Operating Leases

The Organization has noncancelable operating leases for certain medical and dental facilities and equipment. The facility leases contain renewal options for varying periods. A portion of the leased space is sublet under leases which expire over terms concurrent with the Organization's lease agreements.

Northwest Health Services, Inc.
Notes to Financial Statements
January 31, 2014 and 2013

Future minimum lease payments at January 31, 2014, were:

2015	\$ 524,569
2016	520,233
2017	521,709
2018	523,233
2019	524,793
Thereafter	<u>902,185</u>
Future minimum lease payments	<u><u>\$ 3,516,722</u></u>

Rental expense for all operating leases consisted of the following for the years ended January 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Minimum rentals	\$ 738,927	\$ 702,883
Less sublease rental income	<u>36,698</u>	<u>36,248</u>
	<u><u>\$ 702,229</u></u>	<u><u>\$ 666,635</u></u>

Note 10: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Organization matches each employee's contributions to the plan at 25% of the employee's contribution up to 4% of the employee's annual salary. The plan also allows for additional contributions as determined by the Board of Directors. During the years ended January 31, 2014 and 2013, the Board did not grant additional contributions. Pension expense for the years ended January 31, 2014 and 2013, was \$59,164 and \$58,256, respectively.

Note 11: Related Party Transactions

The Organization has contracted with a related party provider of outsourced information technology services, including management of the Organization's information technology functions. The Chief Medical Officer of the Organization is a relative of the owner of the company providing these services. The cost of such services totaled \$493,690 and \$404,280 for the years ended January 31, 2014 and 2013, respectively.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

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 Revenue

A 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 medical malpractice claims are described in *Note 5*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of loss to differ materially in the near term.

Loss Contingency

During the year ended January 31, 2007, the Organization's management identified a nurse practitioner that was performing services with an expired license. Once management became aware of this situation, appropriate clinical service changes were made and an investigation was performed to identify the length of time that such services had been rendered and billed to third-party payers. The Organization's management has identified \$278,304 of payments received by the Organization related to these services provided to Medicare and Medicaid beneficiaries and, accordingly, has included a provision of this amount in the financial statements. No provision has been made in the financial statements for any adverse outcome related to other third-party payers as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

During the year ended January 31, 2012, the Organization repaid \$176,125 to the Missouri Medicaid program in settlement of the identified payments received from the Missouri Medicaid program. Accordingly, such amount was then removed from the aforementioned provision that is included in the financial statements.

Northwest Health Services, Inc.

Notes to Financial Statements

January 31, 2014 and 2013

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 upcoming implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, 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. Each of these factors could have an adverse impact on the Organization's future operating results.

Supplementary Information

Northwest Health Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended January 31, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80 CS 00671-12-04	\$ 1,621,218
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 C81 CS 00671-12-04	<u>1,221,429</u>
Total Health Centers Cluster				2,842,647
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	5 H76HA 04130-10-02	150,722
Cooperative Agreements for State- Based Comprehensive Breast and Cervical Cancer Early Detection Programs	U.S. Department of Health and Human Services / Missouri Department of Health and Senior Services	93.919		<u>2,794</u>
Total expenditures of federal awards				<u>\$ 2,996,163</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Northwest Health Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Northwest Health Services, Inc. did not provide a federal award to a subrecipient during the year ended January 31, 2014.

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northwest Health Services, Inc. (the “Organization”), which comprise the balance sheet as of January 31, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 29, 2014.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
Northwest Health Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
May 29, 2014

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Northwest Health Services, Inc.
St. Joseph, Missouri

Report on Compliance for Major Federal Program

We have audited the compliance of Northwest Health Services, Inc. (the "Organization") with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended January 31, 2014. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Northwest Health Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Board of Directors
Northwest Health Services, Inc.

Opinion on Major Federal Program

In our opinion, Northwest Health Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended January 31, 2014.

Report on Internal Control Over Compliance

Management of Northwest Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
May 29, 2014

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2014

7. The Organization's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Northwest Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended January 31, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
	No matters are reportable.	

Northwest Health Services, Inc.
Summary Schedule of Prior Audit Findings
Year Ended January 31, 2014

Reference Number	Summary of Finding	Status
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No matters are reportable.