

MOSAIC MEDICAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Years Ended May 31, 2017 and 2016

Jones & Roth

CPAs & Business Advisors

MOSAIC MEDICAL
FINANCIAL STATEMENTS
For the Years Ended May 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mosaic Medical
Prineville, Oregon

We have audited the accompanying financial statements of Mosaic Medical (a nonprofit organization), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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 Mosaic Medical as of May 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of Mosaic Medical as of May 31, 2016, were audited by other auditors whose opinion dated October 10, 2016, expressed an unmodified opinion on those statements. As discussed in Note 18, Mosaic Medical has restated its 2016 financial statements during the current year to remove improperly accrued deferred rent liabilities and reclassify the statement of financial position and statement of activities to be in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2016 financial statements before the restatement.

As part of our audit of the 2017 financial statements, we also audited adjustments described in Note 18 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2016 financial statements of Mosaic Medical other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 November 17, 2017, on our consideration of Mosaic Medical's internal control over financial reporting and on 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 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 Mosaic Medical's internal control over financial reporting and compliance.

Jones & Roth, P.C.

Jones & Roth, P.C.
Bend, Oregon
November 17, 2017

FINANCIAL STATEMENTS

MOSAIC MEDICAL
STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016

	<u>2017</u>	<u>(Restated) 2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 5,194,946	\$ 4,993,872
Investments	2,817,352	2,685,784
Accounts receivable, net	1,867,306	1,674,904
340B pharmacy receivable, net	135,493	130,415
Grant receivable	226,501	25,800
Promise to give - use of facilities, short-term	191,194	189,781
Supplies inventory	146,358	219,445
Deposits	35,011	35,011
Prepaid expenses	<u>186,766</u>	<u>161,233</u>
Total current assets	10,800,927	10,116,245
Property and equipment, net	4,964,380	3,768,960
Promise to give - use of facilities, long-term	<u>49,739</u>	<u>223,832</u>
Total assets	<u>\$ 15,815,046</u>	<u>\$ 14,109,037</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 336,055	\$ 199,107
Accrued payroll and related taxes	964,568	852,328
Accrued paid time off	903,079	764,445
340B settlement payable	<u>-</u>	<u>186,684</u>
Total current liabilities	2,203,702	2,002,564
Deferred rent	<u>176,602</u>	<u>170,952</u>
Total liabilities	<u>2,380,304</u>	<u>2,173,516</u>
Net assets		
Unrestricted	12,706,809	11,336,718
Temporarily restricted	<u>727,933</u>	<u>598,803</u>
Total net assets	<u>13,434,742</u>	<u>11,935,521</u>
Total liabilities and net assets	<u>\$ 15,815,046</u>	<u>\$ 14,109,037</u>

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended May 31, 2017 and 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
Patient service revenue			
Patient service revenue, net	\$ 6,199,581	\$ -	\$ 6,199,581
Capitation revenue, net	12,599,356	-	12,599,356
Provision for bad debts	(749,483)	-	(749,483)
Net patient service revenue	<u>18,049,454</u>	<u>-</u>	<u>18,049,454</u>
Other support and revenue			
Pharmacy 340B program	2,525,336	-	2,525,336
Federal grants	-	4,314,391	4,314,391
Other grants	294,812	593,234	888,046
Medical incentives revenue	2,494,515	-	2,494,515
Service contract revenue	177,759	-	177,759
Panel management fees	759,936	-	759,936
Gifts-in-kind	-	83,448	83,448
Contributions	1,795	-	1,795
Total other support and revenue	<u>6,254,153</u>	<u>4,991,073</u>	<u>11,245,226</u>
Other income			
Rent income	80,153	-	80,153
Miscellaneous income	79,996	-	79,996
Interest income	34,976	-	34,976
Investment income	81,051	-	81,051
Total other income	<u>276,176</u>	<u>-</u>	<u>276,176</u>
Total revenue and support	24,579,783	4,991,073	29,570,856
Net assets released from restrictions	<u>4,861,943</u>	<u>(4,861,943)</u>	<u>-</u>
Total revenue, support, and reclassifications	<u>29,441,726</u>	<u>129,130</u>	<u>29,570,856</u>
Expenses			
Program	22,211,646	-	22,211,646
Management and general	5,859,989	-	5,859,989
Total expenses	<u>28,071,635</u>	<u>-</u>	<u>28,071,635</u>
Change in net assets	1,370,091	129,130	1,499,221
Net assets, beginning of year, as restated	<u>11,336,718</u>	<u>598,803</u>	<u>11,935,521</u>
Net assets, end of year	<u>\$ 12,706,809</u>	<u>\$ 727,933</u>	<u>\$ 13,434,742</u>

MOSAIC MEDICAL
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended May 31, 2017 and 2016

	(Restated) 2016		
	Unrestricted	Temporarily Restricted	Total
Patient service revenue			
Patient service revenue, net	\$ 4,764,525	\$ -	\$ 4,764,525
Capitation revenue, net	13,507,151	-	13,507,151
Provision for bad debts	(432,324)	-	(432,324)
Net patient service revenue	<u>17,839,352</u>	<u>-</u>	<u>17,839,352</u>
Other support and revenue			
Pharmacy 340B program	1,245,286	-	1,245,286
Federal grants	-	3,774,169	3,774,169
Other grants	133,076	359,310	492,386
Medical incentives revenue	2,027,314	-	2,027,314
Service contract revenue	77,380	-	77,380
Panel management fees	759,936	-	759,936
Gifts-in-kind	1,000	58,548	59,548
Contributions	19,131	-	19,131
Total other support and revenue	<u>4,263,123</u>	<u>4,192,027</u>	<u>8,455,150</u>
Other income			
Rent income	79,681	-	79,681
Miscellaneous income	40,193	-	40,193
Interest income	21,234	-	21,234
Investment income	2,618	-	2,618
Total other income	<u>143,726</u>	<u>-</u>	<u>143,726</u>
Total revenue and support	22,246,201	4,192,027	26,438,228
Net assets released from restrictions	<u>4,198,001</u>	<u>(4,198,001)</u>	<u>-</u>
Total revenue, support, and reclassifications	<u>26,444,202</u>	<u>(5,974)</u>	<u>26,438,228</u>
Expenses			
Program	18,715,267	-	18,715,267
Management and general	5,225,323	-	5,225,323
Total expenses	<u>23,940,590</u>	<u>-</u>	<u>23,940,590</u>
Change in net assets	2,503,612	(5,974)	2,497,638
Net assets, beginning of year	<u>8,833,106</u>	<u>604,777</u>	<u>9,437,883</u>
Net assets, end of year	<u>\$ 11,336,718</u>	<u>\$ 598,803</u>	<u>\$ 11,935,521</u>

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended May 31, 2017 and 2016

	2017		
	Program	Management and General	Total
Personnel costs:			
Salaries and wages	\$ 13,010,826	\$ 3,980,589	\$ 16,991,415
Payroll taxes	1,214,464	303,616	1,518,080
Fringe benefits	2,093,340	523,335	2,616,675
 Total personnel costs	 16,318,630	 4,807,540	 21,126,170
Occupancy	1,314,525	328,631	1,643,156
Supplies	1,365,231	20,699	1,385,930
Contractual services	807,193	181,815	989,008
Information technology	608,103	65,410	673,513
Depreciation	432,970	108,242	541,212
Professional fees	74,665	130,480	205,145
Dues, publications, and postage	124,948	31,236	156,184
Repairs and small equipment	155,600	38,568	194,168
Education	107,568	6,525	114,093
Travel	132,244	33,060	165,304
Training, meetings, and conferences	58,125	25,195	83,320
Enrichment and wellness	90,161	22,540	112,701
Telephone	58,224	14,557	72,781
Recruitment	152,324	1,655	153,979
Advertising	53,339	13,335	66,674
Office expenses	265,674	17,235	282,909
Insurance	46,185	11,547	57,732
Miscellaneous	45,937	1,719	47,656
 Total functional expenses	 <u>\$ 22,211,646</u>	 <u>\$ 5,859,989</u>	 <u>\$ 28,071,635</u>

Overhead percent (management and general
as a percent of total expenses)

20.9

MOSAIC MEDICAL
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended May 31, 2017 and 2016

	(Restated) 2016		
	Program	Management and General	Total
Personnel costs:			
Salaries and wages	\$ 11,312,959	\$ 3,541,441	\$ 14,854,400
Payroll taxes	1,015,889	253,972	1,269,861
Fringe benefits	1,687,365	420,525	2,107,890
Total personnel costs	14,016,213	4,215,938	18,232,151
Occupancy	1,300,119	218,735	1,518,854
Supplies	912,067	11,498	923,565
Contractual services	480,258	294,285	774,543
Information technology	580,238	64,471	644,709
Depreciation	507,265	26,698	533,963
Professional fees	47,558	166,343	213,901
Dues, publications, and postage	117,938	37,913	155,851
Repairs and small equipment	121,797	13,468	135,265
Education	96,703	21,274	117,977
Travel	101,779	11,309	113,088
Training, meetings, and conferences	61,291	27,392	88,683
Enrichment and wellness	70,249	17,562	87,811
Telephone	66,027	13,248	79,275
Recruitment	73,800	1,765	75,565
Advertising	2,374	45,113	47,487
Office expenses	30,674	23,191	53,865
Insurance	37,800	11,720	49,520
Miscellaneous	91,117	3,400	94,517
Total functional expenses	<u>\$ 18,715,267</u>	<u>\$ 5,225,323</u>	<u>\$ 23,940,590</u>
Overhead percent (management and general as a percent of total expenses)		<u><u>21.8</u></u>	

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017 and 2016

	2017	(Restated) 2016
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Cash received from patients and programs	\$ 28,640,137	\$ 26,160,460
Cash paid to vendors and employees	(26,686,890)	(23,129,400)
Cash paid for interest expense	-	-
Interest income	34,976	11,942
	<u>1,988,223</u>	<u>3,043,002</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of investments	(96,523)	(1,239,513)
Proceeds from the sale of investments	46,006	556,738
Acquisition of property and equipment	(1,736,632)	(241,559)
	<u>(1,787,149)</u>	<u>(924,334)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Reimbursement for leasehold improvements	-	139,990
	<u>201,074</u>	<u>2,258,658</u>
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning of year, as restated	4,993,872	2,735,214
	<u>\$ 5,194,946</u>	<u>\$ 4,993,872</u>
Cash and cash equivalents, end of year		
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 1,499,221	\$ 2,497,638
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	541,212	533,963
Net earnings from investments	(81,051)	(2,618)
(Increase) decrease in:		
Accounts receivable, net	(192,402)	(372,542)
340B pharmacy receivable, net	(5,078)	168,648
Grants receivable	(200,701)	(25,800)
Promise to give - use of facilities	172,680	190,179
Supplies inventory	73,087	(95,346)
Deposits	-	31,241
Prepaid expenses	(25,533)	121,872
Increase (decrease) in:		
Accounts payable and accrued expenses	136,948	(250,869)
Accrued payroll and related taxes	112,240	329,194
Accrued paid time off	138,634	185,299
340B settlement payable	(186,684)	-
APM refunds payable	-	(360,228)
Deferred rent	5,650	92,371
	<u>\$ 1,988,223</u>	<u>\$ 3,043,002</u>
Net cash provided by operating activities		

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies

Description of Operations

Mosaic Medical (the Organization) is a nonprofit organization operating as a Community Health Center whose mission is “to improve the health and well-being of the individuals, families, and communities we serve.” The Organization uses a team-based model of healthcare, treating the whole patient by addressing physical, emotional, social, and cultural needs. The Organization also proudly serves the insured and uninsured regardless of age, ethnicity, or income.

The Organization began its operations in the city of Prineville, Oregon in 2002 and is governed by a patient-majority Board of Directors. The Organization expanded its operations by adding sites in Bend, Oregon in 2005, Madras, Oregon in 2006, and Redmond, Oregon in 2013. Additionally, the Organization has continued to grow by collaborating with community partners, counties, and a local Regional Housing Authority. These relationships have led to the opening of two satellite sites, five School-Based Health Centers, one Mobile Medical Unit, one Mobile Dental Unit, and a Complex Care Center consisting of two clinics, an Internal Medicine clinic, and Bridges Health, a Community Collaborative site. In total, the Organization has expanded from one clinic in 2002 to 12 clinics and 2 mobile units in 2017.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. The Organization has no permanently restricted net assets as of May 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The amounts estimated could differ from actual results.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Organization considers all highly-liquid investments with original maturities of three months or less to be cash equivalents for reporting purposes.

Investments

Investments acquired by gift are recorded at their fair market value at the date of the gift.

Investments are comprised primarily of certificates of deposit, mutual funds, and bond funds. These investments with readily determinable fair values are reported at their fair values based upon quoted market values. Income earned from investments, including realized and unrealized gains and losses, is recorded in the net asset classes based upon donor restrictions or the absence thereof.

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

As of May 31, 2017 and 2016, the Organization held investments in mutual and bond funds at a cumulative price of \$817,352 and \$685,393, respectively.

As of May 31, 2017, the Organization held investments in four certificates of deposit, recorded at a cumulative price of \$2,000,000 plus interest earned. The certificates earned interest from 0.70 percent to 1.10 percent. The certificates mature beginning July 27, 2017, through April 26, 2018. As of May 31, 2016, the Organization held investments in four certificates of deposit, recorded at a cumulative price of \$2,000,391 plus interest earned. The certificates earned interest from 0.55 percent to 0.65 percent. The certificates matured beginning July 28, 2016, through April 27, 2017.

Accounts Receivable

All accounts receivables are unsecured. Patient receivables are recorded in the accounting records at the Organization's full, established rates, reduced by charity care amounts. The allowance for uncollectible patient receivables represents a provision for contractual adjustments, discounts, and bad debts. The allowance is determined from a review of outstanding collections and economic conditions and calculated by applying historical collection percentages to the various types of patient receivable balances. It is reasonably possible the Organization's estimate of the allowance for uncollectible patient receivables will change. A delinquent receivable is one on which a scheduled/expected payment did not occur. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient and other third-party payers.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Accounts Receivable, continued

No interest is charged on past due accounts. Patient receivables consist of contracts, certain grants, and Medicaid incentives earned by the Organization under the following programs:

Alternative Payment Methodology (APM) - APM originally began as a ‘minimum of’ three years pilot program during the fiscal year ended May 31, 2013. The intent of the program was to encourage Federally Qualified Health Centers and Rural Health Centers to provide high quality, efficient, patient-centered health care by incentivizing high value services over a volume of visits. The Organization entered into an agreement with the State of Oregon and the Oregon Primary Care Association to provide high quality, patient-centered care using “touches” as a basis of care and a capitation payment rather than for care based on billable visits using the Prospective Payment System (PPS). The 3-year implementation period of the APM system has since expanded to other clinics in Oregon. Quality care reporting is required to participate. APM receivables are expected to be outstanding three months or less, as opposed to PPS Medicaid receivables which can be as long as a year outstanding.

Meaningful Use - The Organization adopted electronic health records (EHR) in 2011 and all eligible providers qualified for “Adopt, Implement, or Upgrade” (AIU) status. The Organization achieved Stage 1 in 2013 and maximized time spent developing health information technology resources and support to achieve Stage 2 by 2014 and Stage 3 by 2016. The potential incentive is a maximum of \$63,750 per eligible provider (EP), which is paid out over six years. Oregon disburses payments to EPs in alignment with the calendar year on a rolling basis following the end of the EHR reporting period for the payment year.

Patient-Centered Primary Care Home (PCPCH) - A PCPCH is a clinic that has been recognized by the State of Oregon for providing personal, continuous, and coordinated care for its patients. Recognized primary care homes evaluate the needs of the population they serve and work to improve care to meet those needs. Recognized primary care homes demonstrate the ability to meet the key standards set by the state. Recognized clinics can now apply to receive additional Medicaid funding to support the comprehensive, coordinated, and patient-centered care they offer Medicaid patients with chronic conditions such as diabetes and asthma. The program is also working to secure supplemental funds for recognized clinics from other Oregon Health Authority programs as well as private payers.

A clinic can achieve three different tiers of recognition depending on various criteria they demonstrate meeting, with Tier 3 being the highest a clinic can achieve. PCPCH clinics must reapply annually for recognition. The Organization’s clinics first achieved Tier 3 status in October 2011 and were re-recognized in October 2013 at Tier 3 for Medicaid patients with certain chronic conditions or serious mental health conditions.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Promises to Give

Unconditional promises to give (pledges) expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair market value at the date of gift if donated. It is the Organization's general policy to capitalize expenditures for these items in excess of \$5,000 and with a useful, remaining life greater than one year. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are recorded at cost and amortized over the terms of the building lease on a straight-line basis. Expenditures for additions, major renewals, and betterments are capitalized and expenditures for repairs and maintenance are charged to operations as incurred. The cost of assets retired or otherwise disposed of and the related, accumulated depreciation are eliminated from the accounts in the year of disposal with the resulting gain or loss credited or charged to operations.

Property and equipment acquired by the Organization are considered owned by the Organization. However, the Department of Health and Human Services maintains an equitable interest in the property and equipment purchased in whole or in part with funds from its federal grant. In addition, the Uniform Guidance requires that equipment acquired with federal awards be used in the program that acquired it or, when appropriate, other federal programs. When equipment with a current, per-unit, fair market value in excess of \$5,000 is no longer needed by the Organization's federal program, it may be retained or sold with the federal agency having a right to a proportionate (percent of federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures must be used that provide for competition to the extent practicable and result in the highest possible return.

Supplies Inventory

Medical and office supplies are recorded at the lower of average cost or fair market value.

Accrued Compensated Absences

The Organization provides employee benefit programs that include annual, earned time off with pay. Compensated absences are accrued and expensed as earned.

Deferred Rent

The Organization accrues a deferred rent liability for the difference in actual lease payments and lease payments recognized on a straight-line basis in accordance with accounting principles generally accepted in the United States of America.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Grants and Contract Revenue

The Organization receives a substantial portion of its grant and contract support from the federal government. The Organization recognizes grant and contract support either on a pro-rata basis over the grant/contract period or to the extent of expenses, depending on the nature of the grant/contract. Any of the funding sources may, at their discretion, request reimbursement for expenses, return of funds, or both as a result of non-compliance by the Organization with the terms of the grants/contracts.

Patient Service Revenue

The basis for patient service revenue depends on a number of factors, including a patient sliding fee scale based on ability to pay and various agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include provisions for prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers. However, adjustments to these estimated amounts are recorded in the year the adjustment amount is known. A summary of major, third-party payment arrangements follows:

Medicare - The terms of the Medicare program provide generally that care providers are reimbursed based on their cost of operations. However, the program reduces actual costs under various formulas which are incorporated in published federal regulations. These regulations are interpreted by fiscal intermediaries. Regulations and interpretations can be changed on a retroactive basis. Under the terms of the Medicare program, further adjustments may also be made after the annual cost report is reviewed and even to prior years. These adjustments may result in refunds to the Organization or payments to the intermediary. The amounts for possible adjustment are not always determinable at year end.

Medicaid - Services rendered to Medicaid program beneficiaries are paid either at a tentative rate per-patient-per-visit (PPS) or at a per-patient-per-month formula (PMPM), with final settlement determined after submission of annual cost reports. The amounts for possible adjustment are not always determinable at year end.

Private Health Insurance - The Organization also has entered into payment agreements with certain private health insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per-visit rates.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Charity Care

The Organization provides care to all patients regardless of their ability to pay. Discounts are available to those patients whose income level is between the range of zero percent to 200 percent of the federal poverty level. These charity care service discounts are based on the Organization's sliding scale discount program and related policy. Charity care services are defined as those services for which patients have the obligation and willingness to pay, but do not have the ability to do so. The amount of charges forgone for the years ended May 31, 2017 and 2016, approximated \$1,028,813 and \$547,656, respectively.

The Organization is involved in numerous activities and programs reaching beyond the walls of its health centers and into the community that are not calculated in the cost of charity care. These activities are wide-ranging and include providing community health education, support groups, health screenings, health fairs, transportation services, medical residency and internships, education to other health professionals such as nurses and pharmacy technicians, research and language assistance, and many other subsidized health services. Most of these programs and activities are provided either free of charge or for a nominal fee that is significantly less than the cost of providing them.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. When projects are completed and restricted funds remain, every effort is made to use the excess funds in like or similar projects. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Functional Allocation of Expenses

The costs of providing program services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated to program and supporting services benefited. Such allocations are made on the basis of cost accounting information available and the judgment of management.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Advertising Expenses

The Organization uses advertising to promote its programs in the community. Advertising and health promotion costs are expensed as incurred and totaled \$66,674 and \$47,487 for the years ended May 31, 2017 and 2016, respectively.

Income Taxes

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as an organization that is not a private foundation under Section 509(a)(2). No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax.

The Organization files income tax returns in the United States federal jurisdiction, as well as the State of Oregon jurisdiction. In the event penalties and interest are assessed by income taxing authorities, it is the Organization's policy to include these in operating expenses. No penalties or interest were assessed for the years ended May 31, 2017 and 2016.

2. Cash and Cash Equivalents and Restricted Cash Reserve

A significant portion of cash and cash equivalents are handled through a single banking institution. Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per organization. The Organization utilizes banking services to manage FDIC protection risk, whereby funds exceeding FDIC protection are automatically swept to and maintained in other banks. As of May 31, 2017 and 2016, the Organization had \$-0- and \$93,421, respectively, of cash and cash equivalents in excess of the \$250,000 FDIC insurance limits. The cash balance reported in the accompanying financial statements may differ from the amount held on deposit due to deposits in transit or outstanding checks that have not cleared the bank as of the statements of financial position date.

3. Fair Value Measurement

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or in the absence of a principal market, the most advantageous market. Valuation techniques consistent with the market, income, or cost approach are used to measure fair value.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

3. Fair Value Measurement, continued

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has been able to access.

Level 2: Inputs (other than quoted prices included within Level 1) observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability that rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Organization's own data.)

The following tables present the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of May 31:

	Assets at Fair Value as of May 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 676,120	\$ -	\$ -	\$ 676,120
Bonds	141,232	-	-	141,232
Total assets at fair value	\$ 817,352	\$ -	\$ -	\$ 817,352

	Assets at Fair Value as of May 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 543,023	\$ -	\$ -	\$ 543,023
Bonds	142,370	-	-	142,370
Total assets at fair value	\$ 685,393	\$ -	\$ -	\$ 685,393

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

4. Accounts Receivable

Accounts receivable consisted of the following at May 31:

	<u>2017</u>	<u>2016</u>
Patient receivables:		
Medicaid	\$ 1,925,103	\$ 2,010,137
Self-pay	528,288	646,167
Medicare	188,379	251,809
Private health insurance	<u>291,794</u>	<u>215,487</u>
Total patient receivables	2,933,564	3,123,600
Other receivables	<u>133,065</u>	<u>42,854</u>
Total patient and other receivables	3,066,629	3,166,454
Allowance for doubtful accounts and contractual adjustments	<u>(1,199,323)</u>	<u>(1,491,550)</u>
Accounts receivable, net	<u>\$ 1,867,306</u>	<u>\$ 1,674,904</u>

At May 31, 2017 and 2016, accounts receivable included balances outstanding for greater than 90 days of \$424,027 and \$562,313, respectively. The Organization's allowance for doubtful accounts and contractual adjustments has been estimated by management based on expected future payments. Management believes the allowance is adequate to absorb any amounts that are not collected.

5. Promise to Give

The Organization received an unconditional promise to give consisting of the use of facilities to operate its Complex Care Center and school-based health centers over 1 to 5 years at a lease rate substantially below the fair market value of comparable leases in the Bend, Oregon area. The portion of the unconditional promise to give that extends more than one year is discounted using present value techniques and a discount rate of 4.125 percent, the current estimated borrowing rate of the Organization. The promise to give for the Complex Care Center expires in September 2018, the maturity date of the underlying lease agreement.

The amount due to the Organization consisted of the following at May 31:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 191,194	\$ 189,781
Due in more than one and less than five years	55,553	243,004
Discount to present value	<u>(5,814)</u>	<u>(19,172)</u>
	<u>\$ 240,933</u>	<u>\$ 413,613</u>

Lease expenses related to promises to give discounted lease arrangements within the financial statements totaled \$243,229 and \$248,729 for the years ended May 31, 2017 and 2016, respectively.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

6. Property and Equipment

Property and equipment consisted of the following at May 31:

	<u>2017</u>	<u>2016</u>
Buildings and improvements (50 years)	\$ 2,579,590	\$ 2,579,590
Land	575,000	575,000
Computer hardware (3 years)	946,716	946,716
Computer software (3 - 6 years)	862,109	792,713
Leasehold improvements (7 - 10 years)	997,044	702,906
Medical equipment (5 - 12 years)	502,180	441,560
Furniture and equipment (3 - 15 years)	398,890	398,890
Automobiles (5 years)	15,000	-
Construction in progress	<u>1,340,923</u>	<u>43,446</u>
	8,217,452	6,480,821
Accumulated depreciation	<u>(3,253,072)</u>	<u>(2,711,861)</u>
Property and equipment, net	<u>\$ 4,964,380</u>	<u>\$ 3,768,960</u>

Depreciation expense for the years ended May 31, 2017 and 2016, was \$541,212 and \$533,963, respectively. The range of useful lives for depreciation purposes is identified in parentheses in the table above for each fixed asset category.

7. Net Assets

Net assets consisted of the following at May 31:

	<u>2017</u>	<u>2016</u>
Unrestricted:		
Equity in property and equipment	\$ 4,964,380	\$ 3,768,960
Available for general activities	<u>7,742,429</u>	<u>7,567,758</u>
Total unrestricted	<u>12,706,809</u>	<u>11,336,718</u>
Temporarily restricted:		
Promise to give - use of facilities	240,933	407,313
Collins Foundation	75,000	-
M.J. Murdock Charitable Trust	250,000	-
Ford Family Foundation	138,500	-
HTN Pacific Source Grant	-	160,000
Various programs	<u>23,500</u>	<u>31,490</u>
Total temporarily restricted	<u>727,933</u>	<u>598,803</u>
Total net assets	<u>\$ 13,434,742</u>	<u>\$ 11,935,521</u>

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

8. Patient Service Revenue

Patient service revenue was earned during the years ended May 31, 2017 and 2016, from Medicaid, Medicare, private insurance, and self-pay patients. The approximate mix of net patient service revenue was as follows:

	2017	2016
Medicaid	78%	81%
Medicare	7%	6%
Private insurance	11%	9%
Self-pay patients	4%	4%
Total	100%	100%

9. Uninsured Patients

For uninsured patients that do not qualify for charity care, the Organization recognized revenue on the basis of its standard rates for services provided or on the basis of discounted rates if negotiated or provided by policy. On the basis of historical experience, a portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service fees revenue, net of contractual discounts, but before the provision for bad debts recognized for the years ended May 31, was as follows:

	2017		
	Third-Party Payers	Self-Pay	Total
Patient service fees, net of contractual discounts	\$ 5,374,353	\$ 825,228	\$ 6,199,581
	2016		
	Third-Party Payers	Self-Pay	Total
Patient service fees, net of contractual discounts	\$ 3,961,263	\$ 803,262	\$ 4,764,525

10. Rental Income

The Organization leases 4,689 square feet of its building in Prineville to Crook County for base rent of \$6,794 per month. The lease commenced January 2007 and was extended on January 1, 2017, for an additional 5-year term ending December 31, 2021. Per the extension agreement, base rent is scheduled to increase 1 percent annually. As a part of the lease agreement, the Organization cannot sell, transfer, exchange, grant an option to purchase, or otherwise dispose of the Prineville building without first offering it to Crook County. With 90 days advance notice, Crook County may terminate the rental agreement at any time and without penalty if it fails to receive funding or adopt appropriations, limitations, or other expenditure authority at levels sufficient to pay the rent fees.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

10. Rental Income, continued

As of May 31, 2017, future minimum rent income anticipated to be received under the lease with Crook County is as follows:

<u>Year Ending May 31,</u>	
2018	\$ 80,660
2019	81,467
2020	82,281
2021	83,104
2022	<u>48,881</u>
Total	<u>\$ 376,393</u>

The cost and carrying amount of the Prineville building, a portion of which is leased to Crook County, is included in buildings and improvements (Note 6). The total cost of the building is \$2,579,590. Accumulated depreciation was \$533,680 and \$481,759 at May 31, 2017 and 2016, respectively.

11. Operating Leases

The Organization leases space at nine locations to conduct operating activities under non-cancelable and cancelable operating lease agreements. Non-cancelable leases generally contain initial terms of 3 to 7 years, with one or two renewal options. Lease rates are adjusted annually (generally at 3 percent for inflation), as established under the terms of the agreements. Non-cancelable leases include a per square foot base plus a utility charge. Non-cancelable leases begin to expire during the fiscal year ending May 31, 2018, through the year ending May 31, 2022.

Included in the total above is a 46-month lease for administrative space in Bend, Oregon which began on April 1, 2017. Base rent payments are annually adjusted and not based on inflation. Instead the monthly rent rate increases by \$341 per month annually (or \$0.10 per square foot at 3,403 square feet). The current monthly lease rate is \$3,913 as of May 31, 2017. The lease terminates in January 2021, but there is an option to extend the lease for one additional 5-year term.

Another clinic located in Redmond, Oregon has an annual lease adjustment that is not based on inflation. Instead, the monthly rent rate increases by \$341 per month annually (or \$0.10 per square foot at 3,408 square feet). The current monthly lease rate is \$4,056 as of May 31, 2017. The lease terminates in February 2018, but there is an option to extend the lease for two additional 3-year terms.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

11. Operating Leases, continued

Future minimum rental payments required under these lease agreements are as follows:

<u>Year Ending May 31,</u>	
2018	\$ 853,648
2019	667,126
2020	572,913
2021	435,369
2022	<u>209,638</u>
Total	<u>\$ 2,738,694</u>

Rental expense under all operating leases reported in the accompanying financial statements totaled \$1,067,958 and \$1,025,806 for the years ended May 31, 2017 and 2016, respectively.

12. Malpractice Insurance

The Organization operates in the medical industry, which carries risks of malpractice claims when patients believe themselves to have been injured through acts of omission or negligence. The Organization purchases professional and general liability insurance to cover medical malpractice claims. In addition, the Organization, as a Federally Qualified Health Center, has malpractice claim protection under the Federal Tort Claims Act (FTCA) through the Department of Health and Human Services. The term of coverage is by project period. The FTCA covers activities and claims within the approved scope of deemed Health Centers under the FTCA. The Organization must complete a "redeeming" application annually to continue to receive funding under Section 330 of the Public Health Service Act in order to maintain FTCA coverage. If the Organization loses its Section 330 funding, its coverage under FTCA ends immediately upon termination of the grant. Management is unaware of any claims pending or threatened as of the date of the independent auditor's report. These financial statements do not include an estimate of accrued losses related to any potential claims.

13. Gifts-in-Kind

The Organization receives contributions in the form of donated services, supplies, and discounted use of facilities. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Non-cash contributions of leasable space received classified as contributions totaled \$83,448 and \$58,548 for the years ended May 31, 2017 and 2016, respectively. Lease expenses for month-to-month and promises to give discounted lease arrangements within the financial statements totaled \$243,229 and \$248,729 for the years ended May 31, 2017 and 2016, respectively.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

14. Benefit Plans

The Organization's 401(k) plan covers substantially all of its employees. Employees are eligible to make elective contributions to the 401(k) plan immediately. For the years ended May 31, 2017 and 2016, the Organization matched up to 4 percent of employees' contributions on a per-pay-period basis. The Organization may make additional, discretionary matching contributions each year as determined by the plan. Employer-matching contributions are subject to a 5-year vesting schedule. Employer pension expense totaled \$694,736 and \$439,777 for the years ended May 31, 2017 and 2016, respectively. The Organization also provides a Section 125 cafeteria plan for unreimbursed medical and dependent care expenses.

15. Concentrations of Risk

Concentrations of geographic and credit risks not clearly identified elsewhere in these notes include the following:

- Federal grant revenue was approximately 15 percent and 14 percent of the Organization's total support, patient service, and other revenue for 2017 and 2016, respectively.
- Medicare program revenue accounted for approximately 5 percent and 4 percent of the Organization's total support, patient service, and other revenue for 2017 and 2016, respectively.
- Medicaid program revenue accounted for approximately 50 percent and 55 percent of the Organization's total support, patient service, and other revenue for 2017 and 2016, respectively.
- Laws and regulations governing Medicare and Medicaid programs are extremely complex, subject to interpretation and government regulation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

16. Contingent Liabilities

Amounts received from various grantor agencies are subject to audit and potential adjustment by those agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no material amounts received will be required to be returned in the future.

17. Retroactive Receipts

Retroactive payments received totaling \$2,053,721 for the year ended May 31, 2017, represent incentive payments, included within medical incentives revenue on the statements of activities and changes in net assets, for the Organization providing primary care services to Oregon Health Plan members during the years ended May 31, 2016 and 2015. The revenue was not accruable to the prior periods as it was not estimable due to the nature in which the funds are received and how they are determined.

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

18. Prior Period Restatements

For the year ended May 31, 2016, deferred rent liabilities were adjusted to be in accordance with accounting principles generally accepted in the United States of America. The liability was overstated by \$171,696 causing an understatement of previously reported change in unrestricted net assets and an understatement of unrestricted net assets as of May 31, 2016. The following summarizes the prior period adjustment referred to above:

	<u>Unrestricted Net Assets</u>	<u>Deferred Rent</u>
Balance at May 31, 2016, as previously reported	\$ 11,165,022	\$ 342,648
Prior period adjustments for:		
Decrease in deferred rent liability	<u>171,696</u>	<u>(171,696)</u>
Balance at May 31, 2016, as restated	<u>\$ 11,336,718</u>	<u>\$ 170,952</u>

For the year ended May 31, 2016, certain revenue groupings were reclassified and separately stated on the statement of activities to be in accordance with the required disclosures for health care entities. These restatements had no effect on the reported change in net assets for the prior period presented. The following summarizes the prior period reclassification referred to above:

	<u>2016</u>	<u>(Restated) 2016</u>
Medicaid/medicare	\$ 15,901,148	\$ -
Patient fees and private health insurance	2,346,982	-
Service contracts and awards	2,824,313	-
Patient service revenue, net	-	4,764,525
Capitation revenue, net	-	13,507,151
Other grants	359,310	492,386
Medical incentives revenue	-	2,027,314
Service contract revenue	-	77,380
Panel management fees	-	759,936
Rent income	96,375	79,681
Miscellaneous income	<u>220,438</u>	<u>40,193</u>
Total	<u>\$ 21,748,566</u>	<u>\$ 21,748,566</u>

MOSAIC MEDICAL
NOTES TO FINANCIAL STATEMENTS

18. Prior Period Restatements, continued

For the year ended May 31, 2016, cash and cash equivalents were reclassified to investments to be in accordance with accounting principles generally accepted in the United States of America. This restatement had no effect on the reported total assets for the prior period presented. The following summarizes the prior period adjustment referred to above:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Balance at May 31, 2016, as previously reported	\$ 6,994,263	\$ 685,393
Prior period reclassification	<u>(2,000,391)</u>	<u>2,000,391</u>
Balance at May 31, 2016, as restated	<u>\$ 4,993,872</u>	<u>\$ 2,685,784</u>

The 2016 schedule of functional expenses was also restated to reclassify expenses between functional classes.

19. Reclassifications

Certain reclassifications were made to prior year balances to conform to the current year presentation of the financial statements. The reclassifications had no effect on the reported change in net assets for either period.

20. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report. The following was identified:

On November 7, 2016, the Organization entered into a loan agreement in the amount of \$1,520,000, which was not drawn upon until subsequent to year end May 31, 2017. The loan has an initial interest rate of 3.77 percent, is secured by property and equipment, is payable in initial monthly installments of \$7,885 including interest, and is due to mature in November 2026. The funds are to be specifically used to cover the costs to purchase and remodel a condominium unit of approximately 9,895 square feet in Redmond, Oregon. The Organization will develop the space into clinic space within a senior housing community project. The Organization drew the funds in July 2017 upon closing on the specified property.

SINGLE AUDIT

MOSAIC MEDICAL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2017

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Grant Amount	Period of Performance	Federal Expenditures
Department of Health and Human Services				
Health Resources and Services Administration				
Direct programs:				
Health Center Cluster:				
Health Center Program	93.224*	\$ 1,524,329	6/1/16 - 5/31/17	\$ 1,524,329
ACA Grants for New and Expanded Services Under the Health Center Program	93.527*	2,608,089	6/1/16 - 5/31/17	2,608,089
ACA Grants for New and Expanded Services Under the Health Center Program	93.527*	350,000	7/1/16 - 6/30/17	134,243
ACA Grants for New and Expanded Services Under the Health Center Program	93.527*	<u>124,443</u>	9/1/16 - 8/31/17	<u>47,730</u>
Total Health Center Cluster		<u>\$ 4,606,861</u>		<u>\$ 4,314,391</u>

* Denotes major program

MOSAIC MEDICAL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, *Subpart E*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Major Programs

The Uniform Guidance establishes criteria to be used in defining major programs. Major programs for the Organization are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in the Uniform Guidance. Programs with similar requirements may be grouped into a cluster for testing purposes.

4. De Minimis Indirect Cost Rate

The Organization has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance; however, the award agreements with the Department of Health and Human Services do not include an indirect cost reimbursement, so there were no indirect costs charged to the federal award programs for the year ended May 31, 2017.

5. Subrecipients

No award payments were made to subrecipients for the year ended May 31, 2017.

6. Insurance Coverage

The Organization maintains insurance coverage as recommended by its insurance agent of record.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Mosaic Medical
Prineville, Oregon

We have audited, in accordance with the 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 Mosaic Medical (a nonprofit organization), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mosaic Medical's internal control over financial reporting (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 Mosaic Medical's internal control. Accordingly, we do not express an opinion on the effectiveness of Mosaic Medical'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 entity'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 the 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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mosaic Medical's financial statements are free from 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mosaic Medical's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Jones & Roth, P.C.

Jones & Roth, P.C.
Bend, Oregon
November 17, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
Mosaic Medical
Prineville, Oregon

Report on Compliance for Each Major Federal Program

We have audited Mosaic Medical's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mosaic Medical's major federal programs for the year ended May 31, 2017. Mosaic Medical's major federal programs are 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Mosaic Medical's major federal programs 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; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Mosaic Medical'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 each major federal program. However, our audit does not provide a legal determination of Mosaic Medical's compliance.

Opinion on Each Major Federal Program

In our opinion, Mosaic Medical complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2017.

Report on Internal Control over Compliance

Management of Mosaic Medical 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 Mosaic Medical's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Mosaic Medical'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 or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Jones & Roth, P.C.

Jones & Roth, P.C.
Bend, Oregon
November 17, 2017

MOSAIC MEDICAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended May 31, 2017

Summary of Auditor Results

- 1) The independent auditor's report expresses an unmodified opinion on the financial statements of the Organization.
- 2) No material weaknesses or significant deficiencies in internal control were disclosed by the audit of the financial statements.
- 3) No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- 4) No material weaknesses or significant deficiencies in internal control were disclosed by the audit of the major federal award programs.
- 5) The independent auditor's report on compliance for the major federal award programs for the Organization expresses an unmodified opinion.
- 6) No instances of findings or questioned costs were disclosed during the audit which are required to be reported under Title 2 CFR §200.516 paragraph (a).
- 7) The program tested as a major program was:

The Health Center Cluster:	
Consolidated Health Centers	CFDA 93.224
ACA Grants for New and Expanded Services under the Health Center Program	CFDA 93.527

- 8) The threshold for distinguishing between Type A and Type B programs was \$750,000.
- 9) The Organization did qualify as a low-risk auditee under Title 2 CFR §200.520.

Findings – Financial Statement Audit

None.

Findings and Questioned Costs – Major Federal Award Programs Audit

None.

Prior Year Findings and Questioned Costs – Major Federal Award Programs Audit

None.