

**MOSAIC MEDICAL**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**For the Years Ended May 31, 2018 and 2017**

*Jones & Roth*  
  
CPAs & Business Advisors

MOSAIC MEDICAL  
FINANCIAL STATEMENTS  
For the Years Ended May 31, 2018 and 2017

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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 statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, 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 audits 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Other Information*

Our audits were 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 audits 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 15, 2018, 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 15, 2018

## FINANCIAL STATEMENTS

MOSAIC MEDICAL  
STATEMENTS OF FINANCIAL POSITION  
May 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,507,635	\$ 5,194,946
Investments	3,414,462	2,817,352
Accounts receivable, net	2,146,920	1,867,306
340B pharmacy receivable, net	350,218	277,657
Grant and other contributions receivable	613,079	226,501
Supplies inventory	73,700	146,358
Deposits	23,565	35,011
Prepaid expenses	215,781	186,766
Promise to give - use of facilities, short-term	98,290	191,194
Total current assets	13,443,650	10,943,091
<b>Property and equipment, net</b>	7,249,195	4,964,380
<b>Promise to give - use of facilities, long-term</b>	99,288	49,739
<b>Total assets</b>	<b>\$ 20,792,133</b>	<b>\$ 15,957,210</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 695,606	\$ 478,219
Accrued payroll and related taxes	950,242	964,568
Accrued paid time off	970,545	903,079
Notes payable, current portion	34,652	-
Total current liabilities	2,651,045	2,345,866
<b>Deferred rent</b>	150,654	176,602
<b>Note payable, net of current portion</b>	1,469,121	-
Total liabilities	4,270,820	2,522,468
<b>Net assets</b>		
Unrestricted	16,301,785	12,706,809
Temporarily restricted	219,528	727,933
Total net assets	16,521,313	13,434,742
<b>Total liabilities and net assets</b>	<b>\$ 20,792,133</b>	<b>\$ 15,957,210</b>

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Year Ended May 31, 2018

	Unrestricted	Temporarily Restricted	Total
<b>Patient service revenue</b>			
Patient service revenue, net	\$ 7,913,441	\$ -	\$ 7,913,441
Capitation revenue, net	12,947,147	-	12,947,147
Provision for bad debts	(465,700)	-	(465,700)
Net patient service revenue	<u>20,394,888</u>	<u>-</u>	<u>20,394,888</u>
<b>Other support and revenue</b>			
Pharmacy 340B program	3,926,642	-	3,926,642
Federal grants	-	4,592,635	4,592,635
Other grants	79,550	460,234	539,784
Medical incentives revenue	3,331,239	-	3,331,239
Service contract revenue	437,706	-	437,706
Panel management fees	759,936	-	759,936
Gifts-in-kind	-	255,764	255,764
Contributions	18,312	-	18,312
Total other support and revenue	<u>8,553,385</u>	<u>5,308,633</u>	<u>13,862,018</u>
<b>Other income</b>			
Rent income	82,297	-	82,297
Miscellaneous income	128,013	-	128,013
Interest income	54,479	-	54,479
Investment income	64,542	-	64,542
Total other income	<u>329,331</u>	<u>-</u>	<u>329,331</u>
Total revenue and support	29,277,604	5,308,633	34,586,237
Net assets released from restrictions	<u>5,817,038</u>	<u>(5,817,038)</u>	<u>-</u>
Total revenue, support, and reclassifications	<u>35,094,642</u>	<u>(508,405)</u>	<u>34,586,237</u>
<b>Expenses</b>			
Program	25,366,067	-	25,366,067
Management and general	6,133,599	-	6,133,599
Total expenses	<u>31,499,666</u>	<u>-</u>	<u>31,499,666</u>
<b>Change in net assets</b>	3,594,976	(508,405)	3,086,571
Net assets, beginning of year	<u>12,706,809</u>	<u>727,933</u>	<u>13,434,742</u>
Net assets, end of year	<u>\$ 16,301,785</u>	<u>\$ 219,528</u>	<u>\$ 16,521,313</u>

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
For the Year Ended May 31, 2017

	Unrestricted	Temporarily Restricted	Total
<b>Patient service revenue</b>			
Patient service revenue, net	\$ 6,199,581	\$ -	\$ 6,199,581
Capitation revenue, net	12,599,356	-	12,599,356
Provision for bad debts	<u>(749,483)</u>	<u>-</u>	<u>(749,483)</u>
Net patient service revenue	<u>18,049,454</u>	<u>-</u>	<u>18,049,454</u>
<b>Other support and revenue</b>			
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	<u>1,795</u>	<u>-</u>	<u>1,795</u>
Total other support and revenue	<u>6,254,153</u>	<u>4,991,073</u>	<u>11,245,226</u>
<b>Other income</b>			
Rent income	80,153	-	80,153
Miscellaneous income	79,996	-	79,996
Interest income	34,976	-	34,976
Investment income	<u>81,051</u>	<u>-</u>	<u>81,051</u>
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>
<b>Expenses</b>			
Program	22,628,707	-	22,628,707
Management and general	<u>5,442,928</u>	<u>-</u>	<u>5,442,928</u>
Total expenses	<u>28,071,635</u>	<u>-</u>	<u>28,071,635</u>
<b>Change in net assets</b>	1,370,091	129,130	1,499,221
Net assets, beginning of year	<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>

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended May 31, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Personnel costs:			
Salaries and wages	\$ 15,252,237	\$ 3,361,209	\$ 18,613,446
Payroll taxes	1,260,370	268,461	1,528,831
Fringe benefits	<u>2,604,194</u>	<u>537,490</u>	<u>3,141,684</u>
Total personnel costs	19,116,801	4,167,160	23,283,961
Occupancy	1,542,353	289,979	1,832,332
Supplies	1,907,879	23,141	1,931,020
Contractual services	1,015,336	177,367	1,192,703
Information technology	454,293	395,474	849,767
Depreciation	430,256	145,355	575,611
Professional fees	114,091	103,584	217,675
Dues, publications, and postage	54,966	108,774	163,740
Repairs and small equipment	129,488	93,074	222,562
Education	139,804	15,264	155,068
Travel	114,200	97,244	211,444
Training, meetings, and conferences	13,988	59,922	73,910
Enrichment and wellness	35,536	76,724	112,260
Telephone	32,520	67,699	100,219
Recruitment	210	141,348	141,558
Advertising	10,653	91,102	101,755
Office expenses	160,610	4,803	165,413
Insurance	17,651	34,239	51,890
Miscellaneous	<u>75,432</u>	<u>41,346</u>	<u>116,778</u>
<b>Total functional expenses</b>	<u>\$ 25,366,067</u>	<u>\$ 6,133,599</u>	<u>\$ 31,499,666</u>
Overhead percent (management and general as a percent of total expenses)		<u>19.5</u>	

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended May 31, 2017

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Personnel costs:			
Salaries and wages	\$ 14,065,125	\$ 2,926,290	\$ 16,991,415
Payroll taxes	1,271,889	246,191	1,518,080
Fringe benefits	<u>2,135,975</u>	<u>480,700</u>	<u>2,616,675</u>
Total personnel costs	17,472,989	3,653,181	21,126,170
Occupancy	1,394,206	248,950	1,643,156
Supplies	1,366,367	19,563	1,385,930
Contractual services	795,431	193,577	989,008
Information technology	347,265	326,248	673,513
Depreciation	439,214	101,998	541,212
Professional fees	67,425	137,720	205,145
Dues, publications, and postage	65,514	90,670	156,184
Repairs and small equipment	120,126	74,042	194,168
Education	105,505	8,588	114,093
Travel	95,306	69,998	165,304
Training, meetings, and conferences	18,184	65,136	83,320
Enrichment and wellness	29,888	82,813	112,701
Telephone	23,219	49,562	72,781
Recruitment	18,233	135,746	153,979
Advertising	850	65,824	66,674
Office expenses	213,799	69,110	282,909
Insurance	14,865	42,867	57,732
Miscellaneous	<u>40,321</u>	<u>7,335</u>	<u>47,656</u>
<b>Total functional expenses</b>	<u>\$ 22,628,707</u>	<u>\$ 5,442,928</u>	<u>\$ 28,071,635</u>
Overhead percent (management and general as a percent of total expenses)		<u>19.4</u>	

The accompanying notes are an integral part of these statements.

MOSAIC MEDICAL  
STATEMENTS OF CASH FLOWS  
For the Years Ended May 31, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities</b>		
Cash received from patients and programs	\$ 33,739,250	\$ 28,497,973
Cash paid to vendors and employees	(30,589,017)	(26,544,726)
Cash paid for interest expense	(35,370)	-
Interest income	54,479	34,976
	3,169,342	1,988,223
<b>Cash flows from investing activities</b>		
Purchase of investments	(2,500,000)	(96,523)
Proceeds from the sale of investments	2,000,000	46,006
Acquisition of property and equipment	(2,860,426)	(1,736,632)
	(3,360,426)	(1,787,149)
<b>Cash flows from financing activities</b>		
Proceeds of notes payable	1,520,000	-
Principal payments on notes payable	(16,227)	-
	1,503,773	-
<b>Net increase in cash and cash equivalents</b>	1,312,689	201,074
Cash and cash equivalents, beginning of year	5,194,946	4,993,872
Cash and cash equivalents, end of year	\$ 6,507,635	\$ 5,194,946
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>		
Change in net assets	\$ 3,086,571	\$ 1,499,221
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	575,611	541,212
Net earnings from investments	(97,110)	(81,051)
(Increase) decrease in:		
Accounts receivable, net	(279,614)	(192,402)
340B pharmacy receivable, net	(72,561)	(147,242)
Grant and other contributions receivable	(386,578)	(200,701)
Promise to give - use of facilities	43,355	172,680
Supplies inventory	72,658	73,087
Deposits	11,446	-
Prepaid expenses	(29,015)	(25,533)
Increase (decrease) in:		
Accounts payable and accrued expenses	217,387	279,112
Accrued payroll and related taxes	(14,326)	112,240
Accrued paid time off	67,466	138,634
340B settlement payable	-	(186,684)
Deferred rent	(25,948)	5,650
	\$ 3,169,342	\$ 1,988,223

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, 2018 and 2017.

**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, U.S. Treasury notes 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, 2018 and 2017, the Organization held investments in mutual funds, bonds, and U.S. treasury notes at a cumulative price of \$914,462 and \$817,352, respectively.

As of May 31, 2018, the Organization held investments in five certificates of deposit, recorded at a cumulative price of \$2,500,000 plus interest earned. The certificates earned interest from 1.26 percent to 1.95 percent. The certificates mature beginning July 26, 2018, through May 30, 2019. 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 matured beginning July 27, 2017, through April 26, 2018.

**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 five different tiers of recognition depending on various criteria they demonstrate meeting, with Tier 5 being the highest a clinic can achieve. PCPCH clinics must reapply every two years for recognition. Most of the Organization's clinics are Tier 4 with one clinic, Internal Medicine, achieving Tier 5.

**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.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

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

**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.

**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.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

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

**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.

**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, 2018 and 2017, approximated \$1,492,446 and \$1,028,813, 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.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

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

**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.

**Advertising Expenses**

The Organization uses advertising to promote its programs in the community. Advertising and health promotion costs are expensed as incurred and totaled \$101,755 and \$66,674 for the years ended May 31, 2018 and 2017, 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, 2018 and 2017.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**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 previously utilized 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, 2018 and 2017, the Organization had \$6,902,229 and \$-0-, 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.

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, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 731,549	\$ -	\$ -	\$ 731,549
U.S. treasury notes	94,120	-	-	94,120
Bonds	<u>88,793</u>	<u>-</u>	<u>-</u>	<u>88,793</u>
Total assets at fair value	<u>\$ 914,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 914,462</u>

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**3. Fair Value Measurement, continued**

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

**4. Accounts Receivable**

At May 31, accounts receivable consisted of the following:

	2018	2017
Patient receivables:		
Medicaid	\$ 2,016,315	\$ 1,925,103
Self-pay	577,650	528,288
Medicare	259,442	188,379
Private health insurance	304,101	291,794
 Total patient receivables	 3,157,508	 2,933,564
 Other receivables	 160,882	 133,065
 Total patient and other receivables	 3,318,390	 3,066,629
 Allowance for doubtful accounts and contractual adjustments	 (1,171,470)	 (1,199,323)
 Accounts receivable, net	 \$ 2,146,920	 \$ 1,867,306

At May 31, 2018 and 2017, accounts receivable included balances outstanding for greater than 90 days of \$409,718 and \$424,027, 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.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**5. Promise to Give, continued**

The Organization received an unconditional promise to give consisting of the use of commercial building space over 64 months 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 4.36 percent, the current estimated borrowing rate of the Organization. The promise to give for the commercial building space expires in June 2023, the maturity date of the underlying lease agreement.

At May 31, the amount due to the Organization consisted of the following:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 98,290	\$ 191,194
Due in more than one and less than five years	99,456	55,553
Discount to present value	<u>(168)</u>	<u>(5,814)</u>
	<u>\$ 197,578</u>	<u>\$ 240,933</u>

Lease expenses related to promises to give discounted lease arrangements within the financial statements totaled \$270,746 and \$243,229 for the years ended May 31, 2018 and 2017, respectively.

**6. Property and Equipment**

At May 31, property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Buildings and improvements (50 years)	\$ 5,627,223	\$ 2,579,590
Land	575,000	575,000
Computer hardware (3 years)	1,165,994	946,716
Computer software (3 - 6 years)	949,078	862,109
Leasehold improvements (7 - 10 years)	1,323,412	997,044
Medical equipment (5 - 12 years)	945,967	502,180
Furniture and equipment (3 - 15 years)	476,205	398,890
Automobiles (5 years)	15,000	15,000
Construction in progress	-	<u>1,340,923</u>
	11,077,879	8,217,452
Accumulated depreciation	<u>(3,828,684)</u>	<u>(3,253,072)</u>
Property and equipment, net	<u>\$ 7,249,195</u>	<u>\$ 4,964,380</u>

Depreciation expense for the years ended May 31, 2018 and 2017, was \$575,611 and \$541,212, respectively. The range of useful lives for depreciation purposes is identified in parentheses in the table above for each fixed asset category.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**7. Note Payable**

	2018	2017
Note payable to First Interstate Bank in monthly installments of \$7,885, beginning December 2017, variable interest rate based on 2 percentage points over prime rate (4.36% at May 2018). Final balloon payment due November 2026, secured by substantially all assets.	\$ 1,503,773	\$ -
Current portion	(34,652)	-
Note payable, net of current portion	\$ 1,469,121	\$ -

Under the terms of the above agreement, the Organization is required to maintain various affirmative covenants. The Organization is also required to maintain a Fixed Charge Coverage Ratio covenant that exceeds 1.00 at year end. As of May 31, 2018, management believes the Organization was in compliance with covenant requirements.

At December 31, future principal maturities are as follows:

<u>Year Ending May 31,</u>	
2019	\$ 34,652
2020	39,873
2021	41,402
2022	42,990
2023	45,191
Thereafter	1,299,665
Total	\$ 1,503,773

**8. Net Assets**

At May 31, net assets consisted of the following:

	2018	2017
Unrestricted:		
Equity in property and equipment	\$ 5,745,422	\$ 4,964,380
Available for general activities	10,556,363	7,742,429
Total unrestricted	16,301,785	12,706,809
Temporarily restricted:		
Promise to give - use of facilities	197,578	240,933
Collins Foundation	-	75,000
M.J. Murdock Charitable Trust	-	250,000
Ford Family Foundation	-	138,500
Various programs	21,950	23,500
Total temporarily restricted	219,528	727,933
Total net assets	\$ 16,521,313	\$ 13,434,742

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**9. Patient Service Revenue**

Patient service revenue was earned during the years ended May 31, 2018 and 2017, from Medicaid, Medicare, private insurance, and self-pay patients. The approximate mix of net patient service revenue was as follows:

	2018	2017
Medicaid	78%	78%
Medicare	8%	7%
Private insurance	8%	11%
Self-pay patients	6%	4%
Total	100%	100%

**10. 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:

	2018		
	Third-Party Payers	Self-Pay	Total
Patient service fees, net of contractual discounts	\$ 6,638,267	\$ 1,275,174	\$ 7,913,441
	2017		
	Third-Party Payers	Self-Pay	Total
Patient service fees, net of contractual discounts	\$ 5,374,353	\$ 825,228	\$ 6,199,581

**11. 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

**11. Rental Income, continued**

As of May 31, 2018, future minimum rent income anticipated to be received under the lease with Crook County is as follows:

<u>Year Ending May 31,</u>	
2019	\$ 81,472
2020	82,286
2021	83,109
2022	<u>48,884</u>
Total	<u>\$ 295,751</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 \$585,601 and \$533,680 at May 31, 2018 and 2017, respectively.

**12. Operating Leases**

The Organization leases space at eleven 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, 2019, through the year ending May 31, 2024.

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 \$4,254 as of May 31, 2018. The lease terminates in January 2021, but there is an option to extend the lease for one additional 5-year term.

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

<u>Year Ending May 31,</u>	
2019	\$ 677,882
2020	583,668
2021	446,125
2022	214,922
2023	5,284
Thereafter	<u>881</u>
Total	<u>\$ 1,928,762</u>

Rental expense under all operating leases reported in the accompanying financial statements totaled \$1,166,115 and \$1,067,958 for the years ended May 31, 2018 and 2017, respectively.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**13. 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.

**14. 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 \$255,764 and \$83,448 for the years ended May 31, 2018 and 2017, respectively. Lease expenses for month-to-month and promises to give discounted lease arrangements within the financial statements totaled \$270,746 and \$243,229 for the years ended May 31, 2018 and 2017, respectively.

**15. 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, 2018 and 2017, 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 \$678,413 and \$694,736 for the years ended May 31, 2018 and 2017, respectively. The Organization also provides a Section 125 cafeteria plan for unreimbursed medical and dependent care expenses.

**16. Concentrations of Risk**

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

- Federal grant revenue was approximately 13 percent and 15 percent of the Organization’s total support, patient service, and other revenue for 2018 and 2017, respectively.
- Medicare program revenue accounted for approximately 5 percent of the Organization’s total support, patient service, and other revenue for 2018 and 2017.

MOSAIC MEDICAL  
NOTES TO FINANCIAL STATEMENTS

**16. Concentrations of Risk, continued**

- Medicaid program revenue accounted for approximately 47 percent and 50 percent of the Organization's total support, patient service, and other revenue for 2018 and 2017, 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.

**17. 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.

**18. 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.

The method of allocation of expenses in the statement of functional expenses was changed for the year ended May 31, 2018. The statement of functional expenses for the year ended May 31, 2017 was reclassified to be consistent with the 2018 allocation method.

**19. 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.

SINGLE AUDIT

MOSAIC MEDICAL  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended May 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Program or Grant Amount	Period of Performance	Federal Expenditures
<b>Department of Health and Human Services</b>				
<b>Health Resources and Services Administration</b>				
Direct programs:				
Health Center Cluster:				
Health Center Program	93.224*	\$ 1,139,473	6/1/17 - 5/31/18	\$ 1,090,144
Grants for New and Expanded Services Under the Health Center Program	93.527*	<u>3,660,977</u>	6/1/17 - 5/31/18	<u>3,502,491</u>
Total Health Center Cluster		<u>\$ 4,800,450</u>		<u>\$ 4,592,635</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 (the Schedule) 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, 2018.

**5. Subrecipients**

No award payments were made to subrecipients for the year ended May 31, 2018.

**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, 2018, 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 15, 2018.

**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. 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 15, 2018

**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, 2018. 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 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* (CFR) 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, 2018.

## Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance, and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the major federal program is not modified with respect to this matter.

## 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Mosaic Medical's responses to the noncompliance and internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Mosaic Medical's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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 15, 2018

MOSAIC MEDICAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended May 31, 2018

**Summary of Auditor's Results**

- 1) The independent auditor's report expresses an unmodified opinion on the financial statements of the Organization.
- 2) No significant deficiencies or material weaknesses 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) One significant deficiency and no material weaknesses in internal control were disclosed by the audit of the major federal award program.
- 5) The independent auditor's report on compliance for the major federal award program for the Organization expresses an unmodified opinion.
- 6) One instance of findings or questioned costs was disclosed during the audit which is 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:	
Health Center Program	CFDA 93.224
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**

**2018-001 Documentation of Eligibility for the Sliding Fee Discount Program**

*Type:* Significant deficiency in internal control over compliance and immaterial noncompliance with respect to special tests and provisions requirements.

*Federal program:* CFDA# 93.224, Health Center Program, and 93.527, Grants for New and Expanded Services under the Health Center Program.

MOSAIC MEDICAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
For the Year Ended May 31, 2018

**Findings and Questioned Costs – Major Federal Award Programs Audit, continued**

**2018-001 Documentation of Eligibility for the Sliding Fee Discount Program, continued**

*Criteria:* Per PHS Act Section 330(k)(3)(G) and 42 CFR 51c.303(f) and (u), health centers must have a system in place to determine eligibility for patient discounts adjusted on the basis of the patient's ability to pay.

*Questioned costs:* None.

*Condition:* During the course of our audit procedures it was identified that a certain patient encounter was provided a sliding fee discount but the Organization did not acquire and/or retain proper documentation from the patient to support their eligibility.

*Effect:* Not acquiring and/or retaining the proper documentation to determine eligibility of a sliding fee encounter resulted in noncompliance with certain special tests and provisions of the major federal program.

*Cause:* The Organization has properly designed controls that require personnel to acquire and retain proper documentation that supports patient eligibility for sliding fee adjustments but the controls were not properly implemented during the fiscal year and the controls in practice were ineffective.

*Prevalence/Context:* This is an internal control implementation deficiency. In a sample of 25 sliding fee encounters reviewed, which the auditor considers to be statistically valid, one instance was identified in which patient eligibility documentation was not obtained and/or retained by the Organization. Auditor considers this finding to be an isolated instance.

*Repeat finding:* No.

*Auditor's recommendation:* The Organization should implement effective controls that acquire and retain proper documentation that supports patient eligibility for sliding fee adjustments in accordance with the compliance requirements of the federal program.

*The Organization's response:* Management agrees with the above finding and recommendation. See attached corrective action plan prepared by management.

MOSAIC MEDICAL  
SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended May 31, 2018

**Prior Year Findings – Financial Statement Audit**

None.

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

None.

## **Mosaic Medical Corrective Action Plan for Audit Finding; 2018-001 Documentation of Eligibility for the Sliding Fee Discount Program**

Last fall, in the normal course of their work, Mosaic's billing team began noticing instances of incomplete sliding scale documentation. This is also what was re-discovered in our recent annual Single Audit. The encounters identified by Jones and Roth were both from September 2017, prior to the launch of our concerted improvement efforts in November 2017, and we believe that our processes have significantly improved since then. From that we launched a multipronged approach to improve. To an extent, we launched our corrective action plan last November based on our own discoveries of issues. Those steps are outlines below and will continue into the future.

### **Auditing**

An auditing process was initiated on November 1<sup>st</sup>, 2017. The Director of Revenue Cycle instructed the clinics to send all completed sliding scale applications to the Billing team on a daily basis. The Billing team members then audited 100% of all sliding scale applications across the system and provided feedback to the Clinic Operations Supervisors when they noted gaps. This process continued through June 2018. Starting in July 2018 the audits switched to 25% for clinics that had significant improvement and continued to focus only on clinics that still had gaps by auditing 100% of their applications. In September 2018 we continue to audit 100% of deficient clinics' applications, but added in 10 applications per week of a 2<sup>nd</sup> clinic. We rotate which clinics 10 applications per week are audited once we see improvement. We collect statistics and work with clinic management to continuously improve. Because all applications are still sent to Billing the clinics themselves do not initially know whether their applications are under audit until feedback is given.

### **Materials**

Between November 2017 and January 2018 we revised and enhanced the instructions that the front desk teams use for the sliding scale process. The Sliding Scale Procedure, Sliding Scale application packet, Sliding Scale checklist, and the Sliding Scale calculator were all updated, based on feedback from staff, to be more clear and direct and were signed in February 2018. Letters were also created to send to patients to update them on the status of their application.

### **Training**

The clinic administrative teams received focused additional training on the sliding process between November 2017 and February 2018 in the form of group training of front desk teams from each site. And each staff member that attended the training was then required to pass a Litmos test with 100% before they were able to proceed with approving Sliding Scale applications. Since then we have deployed our Practice Management Specialist to provide at-the-elbow training to front desk team members that are identified as needing additional education (by either clinic management or the billing team).

**Next steps**

Since receiving the audit finding from Jones and Roth we have sent additional communication to clinic management about the importance and accountability for completing the sliding scale process completely and accurately. We are re-deploying the computer based learning on Sliding Scale to the Clinic Operations Supervisors who approve the applications at their clinics.

Going forward, the billing team will continue the auditing process now in place. The Practice Management Specialist will continue the at-the-elbow training for identified staff. Our computer based learning module will be assigned and completed by all new staff with a role in sliding scale work. And clinic management will continue to emphasize the critical importance of this work.

Mosaic's Revenue Cycle Manager is responsible for the auditing piece of this Plan and the Clinic Operations Supervisors have direct responsibility that procedures are correctly followed at the clinics' front desks.

This will be an ongoing project without a distinct end date and will just be a part of ongoing operations.



Steve Strang  
CFO  
Mosaic Medical