



Mosaic Medical

**Financial Statements
and Supplementary Information**

For the 13-Month Period Ended June 30, 2019

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Mosaic Medical
Financial Statements
For the 13-Month Period Ended June 30, 2019

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Independent Auditor's Report

To the Board of Directors
Mosaic Medical
Prineville, Oregon

Report on the Financial Statements

I have audited the accompanying financial statements of Mosaic Medical (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the 13-month period 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mosaic Medical as of June 30, 2019, and the changes in its net assets and its cash flow for the 13-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

My 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 other 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 my 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*, I have also issued my report dated November 4, 2019, on my consideration of Mosaic Medical's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of my 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.



Hamlin CPA, LLC
Bend, Oregon
November 4, 2019

Financial Statements

Mosaic Medical
Statement of Financial Position
June 30, 2019

Assets

Current assets

Cash and cash equivalents	\$ 7,947,106
Investments	4,440,132
Accounts receivable, net	3,535,373
340B pharmacy receivable, net	421,849
Grants and other contributions receivable	568,076
Supplies inventory	108,647
Deposits	23,565
Prepaid expenses	343,631
Promises to give - use of facilities, short-term	219,873

Total current assets	17,608,252
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Property and equipment, net

7,823,018

Promises to give - use of facilities, long-term

263,271

Total assets

\$ 25,694,541

Liabilities and Net Assets

Current liabilities

Accounts payable and accrued expenses	\$ 1,308,550
Accrued payroll and related taxes	709,045
Accrued paid time off	1,078,843
Note payable, current portion	36,307

Total current liabilities	3,132,745
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Deferred rent

119,068

Note payable, net of current portion

1,430,474

Total liabilities	4,682,287
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Net assets

Without donor restrictions	20,167,867
With donor restrictions	844,387

Total net assets	21,012,254
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Total liabilities and net assets

\$ 25,694,541

The accompanying notes are an integral part of these statements.

Mosaic Medical
Statement of Activities and Changes in Net Assets
For the 13-Month Period Ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Patient service revenue			
Patient service revenue, net	\$ 8,067,665	\$ -	\$ 8,067,665
Capitation revenue, net	18,040,459	-	18,040,459
Provision for bad debts	(553,807)	-	(553,807)
Net patient service revenue	<u>25,554,317</u>	<u>-</u>	<u>25,554,317</u>
Other support and revenue			
Pharmacy 340B program	3,325,238	-	3,325,238
Federal grants	-	5,340,139	5,340,139
Other grants	-	528,564	528,564
Medical incentives revenue	2,860,054	-	2,860,054
Service contract revenue	1,536,183	-	1,536,183
Gifts-in-kind	-	620,222	620,222
Contributions	622	31,758	32,380
Total other support and revenue	<u>7,722,097</u>	<u>6,520,683</u>	<u>14,242,780</u>
Other income			
Rent income	113,472	-	113,472
Miscellaneous income	259,863	-	259,863
Investment income	143,536	-	143,536
Total other income	<u>516,871</u>	<u>-</u>	<u>516,871</u>
Total support and revenue	33,793,285	6,520,683	40,313,968
Net assets released from restrictions	<u>5,895,824</u>	<u>(5,895,824)</u>	<u>-</u>
Total support, revenue, and reclassifications	<u>39,689,109</u>	<u>624,859</u>	<u>40,313,968</u>
Expenses			
Program	28,253,929	-	28,253,929
Management and general	7,569,098	-	7,569,098
Total expenses	<u>35,823,027</u>	<u>-</u>	<u>35,823,027</u>
Change in net assets	3,866,082	624,859	4,490,941
Net assets, beginning of period	<u>16,301,785</u>	<u>219,528</u>	<u>16,521,313</u>
Net assets, end of period	<u>\$ 20,167,867</u>	<u>\$ 844,387</u>	<u>\$ 21,012,254</u>

The accompanying notes are an integral part of these statements.

Mosaic Medical
Statement of Functional Expenses
For the 13-Month Period Ended June 30, 2019

	Program	Management and General	Total
Personnel			
Salaries and wages	\$ 18,231,019	\$ 4,134,823	\$ 22,365,842
Fringe benefits	3,265,616	646,376	3,911,992
Payroll taxes	1,419,239	323,486	1,742,725
Total personnel	22,915,874	5,104,685	28,020,559
Occupancy	1,673,460	341,981	2,015,441
Information technology	586,853	740,092	1,326,945
Supplies	1,148,354	26,339	1,174,693
Depreciation	492,834	213,764	706,598
Contractual services	272,021	205,804	477,825
Professional fees	148,051	149,671	297,722
Travel	116,186	113,317	229,503
Miscellaneous	200,561	11,674	212,235
Repairs and maintenance	118,947	80,501	199,448
Dues, publications and postage	34,914	161,020	195,934
Education	153,169	19,706	172,875
Recruitment	89	142,783	142,872
Office expenses	132,203	8,238	140,441
Advertising	137,328	-	137,328
Enrichment and wellness	47,848	79,738	127,586
Training, meetings and conferences	17,455	84,828	102,283
Telephone	37,855	41,257	79,112
Insurance	19,927	43,700	63,627
Total functional expenses	\$ 28,253,929	\$ 7,569,098	\$ 35,823,027
Overhead percent (management and general as a percent of total expense)		<u>21.1</u>	

The accompanying notes are an integral part of these statements.

Mosaic Medical
Statement of Cash Flows
For the 13-Month Period Ended June 30, 2019

Cash flows from operating activities

Cash received from patients and programs	\$ 38,162,780
Cash paid to vendors and employees	(34,449,811)
Cash paid for interest expense	(71,970)
Cash received from interest income	115,885
	<u>3,756,884</u>
Net cash provided by operating activities	<u>3,756,884</u>

Cash flows from investing activities

Purchases of investments	(3,500,000)
Proceeds from sale of investments	2,500,000
Purchases of property and equipment	(1,280,421)
	<u>(2,280,421)</u>
Net cash used by investing activities	<u>(2,280,421)</u>

Cash flows from financing activities

Principal payments on note payable	(36,992)
	<u>(36,992)</u>

Net increase in cash and cash equivalents

	1,439,471
Cash and cash equivalents, beginning of period	<u>6,507,635</u>
Cash and cash equivalents, end of period	<u>\$ 7,947,106</u>

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ 4,490,941
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	706,598
Net earnings from investments	(25,670)
(Increase) decrease in	
Accounts receivable, net	(1,388,453)
340B pharmacy receivable, net	(71,631)
Grants and other contributions receivable	45,003
Supplies inventory	(34,947)
Prepaid expenses	(127,850)
Promises to give - use of facilities	(285,566)
Increase (decrease) in	
Accounts payable and accrued expenses	612,944
Accrued payroll and related taxes	(241,197)
Accrued paid time off	108,298
Deferred rent	(31,586)
	<u>3,756,884</u>
Net cash provided by operating activities	<u>\$ 3,756,884</u>

The accompanying notes are an integral part of these 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 14 clinics and 1 mobile unit.

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 two classes of net assets: without donor restrictions and with donor restrictions.

Without donor restrictions – Net assets not subject to donor-imposed stipulations.

With donor restrictions – Net assets subject to temporary or permanent 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 statement 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 June 30, 2019.

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.

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.

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

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 rates, 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 statement of financial position.

As of June 30, 2019, the Organization held investments in mutual funds, bonds, and U.S. treasury notes at a cumulative price of \$940,132.

As of June 30, 2019, the Organization held investments in seven certificates of deposit, recorded at a cumulative price of \$3,500,000 plus interest earned. The certificates earn interest at 2.09 percent. The certificates mature beginning July 2019 through May 2020.

Accounts Receivable

All accounts receivable 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. 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.

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

Accounts Receivable, continued

Wraparound Revenue and Receivable (Wrap) – Due to the Organization’s participation in the APM, the revenue received under the historical visit based PPS will be recognized only on services excluded from the APM including dental, obstetrical (prenatal and deliveries), maternity case management, mental health and addiction services. Under the PPS, as established in federal law, Federally Qualified Health Centers receive per-visit payments for treating Medicaid enrollees. Quarterly wrap around reports are filed with the State of Oregon for services delivered 6 months earlier, resulting in a significant time lag of payment.

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 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 times 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.

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

Property and Equipment, continued

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 prorate 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 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:

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

Patient Service Revenue, continued

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 or at a per-patient-per-month.

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 period ended June 30, 2019, approximated \$1,335,544.

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.

Revenue and Support with and without Donor Restriction

Contributions received are reported as with or without donor restriction depending on the existence of donor-imposed restrictions. Amounts reported as with donor restrictions consist of temporarily or permanently restricted support depending on the 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. When a restriction expires (that is, when a stipulated time restriction ends or purpose restrictions is accomplished), with donor restricted net assets are reclassified to without donor restricted net assets and reported in the statements of activities as net assets released from restrictions.

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

Revenue and Support with and without Donor Restriction, continued

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 statement of activities and changes in net assets. Accordingly, certain costs have been allocated to program and supporting services benefited. Such allocations are made based on cost accounting information available and the judgement 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 \$137,328 for the period ended June 30, 2019.

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 management believes 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 period ended June 30, 2019.

Change in Accounting Principles

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists the Organization in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Organization has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements.

Mosaic Medical
Notes to Financial Statements

2. Liquidity and Availability

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to invest its available funds. The Organization also has various sources of liquidity at its disposal, including cash and cash equivalents, certificates of deposits and marketable securities. The Organization actively manages its resources, using a combination of short and long-term operating investment strategies to align its cash inflows and anticipated outflows in accordance with policies approved by its Board of Directors.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program activities, interest and principal payments on debt, and internally funded capital construction to be general expenditures.

In addition to financial assets available to meet general expenditures over the 12 months subsequent to period end, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows, which identifies the sources and uses of cash and shows positive cash generated by operations for the period ended June 30, 2019.

As of June 30, 2019, the following table presents financial assets held by the Organization that are readily available for general expenditures within 12 months:

Financial assets available at period end	
Cash and cash equivalents	\$ 7,947,106
Investments	4,440,132
Accounts receivable, net	3,535,373
340B pharmacy receivable, net	421,849
Grant and other contributions receivable	<u>568,076</u>
 Total financial assets available at period end	 16,912,536
Less financial assets not available to be used within 12 months	
Accounts payable and accrued expenses	(1,308,550)
Accrued payroll and related taxes	(709,045)
Accrued paid time off	(1,078,843)
Note payable minimum cash outlay	<u>(100,581)</u>
 Total financial assets available to be used within 12 months	 13,715,517
Less financial assets not available for general expenditure	
Net assets with donor restrictions	<u>(844,387)</u>
 Total financial assets available to be used within 12 months and for general expenditure	 <u><u>\$ 12,871,130</u></u>

Mosaic Medical
Notes to Financial Statements

3. 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 June 30, 2019, the Organization had \$9,173,250 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 statement of financial position date.

4. Fair Market Value

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 assets 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 June 30, 2019:

	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 743,146	\$ -	\$ -	\$ 743,146
U.S. treasury notes	196,986	-	-	196,986
Total assets at fair value	\$ 940,132	\$ -	\$ -	\$ 940,132

Mosaic Medical
Notes to Financial Statements

5. Accounts Receivable

At June 30, 2019, accounts receivable consisted of the following:

Patient receivables	
Medicaid	\$ 3,282,184
Self-pay	589,791
Medicare	241,692
Private health insurance	252,046
Total patient receivables	<u>4,365,713</u>
Other receivables	<u>353,946</u>
Total patient and other receivables	4,719,659
Allowance for doubtful accounts and contractual adjustments	<u>(1,184,285)</u>
Accounts receivable, net	<u><u>\$ 3,535,374</u></u>

At June 30, 2019, accounts receivable included balances outstanding for greater than 90 days of \$376,512. 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.

6. Promises to Give

The Organization has received various unconditional promises to give for the use of facilities at various operational locations over 1 to 5.5 years at a lease rate substantially below the fair market value of comparable leases in the Central 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 ranging from 4.5 to 5.5 percent depending upon the estimated borrowing rate at the time of donation for the Organization. The promises to give expire beginning March 2020 through June 2023.

At June 30, 2019, the amount due to the Organization consisted of the following:

Due in less than one year	\$ 219,873
Due in more than one year and less than five years	318,982
Discount to present value	<u>(55,711)</u>
Total promises to give	<u><u>\$ 483,144</u></u>
Promises to give, short-term	\$ 219,873
Promises to give, long-term, discounted	<u>263,271</u>
Total promises to give	<u><u>\$ 483,144</u></u>

Lease expense related to promises to give discount lease arrangements within the financial statements totaled \$327,506 for the period ended June 30, 2019.

Mosaic Medical
Notes to Financial Statements

7. Property and Equipment

At June 30, 2019, property and equipment consisted of the following:

Buildings and improvements (39 - 50 years)	\$ 5,669,854
Land	575,000
Computer hardware (3 years)	1,067,869
Computer software (3 - 6 years)	1,005,139
Leasehold improvements (3 - 7 years)	1,400,069
Medical equipment (5 - 7 years)	1,478,925
Furniture and equipment (3 - 7 years)	776,707
Automobiles (5 years)	15,000
Construction in progress	47,625
	<u>12,036,188</u>
Accumulated depreciation	<u>(4,213,170)</u>
Property and equipment, net	<u>\$ 7,823,018</u>

Depreciation expense for the period ended June 30, 2019, was \$706,598. The range of useful lives for depreciation purposes is identified in parentheses in the table above for each fixed asset category.

8. Note Payable

At June 30, 2019, note payable consisted of the following:

Note payable	\$ 1,466,781
Current portion	<u>(36,307)</u>
Note payable, net of current portion	<u>\$ 1,430,474</u>

Note payable is to First Interstate Bank in monthly installments of \$8,382, beginning December 2017, with a variable interest rate of 2 percentage points over the prime rate (5.5 percent at June 2019). A final balloon payment is due November 2026 and the loan is secured by the underlying real property. At June 30, 2019, future principal maturities for each subsequent period, respectively, are as follows:

2020	\$ 36,306
2021	38,121
2022	39,841
2023	41,638
2024	43,360
Thereafter	<u>1,267,515</u>
Total	<u>\$ 1,466,781</u>

Mosaic Medical
Notes to Financial Statements

8. Note Payable, continued

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 June 30, 2019, management believes the Organization was in compliance with covenant requirements.

9. Net Assets

At June 30, 2019, net assets consisted of the following:

Without donor restrictions	
Equity in property and equipment	\$ 6,392,544
Available for general activities	<u>13,775,323</u>
 Total without donor restrictions	 <u>20,167,867</u>
With donor restrictions	
Temporarily restricted	
Promises to give - use of facilities	483,145
Central Oregon Health Council	167,984
Collins Foundation	75,000
Rx to Move Program, various donors	55,750
American Cancer Society	26,528
Various other donations and programs	<u>35,980</u>
 Total with donor restrictions	 <u>844,387</u>
 Total net assets	 <u><u>\$ 21,012,254</u></u>

10. Patient Service Revenue

The approximate mix of net patient service revenue by payer during the period ended June 30, 2019, was as follows:

Medicaid	79%
Medicare	9%
Private Insurance	8%
Self-pay patients	<u>4%</u>
 Total	 <u><u>100%</u></u>

Mosaic Medical
Notes to Financial Statements

11. Uninsured Patients

For uninsured patients that do not qualify for charity care, the Organization recognized revenue based on its standard rates for services provided or based on discounted rates if negotiated or provided by policy. Based on historical experiences, 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 adjustments, but before the provision for bad debts recognized for the period ended June 30, 2019, was as follows:

	Third-Party Payers	Self-Pay	Total
Patient service fees, net but before bad debts	\$ 6,519,054	\$ 1,548,611	\$ 8,067,665

12. Rental Income

The Organization leases 4,689 square feet of its building in Prineville to Crook County Health Department 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 the funding or adopt appropriations, limitations, or other expenditure authority at levels sufficient to pay the rent fees.

As of June 30, 2019, future minimum rent income anticipated to be received under the lease with Crook County for each subsequent period, respectively, are as follows:

2020	\$ 82,286
2021	83,109
2022	48,884
Total	\$ 214,279

13. Operating Leases

The Organization leases space and equipment at thirteen 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 between 3 and 8 percent), as established under the terms of the agreements. Non-cancelable leases include a per square foot base rent plus a common area expense charge. Non-cancelable leases begin to expire during the fiscal year ending June 30, 2021, through the year ending June 30, 2023.

See Note 6, promises to give, for additional information on in-kind leases.

Mosaic Medical
Notes to Financial Statements

13. Operating Leases, continued

As of June 30, 2019, future minimum rental payments required under these lease agreements for each subsequent period, respectively, are as follows:

	Cash lease	In-kind lease	Total cash and in-kind leases
2020	\$ 899,749	\$ 219,873	\$ 1,119,622
2021	751,863	200,973	952,836
2022	249,528	38,298	287,826
2023	5,284	24,000	29,284
2024	440	-	440
Total	<u>\$ 1,906,864</u>	<u>\$ 483,144</u>	<u>\$ 2,390,008</u>

Rental expense under all operating leases reported in the accompanying financial statements totaled \$1,237,137 for the period ended June 30, 2019.

14. 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.

15. Gifts-in-Kind

The Organization receives contributions in the form of donated services, supplies and discounted use of facilities. Such donations are reported as without donor restriction support unless the donor has restricted the donated asset to a specific purpose. Non-cash contributions of month-to-month leasable space and long-term promises to give of discounted use of facilities lease arrangements within the financial statements totaled \$620,222 for the period ended June 30, 2019.

16. 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 period ended June 30, 2019, 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 \$810,437 for the period ended June 30, 2019, respectively. The Organization also provides a Section 125 cafeteria plan for unreimbursed medical and dependent care expenses.

17. 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 of the Organization's total support, patient service, and other revenue for the period ended June 30, 2019.

Medicare program revenue accounted for approximately 5 percent of the Organization's total support, patient service, and other revenue for the period ended June 30, 2019.

Medicaid program revenue accounted for approximately 50 percent of the Organization's total support, patient service, and other revenue for the period ended June 30, 2019.

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.

18. 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.

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 13-Month Period Ended June 30, 2019

Federal 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*	\$ 1,441,608	6/1/18 - 5/31/19	\$ 1,411,140
Health Center Program	93.224*	1,278,008	6/1/19 - 5/31/20	106,037
Grants for New and Expanded Services Under the Health Center Program	93.527*	3,623,087	6/1/18 - 5/31/19	3,541,593
Grants for New and Expanded Services Under the Health Center Program	93.527*	<u>3,271,250</u>	6/1/19 - 5/31/20	<u>271,416</u>
Total Health Center Cluster		<u>\$ 9,613,953</u>		<u>\$ 5,330,186</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 period ended June 30, 2019.

5. Subrecipients

No award payments were made to subrecipients for the period ended June 30, 2019.

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

I 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 June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the 13-month period then ended, and the related notes to the financial statements, and have issued my report thereon dated November 4, 2019.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mosaic Medical's internal control. Accordingly, I 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mosaic Medical'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.

A handwritten signature in black ink, appearing to read "Matt H.", is positioned above the typed name and address.

Hamlin CPA, LLC
Bend, Oregon
November 4, 2019

**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

I 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 13-month period ended June 30, 2019. 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 program.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Mosaic Medical's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Mosaic Medical's compliance.

Opinion on Each Major Federal Program

In my 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 13-month period ended June 30, 2019.

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 my audit of compliance, I 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, I 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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.



Hamlin CPA, LLC
Bend, Oregon
November 4, 2019

Mosaic Medical
Schedule of Findings and Questioned Costs
For the 13-Month Period Ended June 30, 2019

Summary of Auditor's 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 program.
5. The independent auditor's report on compliance for the major federal award program for the Organization expresses an unmodified opinion.
6. No instances of findings or questioned costs were disclosed during the audit which is required to be reported under Title 2 CFR Section 200.516 (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 Section 200.520.

Findings – Financial Statement Audit

None.

Findings and Questioned Costs – Major Federal Award Program Audit

None.

Mosaic Medical
Schedule of Prior Findings and Questioned Costs
For the 13-Month Period Ended June 30, 2019

Prior Period Findings – Financial Statement Audit

None.

Prior Period Findings and Questioned Costs – Major Federal Award Program Audit

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

Resolved.