



**Mosaic**Medical  
Quality Care For All

**Mosaic Medical**

**Financial Statements  
and Supplementary Information**

**For the Year Ended June 30, 2020**

HAMLIN *cpa*

Mosaic Medical  
Financial Statements  
For the Year Ended June 30, 2020

**Table of Contents**

	Page
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 20
Single Audit Information:	
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22
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 <i>Government Auditing         Standards</i>	23 - 24
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	25 - 26
Schedule of Findings and Questioned Costs	27 - 28
Schedule of Prior Audit Findings	29
Corrective Action Plan	30 - 31

## 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, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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, 2020, and the changes in its net assets and its cash flow for the year 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 30, 2020, 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mosaic Medical's 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 30, 2020

## **Financial Statements**

Mosaic Medical  
Statement of Financial Position  
June 30, 2020

**Assets**

**Current assets**

Cash and cash equivalents	\$ 15,476,917
Investments	4,458,388
Accounts receivable, net	3,363,033
340B pharmacy receivable, net	586,474
Grants and other contributions receivable	316,685
Supplies inventory	94,314
Deposits	23,565
Prepaid expenses	245,614
Promises to give - use of facilities, short-term	199,797

Total current assets	24,764,787
----------------------	------------

<b>Property and equipment, net</b>	8,721,680
------------------------------------	-----------

<b>Promises to give - use of facilities, long-term</b>	50,869
--	--------

<b>Total assets</b>	\$ 33,537,336
---------------------	---------------

**Liabilities and Net Assets**

**Current liabilities**

Accounts payable and accrued expenses	\$ 826,574
Accrued payroll and related taxes	723,027
Accrued paid time off	1,344,519
Notes payable, current portion	4,904,267

Total current liabilities	7,798,387
---------------------------	-----------

<b>Deferred rent</b>	64,694
----------------------	--------

<b>Notes payable, net of current portion</b>	1,392,003
--	-----------

Total liabilities	9,255,084
-------------------	-----------

**Net assets**

Without donor restrictions	22,421,573
With donor restrictions	1,860,679

Total net assets	24,282,252
------------------	------------

<b>Total liabilities and net assets</b>	\$ 33,537,336
---	---------------

The accompanying notes are an integral part of these statements.

Mosaic Medical  
Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
<b>Patient service revenue</b>			
Patient service revenue, net	\$ 8,410,662	\$ -	\$ 8,410,662
Capitation revenue, net	16,491,030	-	16,491,030
Provision for bad debts	(280,116)	-	(280,116)
Net patient service revenue	<u>24,621,576</u>	<u>-</u>	<u>24,621,576</u>
<b>Other support and revenue</b>			
Pharmacy 340B program	3,610,565	-	3,610,565
Federal grants	-	6,075,743	6,075,743
Other grants	-	325,372	325,372
Medical incentives revenue	4,133,614	-	4,133,614
Service contract revenue	1,372,119	-	1,372,119
Gifts-in-kind	-	79,503	79,503
Contributions	2,999	24,436	27,435
Total other support and revenue	<u>9,119,297</u>	<u>6,505,054</u>	<u>15,624,351</u>
<b>Other income</b>			
Rent income	99,340	-	99,340
Miscellaneous income	50,735	-	50,735
Investment income, net	102,258	-	102,258
Total other income	<u>252,333</u>	<u>-</u>	<u>252,333</u>
Total support and revenue	33,993,206	6,505,054	40,498,260
Net assets released from restrictions	<u>5,488,762</u>	<u>(5,488,762)</u>	<u>-</u>
Total support, revenue, and reclassifications	<u>39,481,968</u>	<u>1,016,292</u>	<u>40,498,260</u>
<b>Expenses</b>			
Program	30,347,996	-	30,347,996
Management and general	6,880,266	-	6,880,266
Total expenses	<u>37,228,262</u>	<u>-</u>	<u>37,228,262</u>
<b>Change in net assets</b>	2,253,706	1,016,292	3,269,998
Net assets, beginning of year	<u>20,167,867</u>	<u>844,387</u>	<u>21,012,254</u>
Net assets, end of year	<u>\$ 22,421,573</u>	<u>\$ 1,860,679</u>	<u>\$ 24,282,252</u>

The accompanying notes are an integral part of these statements.

Mosaic Medical  
Statement of Functional Expenses  
For the Year Ended June 30, 2020

	Program	Management and General	Total
<b>Personnel</b>			
Salaries and wages	\$ 19,727,047	\$ 3,658,494	\$ 23,385,541
Fringe benefits	3,479,520	596,502	4,076,022
Payroll taxes	1,437,241	267,730	1,704,971
<b>Total personnel</b>	<b>24,643,808</b>	<b>4,522,726</b>	<b>29,166,534</b>
Occupancy	1,765,572	326,786	2,092,358
Information technology	789,412	855,033	1,644,445
Supplies	1,140,744	13,386	1,154,130
Depreciation	558,953	195,938	754,891
Contractual services	441,066	213,703	654,769
Education, meetings and conferences	222,653	128,776	351,429
Travel	142,677	75,923	218,600
Small equipment	193,690	14,026	207,716
Recognition and wellness	108,238	69,143	177,381
Dues, publications and postage	44,159	129,045	173,204
Professional fees	-	143,578	143,578
Recruitment	870	118,384	119,254
Miscellaneous	93,024	23,843	116,867
Advertising	110,855	-	110,855
Interest	68,275	5,494	73,769
Insurance	24,000	44,482	68,482
<b>Total functional expenses</b>	<b>\$ 30,347,996</b>	<b>\$ 6,880,266</b>	<b>\$ 37,228,262</b>
Overhead percent (management and general as a percent of total expense)		<u>18.5</u>	

The accompanying notes are an integral part of these statements.

Mosaic Medical  
Statement of Cash Flows  
For the Year Ended June 30, 2020

<b>Cash flows from operating activities</b>	
Cash received from patients and programs	\$ 40,569,046
Cash paid to vendors and employees	(36,250,218)
Cash paid for interest expense	(63,924)
Cash received from investment income	108,817
	<hr/>
Net cash provided by operating activities	4,363,721
	<hr/>
<b>Cash flows from investing activities</b>	
Purchases of investments	(3,500,000)
Proceeds from sale of investments	3,500,000
Purchases of property and equipment	(1,653,553)
	<hr/>
Net cash used by investing activities	(1,653,553)
	<hr/>
<b>Cash flows from financing activities</b>	
Proceeds from issuance of notes payable	4,856,300
Principal payments on notes payable	(36,657)
	<hr/>
Net cash provided by financing activities	4,819,643
	<hr/>
<b>Net increase in cash and cash equivalents</b>	7,529,811
Cash and cash equivalents, beginning of year	7,947,106
	<hr/>
Cash and cash equivalents, end of year	\$ 15,476,917
	<hr/> <hr/>
<b>Reconciliation of change in net assets to net cash provided by operating activities:</b>	
Change in net assets	\$ 3,269,998
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	754,891
Net earnings from investments	(18,256)
(Increase) decrease in	
Accounts receivable, net	172,340
340B pharmacy receivable, net	(164,625)
Grants and other contributions receivable	251,391
Supplies inventory	14,333
Prepaid expenses	98,017
Promises to give - use of facilities	232,478
Increase (decrease) in	
Accounts payable and accrued expenses	(481,976)
Accrued payroll and related taxes	13,982
Accrued paid time off	265,676
Accrued interest	9,846
Deferred rent	(54,374)
	<hr/>
Net cash provided by operating activities	\$ 4,363,721
	<hr/> <hr/>

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, six School-Based Health Centers, one Mobile Medical 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, 1 pharmacy and 1 mobile unit, currently.

### 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, 2020.

### 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, 2020, the Organization held investments in exchange traded funds, exchange traded bonds, and U.S. treasury notes at a cumulative price of \$958,388.

As of June 30, 2020, the Organization held investments in seven certificates of deposit, recorded at a cost of \$3,500,000. The certificates earn interest ranging from 0.15 to 1.59 percent. The certificates mature beginning July 2020 through April 2021.

**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 two clinics, Internal Medicine and East Bend, 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 net realizable 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 prorated 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 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 year ended June 30, 2020, approximated \$1,121,712.

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 \$110,855 for the year ended June 30, 2020.

**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 year ended June 30, 2020.

**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. As of June 30, 2020, the Organization had \$14,293,895 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.

Mosaic Medical  
Notes to Financial Statements

### 3. 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 year ended June 30, 2020.

As of June 30, 2020, the following table presents liquid 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	\$ 15,476,917
Investments	4,458,388
Accounts receivable, net	3,363,033
340B pharmacy receivable, net	586,474
Grant and other contributions receivable	<u>316,685</u>
 Total financial assets available at period end	 24,201,497
Less financial assets not available to be used within 12 months	
Accounts payable and accrued expenses	(826,574)
Accrued payroll and related taxes	(723,027)
Accrued paid time off	(1,344,519)
Note payable minimum cash outlay	<u>(4,904,267)</u>
 Total financial assets available to be used within 12 months	 16,403,110
Less financial assets not available for general expenditure	
Net assets with donor restrictions	<u>(1,860,679)</u>
 Total financial assets available to be used within 12 months and for general expenditure	 <u>\$ 14,542,431</u>

Mosaic Medical  
Notes to Financial Statements

**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 table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Exchange traded funds	\$ 671,599	\$ -	\$ -	\$ 671,599
Exchange traded bonds	115,203	-	-	115,203
U.S. treasury notes	171,586	-	-	171,586
<b>Total assets at fair value</b>	<b>\$ 958,388</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 958,388</b>

**5. Accounts Receivable**

At June 30, 2020, accounts receivable consisted of the following:

Patient receivables	
Medicaid	\$ 3,223,946
Private health insurance	649,189
Self-pay	484,797
Medicare	466,873
Total patient receivables	4,824,805
Other receivables	181,748
Allowance for doubtful accounts and contractual adjustments	(1,643,520)
Accounts receivable, net	<u>\$ 3,363,033</u>

Mosaic Medical  
Notes to Financial Statements

**5. Accounts Receivable, continued**

At June 30, 2020, accounts receivable included balances outstanding for greater than 90 days of \$1,045,809. 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 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 to the Organization. The promises to give expire beginning December 2020 through June 2023.

At June 30, 2020, the amount due to the Organization consisted of the following:

Due in less than one year	\$ 199,797
Due in more than one year and less than five years	62,355
Discount to present value	<u>(11,486)</u>
 Total promises to give	 <u><u>\$ 250,666</u></u>
 Promises to give, short-term	 \$ 199,797
Promises to give, long-term, discounted	<u>50,869</u>
 Total promises to give	 <u><u>\$ 250,666</u></u>

Lease expense related to promises to give discount lease arrangements within the financial statements totaled \$304,631 for the period ended June 30, 2020.

**7. Property and Equipment**

At June 30, 2020, property and equipment consisted of the following:

Buildings and improvements (39 - 50 years)	\$ 5,843,980
Land	575,000
Computer hardware and software (3 - 6 years)	2,293,370
Leasehold improvements (3 - 7 years)	1,400,069
Medical equipment (5 - 7 years)	1,507,881
Furniture and equipment (3 - 7 years)	824,261
Automobiles (5 years)	15,000
Construction in progress	<u>1,230,180</u>
	13,689,741
Accumulated depreciation	<u>(4,968,061)</u>
 Property and equipment, net	 <u><u>\$ 8,721,680</u></u>

Mosaic Medical  
Notes to Financial Statements

**7. Property and Equipment**, continued

Depreciation expense for the period ended June 30, 2020, was \$754,981. The range of useful lives for depreciation purposes is identified in parentheses in the table above for each fixed asset category.

**8. Notes Payable**

At June 30, 2020, notes payable consisted of the following:

Mortgage payable	\$ 1,430,124
Paycheck Protection Program loan	4,866,146
Current portion	<u>(4,904,267)</u>
Notes payable, net of current portion	<u>\$ 1,392,003</u>

Mortgage 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 (3.25 percent at June 2020). A final balloon payment is due November 2026 and the loan is secured by the underlying real property. At June 30, 2020, future principal maturities for each subsequent period, respectively, are as follows:

2021	\$ 38,121
2022	39,841
2023	41,638
2024	43,360
2025	45,473
Thereafter	<u>1,221,691</u>
Total	<u>\$ 1,430,124</u>

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, 2020, management believes the Organization was in compliance with covenant requirements.

On April 17, 2020, the Organization received loan proceeds from First Interstate Bank in the amount of \$4,856,300, pursuant to the Paycheck Protection Program (PPP) established as part of the Coronavirus Aid, Relief and Economic Security Act. The loan carries an interest rate of 1 percent and matures on April 16, 2022. Loan payments are deferred for a 24-week covered period commencing on the date the loan proceeds were funded plus an additional 10 months. The PPP loan is not collateralized and does not require any personal guarantees.

The PPP loan principal and accrued interest of \$9,846 at June 30, 2020, is forgivable if the Organization uses the loan proceeds for eligible purposes including payroll, benefits, rent and utilities with certain limitations. The PPP loan also requires the Organization to maintain certain payroll levels to achieve full PPP loan principal and accrued interest forgiveness. Management intends to use the full PPP loan proceeds for purposes consistent with PPP eligible expenses and anticipates partial or full forgiveness before the payment deferral period ends.

Mosaic Medical  
Notes to Financial Statements

**9. Net Assets**

At June 30, 2020, net assets consisted of the following:

Without donor restrictions	
Investment in property and equipment	\$ 8,721,680
Available for general activities	<u>13,699,893</u>
 Total without donor restrictions	 <u>22,421,573</u>
With donor restrictions	
Temporarily restricted	
Promises to give - use of facilities	250,666
HRSA Provider Relief Fund	1,345,009
Various other donations and programs	<u>265,004</u>
 Total with donor restrictions	 <u>1,860,679</u>
 Total net assets	 <u><u>\$ 24,282,252</u></u>

**10. Net Patient Service Revenue**

The approximate mix of net patient service revenue by payer during the period ended June 30, 2020, was as follows:

Medicaid	77%
Medicare	9%
Private Insurance	8%
Self-pay patients	<u>6%</u>
 Total	 <u><u>100%</u></u>

**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, 2020, was as follows:

	Third-Party Payers	Self-Pay	Total
Patient service fees, net but before bad debts	<u>\$ 6,985,062</u>	<u>\$ 1,425,600</u>	<u>\$ 8,410,662</u>

Mosaic Medical  
Notes to Financial Statements

**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 10-year term ending December 31, 2026. 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, 2020, future minimum rent income anticipated to be received under the lease with Crook County for each subsequent period, respectively, are as follows:

2021	82,555
2022	83,381
2023	84,215
2024	85,057
2025	85,907
Thereafter	130,365
Total	\$ 551,480

**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, 2026. See Note 6, promises to give, for additional information on in-kind leases.

As of June 30, 2020, 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
2021	933,894	199,797	1,133,691
2022	504,959	29,838	534,797
2023	266,559	21,031	287,590
2024	259,102		259,102
2025	258,588		258,588
Thereafter	55,087		55,087
Total	\$ 2,278,189	\$ 250,666	\$ 2,528,855

Rental expense, including common area maintenance, under all operating leases reported in the accompanying financial statements totaled \$1,128,343 for the period ended June 30, 2020.

#### **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 \$79,503 for the period ended June 30, 2020.

#### **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, 2020, 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 \$866,546 for the period ended June 30, 2020. 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 15 percent of the Organization’s total revenue for the period ended June 30, 2020.

Medicare revenue accounted for approximately 6 percent of the Organization’s total support, patient service, and other revenue for the period ended June 30, 2020.

Medicaid revenue accounted for approximately 49 percent of the Organization’s total support, patient service, and other revenue for the period ended June 30, 2020.

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.

Mosaic Medical  
Notes to Financial Statements

**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 and noted the following:

Organization operations may be affected by the recent and ongoing outbreak of the Coronavirus (COVID-19) which was declared a pandemic by the World Health Organization in March 2020. Management is carefully monitoring the situation and evaluating its options during this time. No adjustments have been made to these financial statements as a result of this uncertainty. However, subsequent to June 30, 2020, the investment and credit markets have experienced significant volatility which may affect the Organization's assets. Management cannot currently quantify the financial impact COVID-19 will ultimately have on the Organization, however it may result in a material decline of Organization's financial position, activities and cash flows.

## **Single Audit**

Mosaic Medical  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2020

Federal 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*	\$ 1,278,008	6/1/19 - 5/31/20	\$ 1,171,971
Health Center Program	93.224*	1,112,168	6/1/20 - 5/31/21	-
Health Center Program	93.224*	69,058	3/15/20 - 3/14/21	69,058
Health Center Program	93.224*	930,515	4/1/20 - 3/31/21	-
Health Center Program	93.224*	438,229	5/1/20 - 4/30/21	-
Grants for New and Expanded Services				
Under the Health Center Program	93.527*	3,851,163	6/1/19 - 5/31/20	3,489,705
Grants for New and Expanded Services				
Under the Health Center Program	93.527*	<u>3,540,403</u>	6/1/20 - 5/31/21	<u>-</u>
Total Health Center Cluster		11,219,544		4,730,734
Provider Relief Fund	93.498	<u>1,345,009</u>	1/1/20 - 7/31/21	<u>-</u>
Total Federal Awards		<u><u>12,564,553</u></u>		<u><u>4,730,734</u></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, 2020.

**5. Subrecipients**

No award payments were made to subrecipients for the period ended June 30, 2020.

**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, 2020, 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 my report thereon dated November 30, 2020.

**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) as a basis for designing 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 30, 2020

**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 year ended June 30, 2020. 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 year ended June 30, 2020.

## 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, I identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-001 that I consider to be a significant deficiency.

Mosaic Medical's response to the noncompliance and internal control over compliance finding identified in my 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, I express no opinion on the response.

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 30, 2020

Mosaic Medical  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

**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 and one significant deficiency 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 finding was 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**

**2020-001 Sliding Fee Discount Program**

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

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

*Criteria:* PHS Act Section 330(k)(3)(E) requires Health Centers to prepare and apply a sliding fee discount schedule so that amounts owed for health center services by eligible patients are discounted based on the patient's ability to pay.

*Questioned costs:* None.

Mosaic Medical  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2020

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

**2020-001 Sliding Fee Discount Program, continued**

*Condition:* During my audit procedures it was identified that certain patient encounters eligible for a sliding fee discount were not charged the correct nominal fee based on the patient's documented income level.

*Effect:* Not charging the correct nominal fee to all patients eligible for a sliding fee discount resulted in noncompliance with certain special tests and provisions of the major federal program.

*Cause:* The Organization has properly designed controls that allow billing personnel to timely and accurately assess a patient's sliding fee discount eligibility and charge patients a nominal fee based on their income level. However, the controls were not fully implemented in all cases during the fiscal year ended June 30, 2020.

*Prevalence/Context:* This is an internal control implementation deficiency. In a sample of 40 sliding fee encounters reviewed, which the auditor considers to be a statistically valid sample, two instances were identified where the Organization charged patients an incorrect nominal fee based on the Organization's assessment of the patient's income level.

*Repeat finding:* No.

*Auditor's recommendation:* The Organization should monitor its current, and appropriate, controls over its sliding fee discount billing cycle to ensure full compliance. The Organization's management team may consider consolidating the head count of billing personnel who have access to, prepares and reviews sliding fee discount billings. This could improve consistency with the Organization's sliding fee discount program.

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

Mosaic Medical  
Schedule of Prior Audit Findings  
For the Year Ended June 30, 2020

**Prior Period Findings – Financial Statement Audit**

None.

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

None.

## **Re: Mosaic Medical Corrective Action Plan for Audit Finding; 2020-001 Sliding Fee Discount Program**

In the course of completing their June 30, 2020 audit of Mosaic Medical's compliance with the major federal award program, Hamlin CPA identified one significant deficiency in internal control which is required to be reported. An internal control implementation deficiency over correctly charging the sliding fee based on the patient's documented income level was identified in 2 of the 40 sampled sliding fee encounters. As noted by Hamlin CPA, properly designed controls do exist at Mosaic that allow billing personnel to timely and accurately assess a patient's sliding fee discount eligibility and charge patients the appropriate sliding fee based on their income level. However, the controls were not effectively applied in all cases. In response to the finding Mosaic will implement the corrective action steps outlined below.

### **Billing System Changes**

Mosaic's Electronic Medical Record system, OCHIN Epic, implemented a new 'recalculate discount' feature on 9/1/20. Because there can be a lag between when the first charge is posted and when the sliding scale information is verified, there was a need to manually calculate the discount. Now that we have the automated option, errors will reduce.

Additionally, reviews have been completed to consolidate underlying Sliding Fee tables to eliminate future errors where incorrect associations are made.

### **Staff Training and Approver Management**

We will be providing additional sliding scale training for Clinic Operations Supervisors (COS) (train the trainer) as this group is responsible for training Patient Service Representatives (PSRs). We will be asking for a list of designated approvers, post training, so that we have a specific group to audit and inform of updates. The COS team will be responsible for assuring that no one outside of the designated list of approvers is performing sliding scale final approvals. This will be completed by 12/31/20.

### **Centralized Processing**

The Organization's management team will explore centralizing the review and approval process for Sliding Scale applications. This could improve consistency within the Organization's sliding fee discount program by creating knowledge specialists who do this work repetitively. This will be evaluated by 3/31/21.

### Additional Next Steps

Existing procedures and controls will be continued, and efforts will be made to ensure those processes are properly executed.



Steve Strang  
Chief Financial Officer