Mosaic and Affiliates
Omaha, Nebraska

Consolidated Financial Statements
June 30, 2019 and 2018

Together with Independent Auditor's Report

Mosaic and Affiliates

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SEIM JOHNSON

Independent Auditor's Report

To the Board of Directors
Mosaic and Affiliates
Omaha, Nebraska:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mosaic and Affiliates (Mosaic) which comprise the consolidated balance sheets as of June 30, 2019 and 2018, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mosaic as of June 30, 2019 and 2018, the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 19 to the financial statements, Mosaic adopted new accounting guidance related to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2019 on our consideration of Mosaic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to solely 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'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's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
October 11, 2019.

Mosaic and Affiliates

Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,164,631	19,804,346
Current portion of investments, primarily investments limited as to use	26,778,586	28,656,225
Receivables -		
Program service, net of estimated uncollectibles of $1,500,000 in 2019 and $1,141,499 in 2018	25,310,317	23,766,978
Pledges	2,722,856	1,958,857
Affiliates	471,723	297,165
Other	512,300	426,785
Other current assets	121,232	199,917
Prepaid expenses	1,510,100	2,060,693
Total current assets	74,591,745	77,170,966
Investments, primarily investments limited as to use, net of current portion	45,621,765	45,115,033
Property and equipment, net	57,467,809	60,095,546
Other assets	27,864,981	14,549,639
Total assets	$ 205,546,300	196,931,184
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of -		
Long-term debt, including lines of credit	$ 8,113,125	13,742,484
Annuity payment liability	131,308	131,308
Liability for post-retirement benefits	2,809	43,779
Accounts payable -		
Trade	5,226,097	6,405,737
Construction	308,790	274,762
Other accrued expenses	16,069,665	14,609,536
Outstanding and incurred but not reported loss reserves	8,705,253	9,641,569
Deferred revenue	535,654	431,488
Estimated third-party payor settlements - Medicaid	711,249	1,750,198
Total current liabilities	39,803,950	47,030,861
Long-term liabilities:		
Long-term debt, net	25,529,061	16,845,807
Annuity payment liability, net of current portion	1,326,871	1,479,392
Refundable fees	465,744	564,119
Liability for post-retirement benefits, net of current portion	1,131,082	1,088,618
Total long-term liabilities	28,452,758	19,977,936
Total liabilities	68,256,708	67,008,797
Commitments and contingencies		
Net assets:		
Without donor restrictions	100,162,162	95,032,338
With donor restrictions	37,127,430	34,890,049
Total net assets	137,289,592	129,922,387
Total liabilities and net assets	$ 205,546,300	196,931,184

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
For the Year Ended June 30, 2019, with Comparative Totals for 2018

		2019			2018
		Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, GAINS AND OTHER SUPPORT:					
Net program service revenue	$	242,691,826	--	242,691,826	220,947,351
Gifts and grants		1,830,383	2,564,623	4,395,006	3,399,468
Estates		1,138,167	3,000,000	4,138,167	4,199,941
Other revenue		3,929,787	--	3,929,787	4,283,611
Investment income, net		2,247,695	7,140	2,254,835	1,887,429
Unrealized gains on investments, net		363,519	--	363,519	1,544,333
Net assets released from restriction for operations		2,876,950	(2,876,950)	--	--
Total revenue, gains and other support		255,078,327	2,694,813	257,773,140	236,262,133
EXPENSES:					
Salaries and wages		126,523,886	--	126,523,886	121,583,604
Employee benefits		24,671,176	--	24,671,176	24,997,868
Supplies		9,009,915	--	9,009,915	8,610,829
Facilities		13,230,093	--	13,230,093	12,752,707
Contracted providers		51,621,224	--	51,621,224	39,584,219
Purchased services		6,309,272	--	6,309,272	5,965,777
Interest		1,237,035	--	1,237,035	974,949
Travel and transportation		8,037,534	--	8,037,534	7,807,257
Other variable expenses		4,063,396	--	4,063,396	4,415,914
Depreciation and amortization		5,726,321	--	5,726,321	5,735,769
Total expenses		250,429,852	--	250,429,852	232,428,893
NET INCOME		4,648,475	2,694,813	7,343,288	3,833,240
NET ASSETS RELEASED FROM RESTRICTION FOR THE PURCHASE OF PROPERTY AND EQUIPMENT		457,432	(457,432)	--	--
POST-RETIREMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC COST		23,917	--	23,917	113,844
INCREASE IN NET ASSETS		5,129,824	2,237,381	7,367,205	3,947,084
NET ASSETS, BEGINNING OF YEAR		95,032,338	34,890,049	129,922,387	125,975,303
NET ASSETS, END OF YEAR	$	100,162,162	37,127,430	137,289,592	129,922,387

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
For the Year Ended June 30, 2018

		2018		
		Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT:				
Net program service revenue	$	220,947,351	--	220,947,351
Gifts and grants		39,845	3,359,623	3,399,468
Estates		2,778,941	1,421,000	4,199,941
Other revenue		4,283,611	--	4,283,611
Investment income, net		1,856,443	30,986	1,887,429
Unrealized gains on investments, net		1,544,333	--	1,544,333
Net assets released from restriction for operations		3,345,050	(3,345,050)	--
Total revenue, gains and other support		234,795,574	1,466,559	236,262,133
EXPENSES:				
Salaries and wages		121,583,604	--	121,583,604
Employee benefits		24,997,868	--	24,997,868
Supplies		8,610,829	--	8,610,829
Facilities		12,752,707	--	12,752,707
Contracted providers		39,584,219	--	39,584,219
Purchased services		5,965,777	--	5,965,777
Interest		974,949	--	974,949
Travel and transportation		7,807,257	--	7,807,257
Other variable expenses		4,415,914	--	4,415,914
Depreciation and amortization		5,735,769	--	5,735,769
Total expenses		232,428,893	--	232,428,893
NET INCOME		2,366,681	1,466,559	3,833,240
NET ASSETS RELEASED FROM RESTRICTION FOR THE PURCHASE OF PROPERTY AND EQUIPMENT		210,149	(210,149)	--
POST-RETIREMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC COST		113,844	--	113,844
INCREASE IN NET ASSETS		2,690,674	1,256,410	3,947,084
NET ASSETS, BEGINNING OF YEAR		92,341,664	33,633,639	125,975,303
NET ASSETS, END OF YEAR	$	95,032,338	34,890,049	129,922,387

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 7,367,205	3,947,084
Adjustments to reconcile the change in net assets to net cash provided by operating activities -		
Depreciation and amortization	5,726,321	5,735,769
Gain on disposal of property and equipment, net	(517,528)	(491,866)
Change in liability for post-retirement benefits	1,494	(74,029)
Contributions received for split-interest agreements	(10,536)	(10,538)
Change in value of split-interest agreements	129,192	(7,759)
Decrease in trading securities, net	1,370,907	3,905,587
Restricted gifts, grants and estates, net	(5,564,623)	(4,780,623)
(Increase) decrease in current assets -		
Receivables -		
Program services	(1,543,339)	210,294
Other	(85,515)	35,408
Other current assets	78,685	(4,416)
Prepaid expenses	550,593	(362,198)
Increase (decrease) in current liabilities -		
Trade accounts payable	(1,179,640)	1,655,530
Other accrued expenses	1,460,129	3,066,826
Outstanding and incurred but not reported loss reserves	(936,316)	49,249
Deferred revenue	104,166	20,457
Estimated third-party payor settlements - Medicaid	(1,038,949)	449,107
Net cash provided by operating activities	5,912,246	13,343,882
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property and equipment	709,372	900,436
Purchases of property and equipment	(3,256,400)	(3,490,825)
Changes in investments in affiliates, net	553	--
Net cash used in investing activities	(2,546,475)	(2,590,389)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on lines of credit, net	(5,231,143)	(1,939,884)
Proceeds from issuance of long-term debt	11,552,876	1,125,129
Payments for debt issuance costs incurred	(216,232)	--
Payments on long-term debt	(3,051,606)	(1,724,286)
Cash received for annuity payment obligations	--	35,000
Payments on annuity payment obligations	(271,177)	(318,117)
Other asset additions, net	(11,451,448)	(1,679,097)
Payments from (to) affiliates, net	(174,558)	217,723
Refundable fees disbursed, net	(98,375)	(128,550)
Restricted gifts, grants and estates, net	2,936,177	3,036,944
Net cash used in financing activities	(6,005,486)	(1,375,138)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,639,715)	9,378,355
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,804,346	10,425,991
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,164,631	19,804,346

See notes to consolidated financial statements

(1) Organization

Mosaic and Affiliates (Mosaic) is a not-for-profit integrated organization that provides living and care facilities and vocational services to people with intellectual disabilities or other special needs related to their health, education, care and support. These services are provided within the states of Arizona, Connecticut, Delaware, Iowa, Illinois, Indiana, Nebraska, Kansas, Texas, and Colorado. Mosaic also provides independent senior care in Wisconsin.

Mosaic also owns all of the issued common stock of BICO Ltd. (BICO) and Ease-E Medical, Inc. BICO insures Mosaic for the deductible portion of workers' compensation, employer's liability, general and professional liability, sexual misconduct, auto liability, employment practices liability, cyber liability, and environmental liability risks, while Ease-E Medical Inc.'s primary business is the retail sale of disposable medical supplies. The financial statements of Mosaic include the accounts of the following entities:

- Mosaic
- The Mosaic Foundation
- Mosaic Housing Corp I
- Mosaic Housing Corp II
- Mosaic Housing Corp IV
- Mosaic Housing Corp V, Inc.
- Mosaic Housing Corp VII
- Mosaic Housing Corp VIII
- Mosaic Housing Corp IX
- Mosaic Housing Corp X
- Mosaic Housing Corp XI
- Mosaic Housing Corp XII
- Mosaic Housing Corp XIII
- Mosaic Housing Corp XIV
- Mosaic Housing Corp XV
- Mosaic Housing Corp XVI
- Mosaic Housing Corp XVII
- Mosaic Housing Corp XVIII
- Mosaic Housing Corp XIX
- Mosaic Housing Corp XX
- Mosaic Housing Corp XXI
- Mosaic Housing Corp XXII
- Mosaic Housing Corp XXIII
- The Oaks of Dunn County, Inc.
- Mosaic Illinois Housing 1
- Mosaic Illinois Housing 2
- Mosaic Illinois Housing of Macomb
- Mosaic Illinois Housing of Rockford
- Ease-E Medical, Inc. (f/k/a Spectrum Medical Equipment, Inc.)
- BICO Ltd.
- Mosaic Senior Services, Inc.

Significant intercompany accounts and transactions have been eliminated in the consolidation.

During 2019, Mosaic acquired Soreo In Home Services, LLC (Soreo). Soreo primarily provided Medicaid funded in-home support services to people with intellectual disabilities and to the aged. Simultaneous with the acquisition of Soreo, Mosaic formed Mosaic Senior Services, Inc. (MSS) (an Arizona non-profit corporation) to acquire and operate the portion of Soreo related to services to the aged. MSS has applied for tax-exempt status.

Mosaic Housing Corp V, Inc. is the general partner of Mosaic Residential Services of Nebraska, LLC (MRSNE). See Note 9 for Mosaic's accounting recognition of MRSNE.

Mosaic is affiliated with the Evangelical Lutheran Church of America. With such affiliation, Mosaic is solely responsible for its own management and affairs.

(2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Mosaic. These policies are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP)

A. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

B. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the consolidated statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding investments limited as to use.

Supplemental disclosures of cash flow information include:

	2019	2018
Interest paid	$ 1,169,154	905,897

C. *Investments*

Investments in equity securities, debt securities and mutual funds with readily determinable fair values are measured at fair value based on published or quoted market prices and are classified as trading securities.

For the years ended June 30, 2019 and 2018, investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in net income.

D. *Contribution Receivable from Remainder Trusts*

The Mosaic Foundation has been named beneficiary of several irrevocable charitable remainder trust agreements in which The Mosaic Foundation will receive certain funds upon termination of each trust. The Mosaic Foundation recognizes contribution revenue in the period in which the trusts are established or when they receive notice of the trust's existence and when the amount contributed is measurable. The contributions and associated receivables are recorded by discounting the future gift amount to its net present value.

E. *Program Service Receivables*

Mosaic reports program service receivables for services rendered at net realizable amounts after determining the estimated allowance for uncollectible accounts and contractual adjustments from third-party payors. Management reviews client receivables by payor class and applies percentages relative to account age and historical collection information to determine the adequacy of the allowance for uncollectible accounts. Management utilizes calculation estimates based on applicable third-party reimbursement methodologies to determine contractual adjustments.

Payment for services is expected within thirty to sixty days of receipt of the billing. Any amounts deemed uncollectible are written off on a monthly basis. Mosaic does not charge interest on outstanding balances owed.

F. *Investments Limited as to Use*

By board – Investments set aside by the Board of Directors (Board) for endowment purposes over which the Board retains control and may, at its discretion, subsequently use for other purposes.

By donor – Investments limited as to use by donor includes assets the donor has restricted for endowment or specific purposes.

Under bond indenture agreements – Investments set aside in accordance with terms of the various revenue bond agreements. This includes project funds, debt service funds and reserve funds.

Under regulatory agreements – Investments restricted under regulatory agreements with the Department of Housing and Urban Development.

For insurance losses and reserves – Investments held within BICO for the satisfaction of losses and related reserves.

Deposits held in trust – Investments held for residents and clients under security deposits and other arrangements.

Other – Accounts restricted as reserves, escrow accounts, and for deferred compensation agreements.

These investments are recorded at fair value. Amounts required to meet current liabilities of Mosaic have been classified as current assets in the consolidated balance sheets.

G. *Property and Equipment*

Property and equipment acquisitions are stated at cost. Mosaic's capitalization policy is $5,000 or applicable state required Medicaid amount if other than $5,000. Depreciation is provided on the straight-line method based upon the estimated useful lives of each class of depreciable asset as follows:

Land improvements	5 – 30 years
Buildings and improvements	2 – 50 years
Equipment and furnishings	2 – 30 years
Transportation equipment	3 – 15 years

Gifts of cash 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, expirations of donor restrictions are released when the acquired long-lived assets are placed into service.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as support without donor restriction, and are excluded from net income, 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 support with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

H. *Goodwill*

Mosaic has acquired goodwill through the purchase of several companies that provide various services for people with intellectual disabilities or the aged. As of June 30, 2019 and 2018, goodwill related to these purchases of $19,101,565 and $7,649,565, respectively, is included in other assets, net, in the consolidated balance sheets. Mosaic evaluates goodwill for impairment in accordance with ASC Topic 350, *Intangibles-Goodwill and Other,* on an annual basis. See Note 9 for further information.

I. *Annuity Payment Liability*

Mosaic has received several charitable gift annuities for which Mosaic is required to make specified payments in accordance with gift annuity agreements. Mosaic recognizes the agreements in the period in which the contract is executed. Assets received are recorded at fair value and an annuity payment liability is recognized at the present value of future cash flows expected to be paid. Contribution revenue without donor restriction is recognized as the difference between these two amounts. Adjustments to the annuity liability to reflect changes in life expectancy are recognized as change in the value of split-interest agreements, and are included in other revenue on the consolidated statements of operations and changes in net assets.

J. *Outstanding and Incurred But Not Reported Loss Reserves*

The consolidated balance sheets include $8,705,253 and $9,641,569 of liabilities in 2019 and 2018, respectively, for self-insured workers' compensation insurance and other general liability risks. BICO insures Mosaic's deductible portion of workers' compensation and employers' liability. In addition, BICO insures 100% of auto physical damage risks, cyber and environmental liability risks. These obligations represent an estimate for both reported claims not yet paid and claims incurred but not yet reported. Mosaic estimates the required reserve for such claims based on reports received from the third party administrators and an actuarial analysis.

Mosaic owns all of the issued common stock of BICO which was incorporated under the laws of Bermuda and is registered as a Class 3 insurer under The Insurance Act of 1978.

K. *Deferred Revenue*

Deferred revenue at June 30, 2019 and 2018 consists of advances from the following:

		2019	**2018**
Connecticut Department of Developmental Services	$	509,154	408,148
Other		26,500	23,340
	$	535,654	431,488

L. *Estimated Third-Party Payor Settlements – Medicaid*

Revenue for certain intermediate care facilities and other programs located in Nebraska, Iowa, Indiana, Connecticut, and Texas are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by Medicaid. Mosaic is reimbursed on cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by Mosaic. Settlements also include liabilities related to overpayments received from Medicaid and other payors, and State of Iowa assessments.

M. Refundable Fees

The Oaks of Dunn County, Inc. (The Oaks) is a non-profit housing project for seniors of varying income levels in Menomonie, Wisconsin. Fees paid by the original residents that entered into a reservation agreement for an apartment unit at The Oaks are refundable to the resident upon termination of the agreement. For all residents after the original residents, fees paid upon entering a reservation agreement are reduced on an annual basis by 5%, up to 50% of the original deposit, and used to offset living expenses. Any remaining deposit is refunded upon termination of the agreement by the resident.

N. Net Assets

The financial statements report the changes in and totals of each net asset class based on the existence or absence of donor restrictions, as described below:

Net assets without donor restrictions are those net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Mosaic. Net assets without donor restrictions include undesignated net assets and net assets subject to designation by the Board of Directors.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

O. Donor-Restricted Funds

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions on which they depend are substantially met. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year received are reported as contributions without donor restrictions in the accompanying financial statements.

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payments are merely postponed.

P. Net Program Service Revenue

Net program service revenue is reported at the estimated net realizable amounts from clients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit, prospective adjustment or can be subject to retroactive adjustment. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Functional Allocation of Expenses

The cost of providing living and care facilities and vocational services to people with intellectual disabilities or other special needs have been summarized on the basis of natural classification in the consolidated statement of operations and change in net assets. Note 18 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

R. Income Taxes

All consolidated affiliated entities, except for Mosaic Housing Corp V, Inc., Ease-E Medical, Inc. (Ease-E) and BICO are not-for-profit corporations as described in Section 501(c)(3) or 501(c)(2) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Internal Revenue Service has established standards to be met to maintain Mosaic's tax exempt status.

Mosaic Housing Corp V, Inc. is a for-profit taxable corporation and had no material operations or income.

Ease-E is a for-profit taxable corporation. Ease-E had net income during 2019 and 2018. Income tax refunds and deferred tax liabilities are included in other receivables and other accrued expenses, respectively, on the consolidated balance sheets.

BICO was incorporated under the laws of Bermuda, which do not require income taxes.

Mosaic recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2019 and 2018, management determined that there are no income tax positions requiring recognition in the financial statements other than described previously.

S. Performance Indicator

The consolidated statement of operations and changes in net assets includes net income as a performance indicator. Changes in net assets which are excluded from the performance indicator, consistent with industry practice, include net assets released from restriction for the purchase of property and equipment and post-retirement benefit changes other than net periodic cost.

T. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Mosaic is currently evaluating the impact of the pending adoption of the new standard on the financial statements. Mosaic will adopt this new standard for fiscal year beginning July 1, 2020.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. Mosaic has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements. Mosaic will adopt this new standard for fiscal year beginning July 1, 2019.

In January 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The amendments in this update make improvements to generally accepted accounting principles with primary changes that include:

- Equity investments are required to be measured at fair value with unrealized changes in fair value recognized in the performance indicator. Unrealized changes in fair value can no longer be reported outside the performance indicator as a change in net assets.
- Financial instruments measured at amortized cost are no longer required to be disclosed at fair value.

The standard will be effective for fiscal years beginning after December 15, 2018. A cumulative-effect adjustment to the consolidated balance sheet as of the beginning of the fiscal year of adoption is the means to apply the amendments, if necessary. Mosaic is currently evaluating the impact of adopting this new standard.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for Mosaic beginning on July 1, 2019. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

U. Change in Accounting Principle

During 2019, Mosaic adopted the provisions of FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU made several changes to accounting and financial reporting standards for not-for-profit entities related to net assets, and disclosure requirements.

See Note 19 for additional information regarding the impact of these changes in Mosaic's financial statements.

V. Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 reporting format.

W. Subsequent Events

Mosaic considered events occurring through October 11, 2019 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(3) Net Program Service Revenue

Mosaic has agreements with third-party payors that provide payments based on contracted rates. The majority of Mosaic's support comes from state agencies for the provision of services to Title XIX - Medicaid eligible individuals and Medicaid waiver individuals. The majority of the contracted rates are based on prospective payment methodologies, with the remainder made on limited cost based methodologies. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. Certain programs can be subject to retroactive adjustment. As a result, there is at least a reasonable possibility that recorded estimates could change in the future.

(4) Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at June 30, 2019 and 2018:

		2019	2018
Program assistance and facility improvements:			
Less than one year	$	2,722,856	1,958,857
One to five years		3,031,928	3,619,386
More than five years		55,638	112,748
Pledges receivable		5,810,422	5,690,991
Less allowance for uncollectible pledges		(350,202)	(350,202)
Less discounts for the time-value of money		(104,445)	(140,710)
Pledges receivable, net		5,355,775	5,200,079
Less current portion of pledges receivable, net		(2,722,856)	(1,958,857)
Long-term portion of pledges receivable, net	$	2,632,919	3,241,222

The long-term portion of pledges receivable, net, is included in other assets, net, in the consolidated balance sheets, see Note 9. The discount rate was 2.0% for both 2019 and 2018.

(5) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

		2019	2018
Financial assets:			
Cash and cash equivalents	$	17,164,631	19,804,346
Receivables -			
Program services		25,310,317	23,766,978
Other		512,300	426,785
Investments limited as to use		72,400,351	73,771,258
Total financial assets		115,387,599	117,769,367
Less financial assets limited as to use:			
By board designation for endowment		30,069,783	30,311,947
By donor		8,803,455	9,130,220
Under bond indenture agreements		183,974	176,468
Under regulatory agreements		1,101,890	1,073,364
For insurance losses and reserves		21,307,567	19,661,284
Deposits held in trust		762,985	793,304
Other		100,000	100,000
Total financial assets limited as to use		62,329,654	61,246,587
Financial assets available for general expenditure	$	53,057,945	56,522,780

Mosaic's endowment funds consist of donor-restricted endowments and funds designated by the Board of Directors as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Board designated endowment funds of $30,069,783 are not intended to be spent from, however this amount could be made available for expenditure by an action of the Board of Directors should that be necessary. See Note 12 for further information regarding endowments.

Mosaic's liquidity management plan includes investing cash in excess of daily requirements in short-term investments, certificates of deposit, and money market funds.

(6) Investments, Primarily Investments Limited as to Use

The composition of investments, primarily investments limited as to use, at June 30, 2019 and 2018 is as follows:

		2019	2018
Current portion of investments, primarily investments limited as to use	$	26,778,586	28,656,225
Investments limited as to use -			
By board	$	30,069,783	30,311,947
By donor		8,803,455	9,130,220
Under bond indenture agreements		183,974	176,468
Under regulatory agreements		1,101,890	1,073,364
For insurance losses and reserves		21,307,567	19,661,284
Deposits held in trust		762,985	793,304
Other		100,000	100,000
Other investments		10,070,697	12,524,671
		72,400,351	73,771,258
Less amounts required for current obligations -			
Investments limited as to use		(21,307,567)	(19,661,284)
Other investments		(5,471,019)	(8,994,941)
		(26,778,586)	(28,656,225)
Investments, primarily investments limited as to use, net of current portion	$	45,621,765	45,115,033

Investments are presented in the consolidated balance sheets at fair value, with the exception of real estate, certificates of deposit and cash surrender value of life insurance. Investments in real estate are presented at the lower of historical cost or fair value. Total investments, primarily investments limited as to use, presented at fair value at June 30, 2019 and 2018 is as follows:

		2019	2018
Investments, primarily investments limited as to use	$	72,400,351	73,771,258
Less investments in real estate		(1,241,304)	(1,241,304)
Less investments in certificates of deposit		(1,264,646)	(257,027)
Less investments in cash surrender value of life insurance		(1,126,610)	(1,083,421)
	$	68,767,791	71,189,506

Investment income is composed as follows:

		2019		
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
Interest and dividends	$	1,345,509	--	1,345,509
Net realized gains on other than trading securities		902,186	7,140	909,326
		2,247,695	7,140	2,254,835
Unrealized gains on investments, net		363,519	--	363,519
Total investment income	$	2,611,214	7,140	2,618,354

		2018		
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
Interest and dividends	$	1,375,614	--	1,375,614
Net realized gains on other than trading securities		480,829	30,986	511,815
		1,856,443	30,986	1,887,429
Unrealized gains on investments, net		1,544,333	--	1,544,333
Total investment income	$	3,400,776	30,986	3,431,762

(7) Fair Value

Fair Value Measurements

Mosaic applies FASB ASC Topic 820 for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Mosaic has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through either corroboration or observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Therefore, unobservable inputs shall reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following methods and assumptions were used to estimate the fair value for each financial instrument measured at fair value:

Cash and Cash Equivalents – The fair value of cash and cash equivalents, consisting primarily of deposit accounts and accrued interest, is classified as Level 1 as these funds are valued using quoted market prices.

Fixed Income Securities – Investments in fixed income securities are comprised of U.S. government agency obligations. These fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Exchange Traded and Closed End Funds, and Mutual Funds – The fair value of exchange traded and closed end funds, and mutual funds is classified as Level 1 as the market value is based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial Interest in Perpetual Trusts – The fair value of these interests are classified as Level 3 as Mosaic does not have the ability to redeem the investment. The fair value is based upon the value of the underlying investments as reported to Mosaic by the related holder.

For the fiscal years ended June 30, 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Fair Value on a Recurring Basis

The following table presents the financial instruments that are measured at fair value on a recurring basis at June 30, 2019 and 2018:

	June 30, 2019			
	Total	Level 1	Level 2	Level 3
Investments, primarily investments limited as to use:				
Cash and cash equivalents	$ 19,319,494	19,319,494	--	--
Exchange traded and closed end funds				
Equity	24,071,934	24,071,934	--	--
Fixed income	7,341,972	7,341,972	--	--
Mutual funds				
Equity	3,690,869	3,690,869	--	--
Fixed income	13,769,111	13,769,111	--	--
Beneficial interest in perpetual trusts	574,411	--	--	574,411
	$ 68,767,791	68,193,380	--	574,411

	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Investments, primarily investments limited as to use:				
Cash and cash equivalents	$ 12,783,018	12,783,018	--	--
US government agency obligations	4,258	--	4,258	--
Exchange traded and closed end funds				
Equity	29,767,081	29,767,081	--	--
Fixed income	10,932,915	10,932,915	--	--
Mutual funds				
Equity	3,878,757	3,878,757	--	--
Fixed income	13,242,214	13,242,214	--	--
Beneficial interest in perpetual trusts	581,263	--	--	581,263
	$ 71,189,506	70,603,985	4,258	581,263

A reconciliation of fair value measurements classified as Level 3 for the years ended June 30, 2019 and 2018 is as follows:

		2019	2018
Beginning balance	$	581,263	554,871
Investment income, net		13,574	12,000
Unrealized gains (losses) on investments, net		(1,295)	17,433
Additions		10,893	17,025
Sales		(30,024)	(20,066)
Ending balance	$	574,411	581,263

(8) Property and Equipment

Property and equipment as of June 30, 2019 and 2018, is summarized as follows:

		2019	2018
Land and land improvements	$	11,382,436	11,242,977
Buildings and improvements		115,159,085	114,246,703
Equipment and furnishings		13,846,147	13,341,091
Transportation equipment		2,441,890	2,128,732
Construction in process		268,323	234,031
		143,097,881	141,193,534
Less accumulated depreciation		(85,630,072)	(81,097,988)
	$	57,467,809	60,095,546

Depreciation and amortization expense of $5,726,321 and $5,735,769 for June 30, 2019 and 2018, respectively, is included in the accompanying consolidated statements of operations and changes in net assets.

(9) Other Assets

Other assets for Mosaic at June 30, 2019 and 2018 are comprised of the following:

		2019	2018
Goodwill	$	19,101,565	7,649,565
Contributions receivable from estates and remainder trusts		5,121,985	2,663,740
Pledges receivable, net of current portion		2,632,919	3,241,222
Gift annuities receivable		84,452	69,947
Capital contribution to Mosaic Residential Services of Nebraska (MRSNE)		914,464	915,017
Other		9,596	10,148
	$	27,864,981	14,549,639

The changes in the carrying amount of goodwill for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Beginning balance	$ 7,649,565	5,969,559
Acquisition of Soreo	11,452,000	--
Acquisition of Companion Linc	--	1,680,006
Ending balance	$ 19,101,565	7,649,565

Mosaic Housing Corp V, Inc. is the general partner of Mosaic Residential Services of Nebraska, LLC (MRSNE). This corporation was formed to acquire, finance, build, own, maintain, improve, operate, lease and, if appropriate or desirable, sell or otherwise dispose of homes which provide housing for low income individuals with disabilities. Mosaic's capital contribution in MRSNE is recognized by Mosaic using the equity method of accounting. Mosaic does not consolidate the accounting of MRSNE due to its relative insignificance in relation to Mosaic's financial statements and operations.

(10) Long-Term Debt, Including Lines of Credit

A summary of long-term debt at June 30, 2019 and 2018 is as follows:

	2019	2018
Public Finance Authority Revenue Refunding Bonds, Tax-Exempt, Series 2018A, due through November 2028, payable in varying semi-annual installments, interest rate of 3.985%, paid semi-annually.	$ 2,786,090	--
Public Finance Authority Revenue Refunding Bonds, Taxable, Series 2018B, due through November 2028, payable in varying semi-annual installments, interest rate of 4.959%, paid semi-annually.	7,178,801	--
Public Finance Authority Revenue Refunding Bonds, Tax-Exempt, Series 2017A, due through May 2027, payable in varying semi-annual installments, interest rate of 3.53%, paid semiannually.	9,775,404	11,210,063
Public Finance Authority Revenue Refunding Bond, Tax-Exempt, Series 2017B, due through May 2027, payable in varying monthly installments, interest rate at LIBOR, paid monthly. Par value of bonds are $6,740,000.	1,345,274	1,156,621
United States Department of Agriculture (USDA), payable in monthly installments, including interest at a rate of 4.75%, outstanding principal due November 2023. This mortgage payable is secured by all property, equipment and revenue of The Oaks of Dunn County, Inc.	686,677	825,406
U.S. Department of Housing and Urban Development, payable in monthly installments of $3,438, including interest at a rate of 8.50%, outstanding principal due October 2032. This mortgage payable is secured by all property and equipment of Mosaic Housing Corp I.	328,493	341,236

	2019	2018
Various mortgages, payable in monthly installments, including interest at rates ranging from 0% to 7.34%, maturing between 2020 and 2038. These mortgages are secured by real estate in Connecticut, Colorado, Nebraska, Illinois, and Wisconsin.	3,830,207	3,935,970
Various promissory notes to Charitable Remainder Annuity Trusts, secured by deeds of trusts on certain real property, monthly interest payments only through specified date or when trusts terminate, interest rates ranging from 6.44% to 8.66%.	597,054	597,054
Notes payable, Federal Home Loan Bank of Topeka, forgivable if certain requirements are maintained for a period of 15 years.	1,600,000	1,600,000
Line of credit - Morgan Stanley Smith Barney.	5,000,003	9,952,618
Line of credit - Wells Fargo Bank.	1,052,106	1,330,634
	34,180,109	30,949,602
Less current portion of long-term debt, including lines of credit	(8,113,125)	(13,742,484)
Long-term debt, excluding current portion	26,066,984	17,207,118
Less unamortized debt issuance costs	(537,923)	(361,311)
Total long-term debt, excluding current portion	$ 25,529,061	16,845,807

Public Finance Authority Revenue Bonds (Mosaic Project) Tax-Exempt, Series 2018A and Taxable, Series 2018B, were issued to finance the acquisition of tangible and intangible assets related to in-home support services of Soreo and to refund certain existing obligations. Both bonds are secured by all revenue of Mosaic and a security interest in certain collateral properties.

Public Finance Authority Revenue Refunding Bonds, Series 2017A, were issued to refund certain existing obligations. The issue is secured by all revenue of Mosaic and a security interest in certain collateral properties.

Public Finance Authority Revenue Refunding Bonds, Series 2017B, were issued in connection with the acquisition and improvement of group homes. The issue is secured by all revenue and a security interest in certain collateral properties. The bonds bear interest at the LIBOR Index Rate. At June 30, 2019, the applicable rate is 2.40%. Amounts drawn on the bonds as of June 30, 2019 was $1,345,274.

In order to secure the financing of the above Public Finance Authority Bonds, as described above, Mosaic agreed to deeds of trust and assignment of rents and leases for certain properties. These properties are located in Omaha, Axtell and Beatrice, Nebraska and include farms located in Axtell, Nebraska and Storm Lake, Iowa.

At June 30, 2019 and 2018, The Mosaic Foundation had available a line of credit of $15,400,000, with Morgan Stanley Smith Barney. The line of credit at June 30, 2019 and 2018 had a balance of $5,000,003 and $9,952,618, respectively, with an interest rate of 2.44% on the first $5,000,000 in principal and a varying interest rate of 2.44% and 2.47% at June 30, 2019 and 2018, respectively, on the remaining balance. The line of credit is secured by certain investments of The Mosaic Foundation.

At June 30, 2019 and 2018, Mosaic had available a line of credit of $7,000,000 with Wells Fargo Bank. The line of credit at June 30, 2019 and 2018 had a balance of $1,052,106 and $1,330,634, respectively, with a varying interest rate of 2% over the Daily One Month LIBOR, or 4.18% as of June 30, 2019. The line of credit matures on December 31, 2020 and is secured by the accounts receivable and other rights to payment and general intangibles of Mosaic.

Deferred financing costs are amortized on a straight-line basis over the life of their respective long-term debt, which approximates the interest rate method.

Future maturities of long-term debt as of June 30, 2019 are as follows:

2020	$ 8,113,125
2021	3,367,311
2022	2,398,069
2023	2,484,277
2024	2,458,597
Thereafter	15,358,730
	$ 34,180,109

(11) Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Support of general operations of Mosaic	$ 12,015,013	9,731,737
Temporarily restricted endowments	748,156	748,156
Mosaic Housing Corp II capital advance and grant	1,067,000	1,067,000
Mosaic Housing Corp IV capital advance and grant	479,300	479,300
Mosaic Housing Corp VII capital advance	865,300	479,300
Mosaic Housing Corp VIII capital advance	948,848	948,848
Mosaic Housing Corp IX capital advance	153,083	153,083
Mosaic Housing Corp X capital advance	166,591	166,591
Mosaic Housing Corp XI capital advance	205,391	205,391
Mosaic Housing Corp XII capital advance	991,400	991,400
Mosaic Housing Corp XIII capital advance	954,400	954,400
Mosaic Housing Corp XIV capital advance	1,076,300	1,076,300
Mosaic Housing Corp XV capital advance and grants	1,498,413	1,498,413
Mosaic Housing Corp XVI capital advance	1,444,917	1,444,917
Mosaic Housing Corp XVII capital advance and grants	1,449,200	1,449,200
Mosaic Housing Corp XVIII capital advance and grants	1,614,500	1,614,500
Mosaic Housing Corp XIX capital advance	1,211,900	1,211,900
Mosaic Housing Corp XX capital advance and grants	1,650,000	1,650,000
Mosaic Housing Corp XXII capital advance and grants	1,631,300	1,631,300
Mosaic Housing Corp XXIII capital advance and grants	244,500	244,500
City of Omaha HOME grants	523,768	523,768
Affordable Housing loans	80,000	80,000
Illinois Housing Development Authority loan	532,000	564,500
Affordable Housing Program loan	50,000	50,000
City of Fort Collins grant	22,380	27,975
Donor restricted for program purposes	230,307	259,590
	$ 31,855,369	29,638,069

Capital advances, grants and loans relate to the construction and/or operation of housing projects for low income persons with disabilities and are not required to be repaid so long as the projects comply with appropriate regulations and operate for terms as specified within the advance, grant or loan.

Net assets with donor restrictions listed below include endowment funds which are to be held in perpetuity, the income which is expendable for the following:

	2019	2018
Support of general operations of Mosaic	$ 5,272,061	5,251,980

(12) Endowment

The Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) was enacted April 4, 2007. NUPMIFA sets out guidelines to be considered when managing and investing donor restricted endowment funds. Mosaic applies FASB ASC Topic 958 Subtopic 205 Subtopic 45, *Reporting of Endowment Funds.*

Mosaic endowments consist of funds established for a variety of purposes, including donor restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by Board of Directors to function as endowments and beneficial interests in trust assets, are classified and reported based on the existence or absence of donor-imposed restrictions.

Mosaic has interpreted NUPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Mosaic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Absent any donor-imposed restrictions, interest, dividends and net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Mosaic in a manner consistent with the standard of prudence prescribed by NUPMIFA.

In accordance with NUPMIFA, Mosaic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Mosaic and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Mosaic
7. The investment policies of Mosaic

The net asset composition and changes in endowment net assets for the year ended June 30, 2019 and 2018 are as follows:

Endowment Net Asset Composition by Type of Fund

		June 30, 2019		
		Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$	30,069,783	--	30,069,783
Donor-restricted endowment funds		--	6,020,217	6,020,217
	$	30,069,783	6,020,217	36,090,000

		June 30, 2018		
		Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$	30,311,947	--	30,311,947
Donor-restricted endowment funds		--	6,000,136	6,000,136
	$	30,311,947	6,000,136	36,312,083

Changes in Endowment Net Assets

		Year Ended June 30, 2019		
		Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$	30,311,947	6,000,136	36,312,083
Investment income, net		1,524,115	329,283	1,853,398
Contributions		1,129,563	20,081	1,149,644
Amounts appropriated for expenditure -				
Annual distribution		(1,614,798)	(329,283)	(1,944,081)
Additional transfers to Mosaic -				
Strategic grant - direct care wages		(1,201,128)	--	(1,201,128)
Strategic grant - quality initiative		(593,000)	--	(593,000)
Other		(27,165)	--	(27,165)
Other changes,				
Transfer to increase board designated endowment funds		540,249	--	540,249
Endowment net assets, end of year	$	30,069,783	6,020,217	36,090,000

		Year Ended June 30, 2018		
		Without Donor Restrictions	With Donor Restrictions	Total
Net assets, beginning of year	$	30,398,790	5,981,181	36,379,971
Investment income, net		2,178,312	413,045	2,591,357
Contributions		1,503,991	18,955	1,522,946
Amounts appropriated for expenditure,				
Annual distribution		(1,504,609)	(413,045)	(1,917,654)
Additional transfers to Mosaic -				
Strategic grant - direct care wages		(1,375,000)	--	(1,375,000)
Strategic grant - Mosaic at Home		(558,790)	--	(558,790)
Other changes,				
Transfer to increase board designated endowment funds		95,250	--	95,250
Recognize prior year activity		(425,997)	--	(425,997)
Endowment net assets, end of year	$	30,311,947	6,000,136	36,312,083

Return Objectives and Risk Parameters

The primary objective of Mosaic's endowment funds is to generate sufficient funds to support a long-term distribution policy of five percent (5%) of the total balance of endowments to Mosaic. Unrestricted matured deferred gifts including all bequests and other estate gifts will be added to the principal of the Board-designated endowment annually unless otherwise directed by the Board of Directors. Mosaic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to agencies supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to generate sufficient funds to support a long-term distribution policy of five percent (5%) or as otherwise designated by the donor or Board, while minimizing investment risk.

Strategies Employed for Achieving Objectives

Mosaic relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The organization targets a diversified asset allocation strategy.

The endowment funds will be invested in publicly-traded common stocks and other equity-type securities, fixed income securities and money-market instruments. The total funds will invest in major asset categories as follows:

	Actual Allocation	Target Allocation Range
Equities	68%	30% to 75%
Fixed income	31%	25% to 55%
Cash equivalents	1%	0% to 15%
Alternatives	0%	0% to 10%

Appropriation Policy and How the Investment Objectives Relate to Appropriation Policy

The endowment funds are held in the Mosaic Foundation, which has a policy of distributing to Mosaic each year approximately 5% of all endowment funds. Periodically, additional or less appropriations are approved by the Board of Directors. The Foundation considers the long-term expected return on its funds in establishing this policy.

(13) Professional Liability and Other Insurance

Mosaic's professional liability policy provides coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event Mosaic should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier. Mosaic could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained, should coverage be limited and/or not available. Mosaic also carries an umbrella policy which provides additional coverage on an occurrence basis.

Accounting principles generally accepted in the United States of America require a provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. Mosaic does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. These risks are evaluated and recorded in BICO.

BICO is a wholly-owned subsidiary of Mosaic and insures Mosaic for the deductible portion of U.S. workers' compensation and general and professional liability, auto liability, cyber and environmental liability along with other employer liability risks. The deductible reimbursement policy risks ranged from $100,000 and $500,000 at June 30, 2019 and 2018. BICO has established a collateral account of $4,600,000 at June 30, 2019 and 2018, held in favor of Sentry Insurance as the third party administrator on the workers' compensation program as security for all outstanding claims, which is included with investments limited as to use in the consolidated balance sheets. At June 30, 2019 and 2018, BICO had included in liabilities outstanding and incurred but not reported (IBNR) loss reserves of $8,705,253 and $9,641,569, respectively.

(14) Employee Benefit Plans

Deferred Compensation Plan

Mosaic offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 403(b). The plan permits all eligible Mosaic employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death or unforeseeable emergency.

The employee is the beneficial owner of all assets the employee places in the plan.

Mosaic may elect to make matching contributions of which the amount is dependent upon employee funded levels and years of service. Vesting requirements are dependent on employee level and years of service.

Mosaic contributes to the New England Health Care Workers’ Union pension plan which is a cost-sharing multiple-employer defined benefit pension plan administered by the New England Health Care Workers’ Union. The plan provides retirement benefits which are established by union contract to plan members and beneficiaries. Mosaic is required to contribute 2% of annual covered payroll. Contribution requirements are established by union contract.

Mosaic also offers an additional deferred compensation plan for its executive employees. Eligible employees may defer up to the maximum amount allowed by Section 457(b) of the Internal Revenue Code into a separate investment account in which the executive has the right to direct the investment of the funds in accordance with investment guidelines established by Mosaic. Upon separation, as defined by the plan, the balance of the accounts will be paid to each of the executive officers.

For the year ended June 30, 2019 and 2018, total pension expense of $733,152 and $541,256, respectively, was incurred by Mosaic.

Executive Supplemental Benefit Plan

Mosaic adopted an executive supplemental benefit plan (Plan) in 2004 to provide supplemental retirement benefits for a certain number of its employees. When a participant reaches a total of age plus years of service equal to seventy-five or more, the participant becomes eligible for post retirement payments (salary continuation) and health care benefits. As of June 30, 2019, only a limited number of employees were eligible to participate in the Plan and only one employee had reached the threshold to be vested in the Plan.

Mosaic applies the recognition and disclosure provisions of FASB ASC Topic 715, *Compensation – Retirement Benefits* (ASC Topic 715). ASC Topic 715 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in net assets, to the extent those changes are not included in the net periodic cost. The funded status reported on the consolidated balance sheets as of June 30, 2019 and 2018 under ASC Topic 715 was measured as the difference between the fair value of plan assets and the benefit obligation.

The following summarizes the recognition of the executive supplemental benefit plan in the financial statements at June 30, 2019 and 2018:

		2019	2018
Consolidated balance sheets:			
Liability for post-retirement benefits -			
Salary continuation	$	818,000	703,162
Health benefits		315,891	429,235
	$	1,133,891	1,132,397
Consolidated statements of operations and changes in net assets:			
Included with employee benefits -			
Salary continuation	$	61,544	65,422
Health benefits		19,059	19,338
	$	80,603	84,760
Postretirement benefit related changes other than net periodic cost -			
Salary continuation	$	53,294	(62,473)
Health benefits		(88,624)	(51,371)
	$	(35,330)	(113,844)

Projected Benefit Obligation – Salary Continuation

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at the measurement dates of June 30, 2019 and 2018:

		2019	2018
Changes to benefit obligation:			
Benefit obligation at beginning of period	$	703,162	700,213
Service cost		22,132	22,601
Interest cost		24,036	18,906
Experience gain (loss)		68,670	(38,558)
Benefit obligation at end of period		818,000	703,162
Fair value of plan assets at end of period		--	--
Funded status at end of period	$	(818,000)	(703,162)
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$	--	--
Noncurrent liabilities		818,000	703,162
	$	818,000	703,162

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2019 and 2018:

		2019	2018
Service cost during the period	$	22,132	22,601
Interest cost on projected benefit obligation		24,036	18,906
Amortization		15,376	23,915
Net periodic pension cost	$	61,544	65,422

Items not yet recognized as a component of periodic pension cost at June 30, 2019 and 2018:

		2019	2018
Net loss	$	193,573	140,279

Accumulated Postretirement Benefit Obligation – Health Benefits

The following table summarizes the accumulated post retirement benefit obligation, the fair value of plan assets, and the funded status at the measurement dates of June 30, 2019 and 2018:

		2019	2018
Changes to benefit obligation:			
Benefit obligation at beginning of period	$	429,235	506,213
Service cost		4,535	5,113
Interest cost		14,524	14,225
Benefits paid		(43,779)	(44,945)
Experience gain		(88,624)	(51,371)
Benefit obligation at end of period		315,891	429,235
Fair value of plan assets at end of period		--	--
Funded status at end of period	$	(315,891)	(429,235)
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$	2,809	43,779
Noncurrent liabilities		313,082	385,456
	$	315,891	429,235

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2019 and 2018:

		2019	2018
Service cost during the period	$	4,535	5,113
Interest cost on accumulated postretirement benefit obligation		14,524	14,225
Net periodic pension cost	$	19,059	19,338

Items not yet recognized as a component of periodic postretirement cost at June 30, 2019 and 2018:

		2019	2018
Net gain	$	(132,118)	(54,907)

Actuarial Assumptions

The following are the actuarial assumptions used by the Plans to develop the components of the pension projected benefit obligation and accumulated postretirement benefit obligation for the year ended June 30, 2019 and 2018:

	2019	2018
Discount rate – Pension	2.38%	3.42%
Discount rate – Health	2.55	3.38
Rate of increase in compensation levels	2.00	2.00

(15) Health Care Plan

Mosaic provides comprehensive medical and vision care benefits and an employee assistance program for eligible employees and their dependents through participation in a multi-employer Voluntary Employee's Beneficiary Association (VEBA). In addition, educational compensation benefits are provided for participating employees through the VEBA. Mosaic contributes 100% of the core medical plan cost (single person coverage) based on actuarially determined rates. For the years ended June 30, 2019 and 2018, total health insurance expense of $12,301,105 and $12,584,153 was incurred by Mosaic.

To the extent the VEBA has plan liabilities in excess of plan assets or plan assets in excess of plan liabilities, future employer contributions may be changed to continue to provide benefits to eligible employees and their dependents of Mosaic.

(16) Concentrations of Credit Risk

The majority (more than 95%) of Mosaic's program service activity is with individuals who are beneficiaries of the various states' Medicaid programs. The Medicaid programs' ability to honor their contracts is dependent on State and Federal funding of the programs.

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. Mosaic deposits its cash with high quality financial institutions, and management believes Mosaic is not exposed to significant credit risk on those amounts.

Mosaic has investments in marketable equity securities, corporate bonds and various other types of investments. The values of these investments are determined by market value and are not insured or collateralized.

The investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investment will occur in the near term and that such changes could materially affect net assets of Mosaic.

(17) Commitments and Contingencies

Operating Leases

Mosaic conducts a portion of its operations in facilities that are leased on a month-to-month basis and, therefore, are not included in the minimum rental commitments shown below. Mosaic generally leases vehicles for 12-month terms, with the option for month-to-month renewals following the initial term.

The minimum rental commitments under operating leases, which includes facilities, vehicles and equipment, are as follows for years ended June 30:

2020	$ 3,613,377
2021	1,978,486
2022	1,373,663
2023	1,097,836
2024	583,183

Litigation

The health and human services industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health and human services program participation requirements, reimbursements for client services, and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for client services previously billed.

Management believes that Mosaic is in compliance with applicable government laws and regulations as they see apply to the areas of fraud and abuse. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Mosaic is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on Mosaic's future financial position or results from operations.

(18) Functional Expenses

The table presented below illustrates Mosaic's expenses by both their nature and their function for the year ended June 30, 2019:

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Salaries and wages	$ 111,329,417	14,159,830	1,034,639	126,523,886
Employee benefits	21,592,359	2,955,663	123,154	24,671,176
Supplies	8,826,758	176,940	6,217	9,009,915
Facilities	12,481,795	737,436	10,862	13,230,093
Contracted providers	51,620,963	261	--	51,621,224
Purchased services	2,267,657	3,647,613	394,002	6,309,272
Interest	731,148	505,887	--	1,237,035
Travel and transportation	6,631,495	1,170,914	235,125	8,037,534
Other variable expenses	2,382,378	975,024	705,994	4,063,396
Depreciation and amortization	5,724,587	1,734	--	5,726,321
	$ 223,588,557	24,331,302	2,509,993	250,429,852

(19) Change in Accounting Principle

Effective July 1, 2018, Mosaic adopted the provisions of FASB ASU 2016-14, *Not-for-Profit Entities*. ASU 2016-14 made several changes to accounting and financial reporting for not-for-profit entities, including changes to the presentation of net assets, qualitative and quantitative information of how an entity manages liquidity and availability of financial assets to meet needs for expenditures, reporting of expenses by natural classification and functional classification, as well as expanded footnote disclosures. As a result of adopting ASU 2016-14, net assets previously described as unrestricted are now identified as net assets without donor restrictions and net assets previously described as temporarily or permanently restricted are now identified as net assets with donor restrictions.

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 and Affiliates
Omaha, Nebraska:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mosaic and Affiliates (Mosaic), which comprise the consolidated balance sheet as of June 30, 2019, the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated October 11, 2019. The financial statements of The Mosaic Foundation, Mosaic Senior Services, Inc., The Oaks of Dun County, Inc., Ease-E Medical, Inc., and BICO, Ltd were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mosaic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mosaic's internal control. Accordingly, we do not express an opinion on the effectiveness of Mosaic'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

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Purpose of This Report

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

Seim Johnson, LLP

Omaha, Nebraska,
October 11, 2019.