Mosaic and Affiliates
Omaha, Nebraska

Consolidated Financial Statements
June 30, 2020 and 2019

Together with Independent Auditor's Report

Mosaic and Affiliates

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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, 2020 and 2019, 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, 2020 and 2019, 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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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2020 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 19, 2020.

Mosaic and Affiliates

Consolidated Balance Sheets
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,156,194	17,164,631
Current portion of investments, primarily investments limited as to use	24,069,930	26,778,586
Receivables -		
Program service, net of estimated uncollectibles of $2,095,402 in 2020 and $1,500,000 in 2019	27,423,081	25,277,566
Pledges	1,766,877	2,722,856
Affiliates	406,619	471,723
Other	1,321,475	545,051
Estimated third-party payor settlements - Medicaid	109,893	--
Current portion of investment in sales-type lease	348,776	--
Other current assets	146,627	121,232
Prepaid expenses	1,376,144	1,510,100
Total current assets	99,125,616	74,591,745
Investments, primarily investments limited as to use, net of current portion	43,468,255	45,621,765
Investment in sales-type lease, net of current portion	1,195,530	--
Property and equipment, net	51,822,039	57,467,809
Other assets, net	20,265,777	27,864,981
Total assets	$ 215,877,217	205,546,300
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of -		
Long-term debt, including lines of credit	$ 3,312,058	8,113,125
Annuity payment liability	131,308	131,308
Liability for post-retirement benefits	21,135	2,809
Accounts payable -		
Trade	6,841,764	5,226,097
Construction	209,263	308,790
Other accrued expenses	16,134,543	14,922,377
Outstanding and incurred but not reported loss reserves	9,018,724	8,705,253
Deferred revenue	1,911,216	1,682,942
Estimated third-party payor settlements - Medicaid	--	711,249
Total current liabilities	37,580,011	39,803,950
Long-term liabilities:		
Long-term debt, net	23,878,920	25,529,061
Annuity payment liability, net of current portion	1,367,489	1,326,871
Refundable fees	499,171	465,744
Liability for post-retirement benefits, net of current portion	1,257,703	1,131,082
Total long-term liabilities	27,003,283	28,452,758
Total liabilities	64,583,294	68,256,708
Commitments and contingencies		
Net assets:		
Without donor restrictions	119,157,861	100,162,162
With donor restrictions	32,136,062	37,127,430
Total net assets	151,293,923	137,289,592
Total liabilities and net assets	$ 215,877,217	205,546,300

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
For the Year Ended June 30, 2020, with Comparative Totals for 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, GAINS AND OTHER SUPPORT:				
Net program service revenue	$ 263,087,945	--	263,087,945	242,691,826
Gifts and grants	813,383	2,163,640	2,977,023	4,395,006
Estates	2,357,118	--	2,357,118	4,138,167
Other revenue	4,270,789	--	4,270,789	3,929,787
Gain on sale of Texas agency property and equipment	4,281,384	--	4,281,384	--
Gain on sale of Texas agency operations	6,114,854	--	6,114,854	--
Investment income, net	769,191	27,045	796,236	2,254,835
Unrealized losses on investments, net	(789,781)	--	(789,781)	363,519
Net assets released from restriction for operations	6,914,778	(6,914,778)	--	--
Total revenue, gains and other support	287,819,661	(4,724,093)	283,095,568	257,773,140
EXPENSES:				
Salaries and wages	129,676,782	--	129,676,782	126,523,886
Employee benefits	26,721,275	--	26,721,275	24,671,176
Supplies	9,683,730	--	9,683,730	9,009,915
Facilities	13,060,622	--	13,060,622	13,230,512
Contracted providers	63,373,045	--	63,373,045	51,621,224
Purchased services	6,103,742	--	6,103,742	6,309,272
Interest	1,167,144	--	1,167,144	1,237,035
Travel and transportation	6,757,551	--	6,757,551	8,037,534
Other variable expenses	4,880,686	--	4,880,686	4,062,977
Depreciation	5,789,091	--	5,789,091	5,726,321
Amortization	1,760,443	--	1,760,443	--
Total expenses	268,974,111	--	268,974,111	250,429,852
NET INCOME (LOSS)	18,845,550	(4,724,093)	14,121,457	7,343,288
NET ASSETS RELEASED FROM RESTRICTION FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	267,275	(267,275)	--	--
POST-RETIREMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC COST	(117,126)	--	(117,126)	23,917
INCREASE (DECREASE) IN NET ASSETS	18,995,699	(4,991,368)	14,004,331	7,367,205
NET ASSETS, BEGINNING OF YEAR	100,162,162	37,127,430	137,289,592	129,922,387
NET ASSETS, END OF YEAR	$ 119,157,861	32,136,062	151,293,923	137,289,592

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

		2019		
		Without Donor Restrictions	With Donor Restrictions	Total
REVENUE, GAINS AND OTHER SUPPORT:				
Net program service revenue	$	242,691,826	--	242,691,826
Gifts and grants		1,830,383	2,564,623	4,395,006
Estates		1,138,167	3,000,000	4,138,167
Other revenue		3,929,787	--	3,929,787
Investment income, net		2,247,695	7,140	2,254,835
Unrealized gains on investments, net		363,519	--	363,519
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
EXPENSES:				
Salaries and wages		126,523,886	--	126,523,886
Employee benefits		24,671,176	--	24,671,176
Supplies		9,009,915	--	9,009,915
Facilities		13,230,512	--	13,230,512
Contracted providers		51,621,224	--	51,621,224
Purchased services		6,309,272	--	6,309,272
Interest		1,237,035	--	1,237,035
Travel and transportation		8,037,534	--	8,037,534
Other variable expenses		4,062,977	--	4,062,977
Depreciation		5,726,321	--	5,726,321
Total expenses		250,429,852	--	250,429,852
NET INCOME		4,648,475	2,694,813	7,343,288
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
INCREASE IN NET ASSETS		5,129,824	2,237,381	7,367,205
NET ASSETS, BEGINNING OF YEAR		95,032,338	34,890,049	129,922,387
NET ASSETS, END OF YEAR	$	100,162,162	37,127,430	137,289,592

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

		2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	$	14,004,331	7,367,205
Adjustments to reconcile the change in net assets to net cash provided by operating activities -			
Depreciation		5,789,091	5,726,321
Amortization		1,760,443	--
Gain on disposal of property and equipment, net		(477,318)	(517,528)
Gain on sale of Texas property and equipment		(4,281,384)	--
Gain on sale of Texas agency operations, net		(6,114,854)	--
Change in liability for post-retirement benefits		144,947	1,494
Contributions received for split-interest agreements		--	(10,536)
Change in value of split-interest agreements		295,146	129,192
Decrease in trading securities, net		4,862,166	1,370,907
Restricted gifts, grants and estates, net		(2,163,640)	(5,564,623)
(Increase) decrease in current assets -			
Receivables -			
Program services		(2,145,515)	(1,510,588)
Other		23,576	(118,266)
Estimated third-party payor settlements - Medicaid		(109,893)	--
Other current assets		(25,395)	78,685
Prepaid expenses		133,956	550,593
Increase (decrease) in current liabilities -			
Trade accounts payable		1,615,667	(1,179,640)
Other accrued expenses		1,212,166	312,841
Outstanding and incurred but not reported loss reserves		313,471	(936,316)
Deferred revenue		228,274	1,251,454
Estimated third-party payor settlements - Medicaid		(711,249)	(1,038,949)
Net cash provided by operating activities		14,353,986	5,912,246
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment		199,391	709,372
Proceeds from the sale of Texas agency property and equipment		5,620,716	--
Proceeds from the sale of Texas agency operations, net		7,214,854	--
Purchases of property and equipment		(2,878,701)	(3,255,848)
Acquisition of goodwill		(600,000)	(11,452,000)
Receipts from investment in sales-type lease		30,694	--
Changes in investments in affiliates, net		--	553
Net cash provided by (used in) investing activities		9,586,954	(13,997,923)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on lines of credit, net		(6,052,109)	(5,231,143)
Proceeds from issuance of long-term debt		1,785,988	11,552,876
Payments for debt issuance costs incurred		--	(216,232)
Payments on long-term debt		(2,185,087)	(3,051,606)
Annuity gifts received		40,000	--
Payments on annuity payment obligations		(294,528)	(271,177)
Payments from (to) affiliates, net		65,104	(174,558)
Refundable fees received (disbursed), net		33,427	(98,375)
Restricted gift of securities		999,511	--
Restricted gifts, grants and estates, net		6,658,317	2,936,177
Net cash provided by financing activities		1,050,623	5,445,962
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		24,991,563	(2,639,715)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		17,164,631	19,804,346
CASH AND CASH EQUIVALENTS, END OF YEAR	$	42,156,194	17,164,631

See notes to consolidated financial statements

Mosaic and Affiliates

Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2020 and 2019

		2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Gain on sale of Texas agency property and equipment:			
Cash received	$	5,620,716	--
Sales type lease entered into		1,575,000	--
Net book value of property and equipment sold		(2,914,332)	--
Gain on sale of Texas agency property and equipment	$	4,281,384	--
Gain on sale of Texas agency operations:			
Cash received	$	8,367,452	--
Transaction costs		(1,152,598)	--
Net proceeds		7,214,854	--
Amount escrowed included in other receivables		800,000	--
Write off of Texas agency goodwill		(1,900,000)	--
Gain on sale of Texas agency operations	$	6,114,854	--
Interest paid	$	1,184,763	1,169,154

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, 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.

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, which are neither held for nor restricted by donors for long-term purposes, and are not included in investment accounts.

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, 2020 and 2019, 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. Effective July 1, 2019, Mosaic adopted the amendments included in ASU 2019-06, *Intangibles – Goodwill and Other (Topic 350)* extending the private company accounting alternatives on goodwill and certain identifiable intangible assets to not-for-profit entities. Under the amendment Mosaic began amortizing goodwill on a straight-line basis over ten years. Mosaic evaluates and test goodwill for impairment in accordance with ASC Topic 350. 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 $9,018,724 and $8,705,253 of liabilities in 2020 and 2019, 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 1 insurer under The Insurance Act of 1978.

K. Deferred Revenue

Deferred revenue at June 30, 2020 and 2019 consists of advances from the following:

	2020	2019
Connecticut Department of Developmental Services	$ 1,892,216	1,656,442
Other	19,000	26,500
	$ 1,911,216	1,682,942

L. Estimated Third-Party Payor Settlements – Medicaid

Revenue for certain intermediate care facilities and other programs located in Nebraska, Iowa, Indiana, and Connecticut 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 2020 and 2019. 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 2020 and 2019, 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. In June 2020, the FASB issued ASU 2020-05 which defers the effective date of the standard, making it effective for annual report periods beginning after December 15, 2021. Early application is permitted. Mosaic intends to 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 June 2020, the FASB issued ASU 2020-05 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2019. Mosaic intends to adopt this new standard for fiscal year beginning July 1, 2020.

U. Change in Accounting Principle

During 2020, Mosaic adopted the provisions of FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* using a modified prospective basis. The ASU clarifies and improves current accounting guidance to determine when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The adoption of the standard had no impact on total revenue, gains and other support or total net assets.

Effective July 1, 2019, Mosaic adopted the provisions of FASB ASU 2019-06, *Intangible-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit-Entities.* FASB ASU 2019-06 gives the option to amortize goodwill over a period of ten years, or less under certain circumstances, and to apply a simplified impairment model. The simplified impairment model allows not-for-profits to only review goodwill for impairment if a triggering event occurs and choose whether the impairment analysis is performed at the entity or reporting unity level.

V. Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 reporting format.

W. Subsequent Events

Mosaic considered events occurring through October 19, 2020 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, 2020 and 2019:

		2020	2019
Program assistance and facility improvements:			
Less than one year	$	1,766,877	2,722,856
One to five years		2,035,252	3,031,928
More than five years		34,569	55,638
Pledges receivable		3,836,698	5,810,422
Less allowance for uncollectible pledges		(350,202)	(350,202)
Less discounts for the time-value of money		(63,522)	(104,445)
Pledges receivable, net		3,422,974	5,355,775
Less current portion of pledges receivable, net		(1,766,877)	(2,722,856)
Long-term portion of pledges receivable, net	$	1,656,097	2,632,919

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 used was 2.0% for both 2020 and 2019.

(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 consolidated balance sheet date, are comprised of the following:

		2020	2019
Financial assets:			
Cash and cash equivalents	$	42,156,194	17,164,631
Receivables -			
Program services		27,423,081	25,277,566
Other		1,321,475	545,051
Investments limited as to use		67,538,185	72,400,351
Total financial assets		138,438,935	115,387,599
Less financial assets limited as to use:			
By board designation for endowment		33,298,267	30,069,783
By donor		5,320,746	8,803,455
Under bond indenture agreements		187,586	183,974
Under regulatory agreements		1,131,575	1,101,890
For insurance losses and reserves		23,109,458	21,307,567
Deposits held in trust		858,075	762,985
Other		100,000	100,000
Total financial assets limited as to use		64,005,707	62,329,654
Financial assets available for general expenditure	$	74,433,228	53,057,945

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 $33,298,267 and $30,069,783 at June 30, 2020 and 2019, respectively, 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, 2020 and 2019 is as follows:

		2020	2019
Current portion of investments, primarily investments limited as to use	$	24,069,930	26,778,586
Investments limited as to use -			
By board	$	33,298,267	30,069,783
By donor		5,320,746	8,803,455
Under bond indenture agreements		187,586	183,974
Under regulatory agreements		1,131,575	1,101,890
For insurance losses and reserves		23,109,458	21,307,567
Deposits held in trust		858,075	762,985
Other		100,000	100,000
Other investments		3,532,478	10,070,697
		67,538,185	72,400,351
Less amounts required for current obligations -			
Investments limited as to use		(23,109,458)	(21,307,567)
Other investments		(960,472)	(5,471,019)
		(24,069,930)	(26,778,586)
Investments, primarily investments limited as to use, net of current portion	$	43,468,255	45,621,765

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, 2020 and 2019 is as follows:

		2020	2019
Investments, primarily investments limited as to use	$	67,538,185	72,400,351
Less investments in real estate		(1,241,304)	(1,241,304)
Less investments in certificates of deposit		(1,266,644)	(1,264,646)
Less investments in cash surrender value of life insurance		(1,068,850)	(1,126,610)
	$	63,961,387	68,767,791

Investment income is composed of the following:

		2020		
		Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$	1,255,189	--	1,255,189
Net realized gains (losses) on other than trading securities		(485,998)	27,045	(458,953)
		769,191	27,045	796,236
Unrealized losses on investments, net		(789,781)	--	(789,781)
Total investment income	$	(20,590)	27,045	6,455

		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

(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, 2020 and 2019, 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, 2020 and 2019:

	June 30, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments, primarily investments limited as to use:				
Cash and cash equivalents	$ 18,430,936	18,430,936	--	--
Exchange traded and closed end funds				
Equity	20,345,587	20,345,587	--	--
Fixed income	9,228,381	9,228,381	--	--
Mutual funds				
Equity	1,901,324	1,901,324	--	--
Fixed income	13,774,475	13,774,475	--	--
Beneficial interest in perpetual trusts	280,684	--	--	280,684
	$ 63,961,387	63,680,703	--	280,684

	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

A reconciliation of fair value measurements classified as Level 3 for the years ended June 30, 2020 and 2019 is as follows:

		2020	2019
Beginning balance	$	574,411	581,263
Investment income, net		11,964	13,574
Unrealized gains (losses) on investments, net		3,457	(1,295)
Additions		10,538	10,893
Distributions		(319,686)	(30,024)
Ending balance	$	280,684	574,411

(8) Property and Equipment

Property and equipment as of June 30, 2020 and 2019, is summarized as follows:

		2020	2019
Land and land improvements	$	11,092,322	11,382,436
Buildings and improvements		108,062,489	115,159,085
Equipment and furnishings		14,395,837	13,846,147
Transportation equipment		2,499,073	2,441,890
Construction in process		347,997	268,323
		136,397,718	143,097,881
Less accumulated depreciation		(84,575,679)	(85,630,072)
	$	51,822,039	57,467,809

Depreciation expense of $5,789,091 and $5,726,321 for June 30, 2020 and 2019, 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, 2020 and 2019 are comprised of the following:

		2020	2019
Goodwill, net	$	16,041,122	19,101,565
Contributions receivable from estates and remainder trusts		1,567,022	5,121,985
Pledges receivable, net of current portion		1,656,097	2,632,919
Gift annuities receivable		78,028	84,452
Capital contribution to Mosaic Residential Services of Nebraska (MRSNE)		914,464	914,464
Other		9,044	9,596
	$	20,265,777	27,864,981

The changes in the carrying amount of goodwill for the years ended June 30, 2020 and 2019 are as follows:

		2020	2019
Beginning balance	$	19,101,565	7,649,565
Acquisitions		600,000	11,452,000
Sale of Texas agency operations		(1,900,000)	--
		17,801,565	19,101,565
Less amortization		(1,760,443)	--
Ending balance	$	16,041,122	19,101,565

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, including lines of credit, at June 30, 2020 and 2019 is as follows:

		2020	2019
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.	$	2,569,073	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.		7,087,662	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.		8,316,778	9,775,404
Public Finance Authority Revenue Refunding Bond, Tax-Exempt, Series 2017B, due through May 2026, payable in varying monthly installments, interest rate at LIBOR, paid monthly. Par value of bonds are $6,740,000.		2,939,081	1,345,274

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.	541,291	686,677
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.	313,441	328,493
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.	3,713,762	3,830,207
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%.	597,892	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
Line of credit - Wells Fargo Bank.	--	1,052,106
	27,678,980	34,180,109
Less current portion of long-term debt, including lines of credit	(3,312,058)	(8,113,125)
Long-term debt, excluding current portion	24,366,922	26,066,984
Less unamortized debt issuance costs	(488,002)	(537,923)
Total long-term debt, excluding current portion	$ 23,878,920	25,529,061

Public Finance Authority Revenue Bonds (Mosaic Project) Tax-Exempt, Series 2018A and 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, 2020, the applicable rate is 0.16%. Amounts drawn on the bonds as of June 30, 2020 was $2,939,081.

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, 2020 and 2019, 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, 2020 and 2019 had a balance of $-0- and $5,000,003, respectively. The line of credit is secured by certain investments of The Mosaic Foundation.

At June 30, 2020 and 2019, Mosaic had available a line of credit of $7,000,000 with Wells Fargo Bank. The line of credit at June 30, 2020 and 2019 had a balance of $-0- and $1,052,106, respectively. 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, 2020 are as follows:

2021	$	3,312,058
2022		2,656,309
2023		2,742,517
2024		2,716,260
2025		2,741,535
Thereafter		13,510,301
	$	27,678,980

(11) Net Assets With Donor Restrictions

Net assets with donor restrictions are as follows:

		2020	2019
Subject to expenditure for specified purpose:			
Support of general operations of Mosaic	$	6,131,524	12,015,013
Donor restricted for program purposes		217,651	231,709
		6,349,175	12,246,722
Subject to passage of time:			
Mosaic Housing Corp II capital advance and grant		1,067,400	1,067,000
Mosaic Housing Corp IV capital advance and grant		479,300	479,300
Mosaic Housing Corp VII capital advance		865,300	865,300
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		1,449,917	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		412,000	532,000
Affordable Housing Program loan		50,000	50,000
City of Fort Collins grant		16,785	22,380
		18,740,296	18,860,491
Subject to spending policy and appropriation:			
Support of general operations of Mosaic		7,046,591	6,020,217
	$	32,136,062	37,127,430

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.

(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, 2020 and 2019 are as follows:

Endowment Net Asset Composition by Type of Fund

		June 30, 2020		
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$	33,298,267	--	33,298,267
Donor-restricted endowment funds		--	7,046,591	7,046,591
	$	33,298,267	7,046,591	40,344,858

		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

Changes in Endowment Net Assets

		Year Ended June 30, 2020		
		Without Donor Restrictions	**With Donor Restrictions**	**Total**
Net assets, beginning of year	$	30,069,783	6,020,217	36,090,000
Investment income, net		(594,573)	55,023	(539,550)
Contributions		2,459,452	1,026,374	3,485,826
Amounts appropriated for expenditure -				
Annual distribution		(1,749,477)	(55,023)	(1,804,500)
Additional transfers to Mosaic -				
Strategic grant - direct care wages		(510,333)	--	(510,333)
Strategic grant - quality initiative		(47,835)	--	(47,835)
Other changes,				
Transfer to increase board designated endowment funds		3,671,250	--	3,671,250
Endowment net assets, end of year	$	33,298,267	7,046,591	40,344,858

		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

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	Allocation Range
Equities	55%	30% to 70%
Fixed income	34%	25% to 55%
Cash equivalents	11%	0% to 20%
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, 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, 2020 and 2019. BICO has established a collateral account of $5,033,000 at June 30, 2020 and 2019, 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, 2020 and 2019, BICO had included in liabilities outstanding and incurred but not reported (IBNR) loss reserves of $9,486,224 and $8,705,253, 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 8.5% 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 employees.

For the year ended June 30, 2020 and 2019, total pension expense of $973,016 and $734,646, respectively, was incurred by Mosaic.

Executive Supplemental Benefit Plan

Certain employees as defined by employment agreements are eligible for healthcare coverage at any age upon termination for any reason other than cause. Healthcare coverage is only available until age 65 or their Medicare entitlement age (if later).

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, 2020 and 2019 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, 2020 and 2019:

	2020	2019
Consolidated balance sheets:		
Liability for post-retirement benefits -		
Salary continuation	$ 904,315	818,000
Health benefits	374,523	315,891
	$ 1,278,838	1,133,891
Consolidated statements of operations and changes in net assets:		
Included with employee benefits -		
Salary continuation	$ 68,588	61,544
Health benefits	(112,814)	7,646
	$ (44,226)	69,190
Postretirement benefit related changes other than net periodic cost -		
Salary continuation	$ (17,727)	53,294
Health benefits	(99,399)	(77,211)
	$ (117,126)	(23,917)

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, 2020 and 2019:

		2020	2019
Changes to benefit obligation:			
Benefit obligation at beginning of period	$	818,000	703,162
Service cost		24,554	22,132
Interest cost		19,469	24,036
Experience loss		42,292	68,670
Benefit obligation at end of period		904,315	818,000
Fair value of plan assets at end of period		--	--
Funded status at end of period	$	(904,315)	(818,000)
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$	--	--
Noncurrent liabilities		904,315	818,000
	$	904,315	818,000

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2020 and 2019:

		2020	2019
Service cost during the period	$	24,554	22,132
Interest cost		19,469	24,036
Amount of recognized gains and losses		24,565	15,376
Net periodic postretirement benefit cost	$	68,588	61,544

Items not yet recognized as a component of periodic postretirement benefit cost at June 30, 2020 and 2019:

		2020	2019
Net loss	$	211,300	193,573

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, 2020 and 2019:

		2020	2019
Changes to benefit obligation:			
Benefit obligation at beginning of period	$	315,891	429,235
Service cost		4,638	4,535
Interest cost		8,060	14,524
Amendments/new participant		90,806	--
Benefits paid		(18,759)	(43,779)
Experience gain		(26,113)	(88,624)
Benefit obligation at end of period		374,523	315,891
Fair value of plan assets at end of period		--	--
Funded status at end of period	$	(374,523)	(315,891)
Amounts recognized in the consolidated balance sheets:			
Current liabilities	$	21,135	2,809
Noncurrent liabilities		353,388	313,082
	$	374,523	315,891

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2020 and 2019:

		2020	2019
Service cost during the period	$	4,638	4,535
Interest cost		8,060	14,524
Amount of recognized gains and losses		(125,513)	(11,413)
Net periodic postretirement benefit cost	$	(112,814)	7,646

Items not yet recognized as a component of periodic postretirement benefit cost at June 30, 2020 and 2019:

		2020	2019
Net gain	$	(32,719)	(132,118)

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, 2020 and 2019:

	2020	2019
Discount rate – Pension	0.93%	2.38%
Discount rate – Health	1.28	2.55
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. For the years ended June 30, 2020 and 2019, total health insurance expense of $12,485,600 and $12,301,105 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:

2021	$ 2,848,367
2022	1,469,863
2023	1,234,139
2024	771,847
2025	403,390

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.

Coronavirus

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries. Mosaic has experienced increases in expenses due to the pandemic. Mosaic is closely monitoring its operations, liquidity, capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to Mosaic’s financial position is not known. In response to the coronavirus, on March 27, 2020 the Coronavirus Aid Relief and Economic Security (CARES) Act was signed into law that provides relief funds to healthcare providers. See note 20 regarding relief funds Mosaic received subsequent to year end.

(18) Functional Expenses

The table presented below illustrates Mosaic’s expenses by both their nature and their function for the year ended June 30, 2020:

	2020			
		Supporting Services		
	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 112,773,130	15,883,314	1,020,338	129,676,782
Employee benefits	24,599,978	1,981,883	139,414	26,721,275
Supplies	9,374,250	306,420	3,060	9,683,730
Facilities	12,412,422	636,502	11,698	13,060,622
Contracted providers	63,372,645	400	--	63,373,045
Purchased services	2,586,686	3,132,595	384,461	6,103,742
Interest	842,384	324,760	--	1,167,144
Travel and transportation	5,667,050	924,327	166,174	6,757,551
Other variable expenses	3,584,842	765,449	530,395	4,880,686
Depreciation	5,789,091	--	--	5,789,091
Amortization	1,760,443	--	--	1,760,443
	$ 242,762,921	23,955,650	2,255,540	268,974,111

		2019			
			Supporting Services		
		Program Services	Management and General	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		12,482,214	737,436	10,862	13,230,512
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		2,381,959	975,024	705,994	4,062,977
Depreciation		5,724,587	1,734	--	5,726,321
	$	223,588,557	24,331,302	2,509,993	250,429,852

(19) Sale of Texas Agency Property and Equipment and Agency Operations

During 2020, Mosaic entered into a purchase and sale agreement to sell substantially all of the property used by Mosaic in conduct of providing intellectual and developmental disability and support services in Texas (approximately 25 properties). The transaction was closed in December 2019.

In addition Mosaic entered into an asset purchase agreement to sell all rights, title and interest in all assets including tangible and intangible, except excluded assets sold to a different party described above, that took over the operations of Mosaic's Texas agency. The transaction was closed in February 2020, and included setting aside $800,000 of the purchase price in escrow, for 12 months. The escrowed amount is included with other receivables in the consolidated balance sheets. Management believes it will receive the escrowed amount upon expiration of the 12 months.

(20) Subsequent Event

Subsequent to year end, Mosaic received $4,663,595 of Phase 2 General Distribution Relief Fund of the CARES Act Provider Relief Fund. The funds represent a stimulus grant and not a loan that will have to be repaid. Mosaic has attested to $196,188 and will be attesting to $4,467,407 of funds received, to the US Department of Health and Human Services, to terms and conditions related to the receipt of these funds. Generally the terms and conditions require the funds to be used to prevent, prepare for, and respond to coronavirus, and that the funds will reimburse Mosaic only for healthcare related expenses or lost revenue that is attributable to coronavirus.

SEIM JOHNSON

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, 2020, 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 19, 2020. 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 19, 2020.