



**Combined Financial Statements  
with  
Independent Auditors' Report**

**June 30, 2016 and 2015**

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
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**June 30, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Mountain-Pacific Quality Health  
Helena, MT 59602

### Report on the Financial Statements

We have audited the accompanying combined financial statements of Mountain-Pacific Quality Health Foundation ("Mountain-Pacific") (a nonprofit organization) and affiliates, which comprise the combined statements of financial position as of June 30, 2016 and 2015, and the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Mountain-Pacific and affiliates as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying combining statement of financial position, combining statement of activities, and schedule of expenses by contract presented on page 19 to 24 and schedule of expenditures of federal awards presented on page 25, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2017 on our consideration of Mountain Pacific's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mountain-Pacific's internal control over financial reporting and compliance.

Ridd & Company, PLLC

Bozeman, Montana  
February 2, 2017

## FINANCIAL STATEMENTS

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Financial Position**  
**As of June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,661,752	\$ 2,542,936
Contract receivables	1,333,559	1,468,865
Prepaid expenses	247,008	200,970
Total Current Assets	<u>4,242,319</u>	<u>4,212,771</u>
Property and Equipment		
Furniture and equipment	1,940,353	2,004,205
Less: Accumulated depreciation	<u>(1,729,631)</u>	<u>(1,716,957)</u>
Net Property and Equipment	<u>210,722</u>	<u>287,248</u>
Other Assets		
Employee loans	1,539	2,473
Travel advances	259	3,522
Certificates of deposit, noncurrent	2,457,869	2,250,960
Deposits	<u>25,751</u>	<u>23,466</u>
Total Other Assets	<u>2,485,418</u>	<u>2,280,421</u>
Total Assets	<u>\$ 6,938,459</u>	<u>\$ 6,780,440</u>

The Notes to Combined Financial Statements are an integral part of these statements.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Financial Position (continued)**  
**As of June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 95,796	\$ 139,658
Accrued vacation payable	349,568	374,961
Accrued payroll and related taxes	490,945	295,217
Accrued retirement plan contribution	113,536	99,038
Total Current Liabilities	<u>1,049,845</u>	<u>908,874</u>
Net Assets		
Unrestricted		
Undesignated	4,568,397	4,671,566
Designated	1,200,000	1,200,000
Temporarily restricted	120,217	-
Total Net Assets	<u>5,888,614</u>	<u>5,871,566</u>
Total Liabilities and Net Assets	<u>\$ 6,938,459</u>	<u>\$ 6,780,440</u>

The Notes to Combined Financial Statements are an integral part of these statements.

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**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements Activities**  
**For the Years Ended June 30, 2016 and 2015**

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue				
Contract and grant income	\$ 13,066,790	\$ 121,475	\$ 13,188,265	\$ 11,649,603
Unrealized gains (losses) on investments	4,927	-	4,927	1,948
Interest income	44,381	-	44,381	14,124
Net assets released from restrictions	1,258	(1,258)	-	-
	13,117,356	120,217	13,237,573	11,665,675
Expenses				
Programs	12,988,762	-	12,988,762	11,593,897
Management and general	231,763	-	231,763	193,839
	13,220,525	-	13,220,525	11,787,736
Change in net assets	(103,169)	120,217	17,048	(122,061)
Net assets, beginning of year	5,871,566	-	5,871,566	5,993,627
Net assets, end of year	\$ 5,768,397	\$ 120,217	\$ 5,888,614	\$ 5,871,566

The Notes to Combined Financial Statements are an integral part of these statements.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statement of Functional Expenses**  
**For the Year Ended June 30, 2016**

	<u>QIO Program</u>	<u>ONC Program</u>	<u>Medicaid Contracts</u>	<u>Other Contracts</u>	<u>HTS</u>	<u>Total Program</u>	<u>Management &amp; General</u>	<u>2016 Total</u>
Salaries, wages and fringe benefits	\$ 5,693,454	\$ 609,177	\$ 3,836,023	\$ 213,112	\$ 27,154	\$ 10,378,920	\$ 90,694	\$ 10,469,614
Travel	316,697	34,595	80,920	4,830	2,231	439,273	28,869	468,142
Supplies	86,737	3,675	24,417	1,260	170	116,259	7,609	123,868
Printing and publications	47,369	659	7,221	235	32	55,516	170	55,686
Consultant fees	150,905	9,997	124,117	68,439	167	353,625	899	354,524
Subcontractors	4,017	433	3,391	179	24	8,044	130	8,174
Dues and membership	74,068	25,862	81,495	1,408	257	183,090	5,050	188,140
Physician expenses	-	-	2,400	-	-	2,400	-	2,400
Postage	23,480	1,524	15,871	636	287	41,798	662	42,460
Data processing	62,869	6,912	54,545	2,507	339	127,172	1,819	128,991
Insurance	36,937	3,977	24,192	1,645	8,676	75,427	1,194	76,621
Equipment rental	7,997	850	5,170	352	47	14,416	255	14,671
Professional services	31,186	3,358	20,429	1,389	260	56,622	1,008	57,630
Telephone	95,240	16,261	104,326	2,152	633	218,612	1,348	219,960
Maintenance	37,898	4,748	21,873	1,487	201	66,207	1,079	67,286
Occupancy	331,338	35,148	213,822	14,537	1,964	596,809	10,549	607,358
Depreciation	70,162	7,555	45,960	3,125	422	127,224	2,267	129,491
Personal property taxes	957	98	596	41	5	1,697	29	1,726
Board of Director fees	8,603	926	5,638	383	52	15,602	278	15,880
Meetings and conferences	55,414	3,415	7,506	457	62	66,854	6,613	73,467
Other expenses	17,209	967	5,243	20,353	49	43,821	70,615	114,436
	<u>\$ 7,152,537</u>	<u>\$ 770,137</u>	<u>\$ 4,685,155</u>	<u>\$ 338,527</u>	<u>\$ 43,032</u>	<u>\$ 12,989,388</u>	<u>\$ 231,137</u>	<u>\$ 13,220,525</u>

The Notes to Combined Financial Statements are an integral part of these statements.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statement of Functional Expenses**  
**For the Year Ended June 30, 2015**

	<u>QIO Program</u>	<u>ONC Program</u>	<u>Medicaid Contracts</u>	<u>Other Contracts</u>	<u>QHS/HTS</u>	<u>Total Program</u>	<u>Management &amp; General</u>	<u>2015 Total</u>
Salaries, wages and fringe benefits	\$ 4,905,014	\$ 641,184	\$ 3,389,068	\$ 111,372	\$ 80,390	\$ 9,127,028	\$ 93,844	\$ 9,220,872
Travel	338,231	31,001	58,748	974	5,730	434,684	17,841	452,525
Supplies	63,931	3,712	22,428	470	403	90,944	3,871	94,815
Printing and publications	54,550	778	3,184	80	68	58,660	692	59,352
Consultant fees	115,268	29,230	100,421	339	290	245,548	516	246,064
Subcontractors	6,331	1,381	4,609	116	99	12,536	170	12,706
Dues and membership	68,123	36,338	73,053	465	792	178,771	10,488	189,259
Physician expenses	2,863	-	3,640	-	-	6,503	100	6,603
Postage	22,116	1,663	13,826	245	376	38,226	1,340	39,566
Data processing	72,601	10,306	56,293	1,342	1,149	141,691	2,045	143,736
Insurance	38,046	5,151	25,119	766	8,414	77,496	1,166	78,662
Equipment rental	6,599	902	4,397	134	115	12,147	203	12,350
Professional services	25,279	10,879	16,418	500	551	53,627	3,379	57,006
Telephone	87,156	14,166	84,348	814	1,147	187,631	1,041	188,672
Maintenance	37,545	4,459	21,744	663	1,719	66,130	1,007	67,137
Occupancy	323,693	43,107	210,221	6,407	5,484	588,912	9,782	598,694
Depreciation	70,935	9,616	46,895	1,429	1,223	130,098	2,176	132,274
Personal property taxes	1,265	171	836	25	22	2,319	39	2,358
Board of Director fees	5,094	690	3,363	103	88	9,338	156	9,494
Meetings and conferences	59,773	4,525	9,170	236	202	73,906	7,939	81,845
Other expenses	35,242	4,731	16,904	444	381	57,702	36,044	93,746
	<u>\$ 6,339,655</u>	<u>\$ 853,990</u>	<u>\$ 4,164,685</u>	<u>\$ 126,924</u>	<u>\$ 108,643</u>	<u>\$ 11,593,897</u>	<u>\$ 193,839</u>	<u>\$ 11,787,736</u>

The Notes to Combined Financial Statements are an integral part of these statements.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 17,048	\$ (122,061)
Adjustments to reconcile change in net assets to net cash from operations:		
Depreciation	129,491	132,274
Amortization included in data processing	1,610	268
Unrealized investment (gains) losses	(4,927)	(1,948)
(Increase) decrease in current assets:		
Contracts receivable	135,306	685,500
Prepaid expenses	(46,038)	(1,283)
Employee loans	934	5,755
Travel advances	3,263	3,024
Deposit	(2,285)	-
Increase (decrease) in current liabilities:		
Accounts payable	(43,862)	(15,315)
Accrued vacation expense	(25,393)	(8,261)
Accrued payroll and related taxes	195,728	(14,727)
Accrued retirement plan contribution	14,498	(4,336)
Net cash provided by operating activities	<u>375,373</u>	<u>658,890</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from matured certificates of deposit	1,245,000	1,300,000
Purchase of certificates of deposit	(1,446,982)	(1,677,749)
Acquisition of property and equipment	(54,575)	(201,622)
Net cash used by investing activities	<u>(256,557)</u>	<u>(579,371)</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on capital lease	-	(27,949)
Net cash used by financing activities	<u>-</u>	<u>(27,949)</u>
Net increase in cash and cash equivalents	118,816	51,570
Cash and cash equivalents at beginning of year	<u>2,542,936</u>	<u>2,491,366</u>
Cash and cash equivalents at end of year	<u>\$ 2,661,752</u>	<u>\$ 2,542,936</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 752</u>

The Notes to Combined Financial Statements are an integral part of these statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies**

**Organization**

Mountain-Pacific Quality Health Foundation (“Mountain-Pacific”) was originally incorporated on April 25, 1973, as Montana Foundation for Medical Care (“the Foundation”), by action of the Montana Medical Association House of Delegates, to serve as a state-wide organization for medical quality assurance and peer review activities in Montana. In May 1975, the Foundation became the Professional Standards Review Organization (PSRO) for Montana as a result of public law 92-603. Under the auspices of the Department of Health and Human Services (DHHS), the Foundation was a fully operational PSRO and implemented certain programs which involved local practicing physicians in the ongoing review and evaluation of health care services paid for under the Medicare program.

On July 1, 1984, the PSRO program was replaced by a Professional Review Organization (PRO) program. The Foundation was awarded the PRO designation for both Montana and Wyoming and the corporate name was changed to Montana-Wyoming Foundation for Medical Care. In March of 2003, the name of the PRO program was changed to the Quality Improvement Organization (QIO) program. With the addition of the Hawaii PRO contract in 1996, the Corporation changed its name to the Mountain-Pacific Quality Health Foundation. The Alaska QIO contract was awarded to Mountain-Pacific in November 2005. During fiscal 2007, Mountain-Pacific began doing business as Mountain-Pacific Quality Health.

On January 5, 2005, a new corporation was formed, Mountain-Pacific Quality Health Foundation-Hawaii to acquire in-state status, providing a non-competitive bid process for the QIO contract in that state. Assets were transferred to this corporation on April 1, 2005. Subsequently, the Centers for Medicare and Medicaid Services (CMS), the agency who administers the QIO program, instructed all activities to be operated out of one corporation. All assets in the Hawaii corporation were transferred back to Mountain-Pacific Quality Health Foundation and the Hawaii corporation was inactivated. However, efforts were continued to reach an agreement with CMS. In December 2007, CMS agreed to novate the Hawaii QIO contract to the Hawaii corporation. The novation assignment was effective July 1, 2007. The Hawaii corporation was re-activated and the asset base was re-established.

In 2007, two new corporations were formed, Mountain-Pacific Quality Health Foundation-Wyoming and Mountain-Pacific Quality Health Foundation-Alaska to acquire in-state status, providing a non-competitive bid process for the QIO contracts in those states. Mountain-Pacific transferred assets to Wyoming and Alaska effective July 1, 2007.

The Hawaii, Wyoming, and Alaska corporations held QIO contracts through July 31, 2014. Through a CMS regionalization initiative, the number of QIOs was reduced effective with the new contracts issued August 1, 2014. In response to this initiative, a single proposal to perform contract work in Montana, Hawaii, Wyoming, and Alaska was submitted under Mountain-Pacific Quality Health Foundation. The proposal was accepted and Mountain-Pacific Quality Health Foundation was awarded contracts to provide services in all four states. On August 1,

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Organization (continued)**

2014, Mountain-Pacific Quality Health Foundation hired the employees from the Alaska, Hawaii, and Wyoming corporations. The Mountain-Pacific board of directors voted at the September 4, 2014 meeting to assign the assets and liabilities of the Alaska, Hawaii, and Wyoming corporations to Mountain-Pacific Quality Health Foundation. The financial statements for the fiscal year ending June 30, 2015 reflect the acquisition of these assets and liabilities.

Quality Health Services, Inc. (QHS) was incorporated on October 13, 2011 by action of the Mountain-Pacific Quality Health board of directors. This organization was established as part of a mitigation plan to address CMS conflict of interest provisions that came into effect with the 10th Scope of Work in August of 2011. An independent board of directors was formed to govern QHS. The QHS assets, liabilities, and contractual obligations were assigned to Health Technology Services, LLC and operations discontinued in December 2014 with board approval.

Health Technology Services, LLC (HTS, LLC) was incorporated on February 21, 2013. Mountain-Pacific is the sole member of the limited liability corporation. This organization was established to replace QHS as part of a mitigation plan to address CMS conflict of interest provisions. An independent group of managers governed HTS, LLC. HTS, LLC assumed QHS' assets, liabilities, and contractual obligations in December 2014. CMS changed the role of its contractors with the 11th Scope of Work to address potential conflict of interest concerns. Consequently, HTS, LLC was no longer needed as part of a conflict of interest mitigation plan. The HTS, LLC assets, liabilities, and contractual obligations were assigned to Mountain-Pacific and operations discontinued in March 2016 with approval of the managers. The financial statements for the fiscal year ending June 30, 2016 reflect Mountain-Pacific's acquisition of these assets and liabilities.

**Principles of Combination**

Through July 2014, the Mountain-Pacific corporations operating in Montana, Alaska, Hawaii, and Wyoming were governed by a common board of directors. Quality Health Services, Inc., and Health Technology Services, LLC were also governed by a common board of directors and managers. In addition, the Mountain-Pacific's chief executive officer served in the same capacity for all six entities. As a result of this common control through governance and management, the net assets transferred during the fiscal year ending June 30, 2015 from the Alaska, Hawaii, and Wyoming corporations to Mountain-Pacific Quality Health Foundation and from QHS to HTS, LLC were recorded at book value by the receiving entities in accordance with ASC 805-50-45. Likewise, the net assets transferred during the fiscal year ending June 30, 2016 from HTS, LLC were recorded at book value by Mountain-Pacific.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Principles of Combination (continued)**

Due to the existence of common control, the financial activities and positions for these entities are combined for financial reporting purposes. All significant inter-company transactions are eliminated from the combined financial statements as described in the Affiliated Party Transactions disclosure.

**Affiliated Party Transactions**

In June 2012, Mountain-Pacific loaned QHS \$200,000 to provide operating capital. This loan was assigned to HTS, LLC in December 2014 and forgiven by Mountain-Pacific in March 2016. The terms of the promissory agreement provided for annual payments equal to 10 percent of QHS's annual net profit. Loan interest accrues at the rate of 2.72 percent per annum. The principal balance of this loan at June 30, 2015 and when forgiven was \$90,000. This loan obligation is eliminated from the June 30, 2015 Combined Statement of Financial Position.

Mountain-Pacific provided support to QHS and HTS, LLC through administrative service agreements. Service charges to HTS, LLC from Mountain-Pacific in fiscal year 2016 totaled \$42,384. Service charges to QHS and HTS, LLC from Mountain-Pacific in fiscal year 2015 totaled \$4,342 and \$109,042, respectively. The corresponding intercompany receivable and payable is \$79,549 at June 30, 2015. The revenue, expense, accounts receivable and accounts payable recorded to recognize these transactions are eliminated from the combined financial statements.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statement period. Actual amounts could differ from these estimates.

**Basis of Presentation**

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as codified by the Financial Accounting Standards Board.

**Classification of Net Assets**

Mountain-Pacific reports information regarding its financial position and activities according to three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets reported at June 30, 2015 totaling \$5,871,566 are classified as unrestricted. At June 30, 2016 Mountain-Pacific is reporting temporarily restricted net assets



**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Classification of Net Assets (continued)**

totaling \$120,217. These assets were received through a grant from the Robert Wood Johnson Foundation, which included a use restriction. The grant agreement stipulates that Mountain-Pacific must use the funds "...for a demonstration project that will provide care coordination for high need, high cost patients in rural settings." Mountain-Pacific received a first installment payment in May 2016 totaling \$121,475. Mountain-Pacific expended \$1,258 for eligible purposes through June 2016, leaving the temporarily restricted balance of \$120,217. Net assets totaling \$5,768,397 at June 30, 2016 are classified as unrestricted. The Board has designated \$1.2 million of unrestricted net assets to a reserve fund for the years ended June 30, 2016 and 2015, respectively.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of all checking, savings and money market accounts and certificates of deposit with an original maturity of less than three months. Cash and cash equivalents consist of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Cash in checking and savings accounts	\$ 124,384	\$ 134,389
Cash in money market accounts	326,055	310,041
Repurchase agreements	<u>2,211,313</u>	<u>2,098,506</u>
	<u>\$ 2,661,752</u>	<u>\$ 2,542,936</u>

Cash in savings and checking accounts is insured by the Federal Deposit Insurance Corporation (FDIC). Cash in money market accounts is insured by the Securities Investor Protection Corporation (SIPC). The repurchase agreements are collateralized by U.S. Treasury Securities, but are not FDIC insured for the full amounts of \$2,211,313 and \$2,098,506 at June 30, 2016 and June 30, 2015, respectively.

**Investments**

Certificates of deposit with an original maturity of more than three months but less than twelve months are considered short-term or current investments. Certificates of deposit with an original maturity of twelve months or more are considered long-term or noncurrent. Certificates of deposit are insured by the SIPC.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Contract Receivables**

Management believes all contract receivables to be fully collectible, as the majority of the receivables are collected within 30 to 45 days after they have been billed. Accordingly, no allowance for doubtful accounts has been recorded. The Federal Health and Human Services contracts comprise 90 and 74 percent of receivables as of June 30, 2016 and 2015, respectively.

**Property and Equipment**

Mountain-Pacific uses equipment acquired under the QIO contracts at a cost of \$345,068 and \$348,345 as reported to CMS at June 30, 2016 and 2015, respectively. Title to this equipment is maintained by the United States Department of Health and Human Services, which must approve of dispositions. All other furniture and equipment with an initial cost of \$1,000 or more are recorded at cost. Prior to July 1, 2011, sensitive items such as PDA's and computers with an initial cost of \$250 or more were recorded at cost. Property and equipment items are depreciated on a straight-line basis over their estimated useful service lives of three to eight years.

Mountain-Pacific capitalizes the costs incurred to develop internal-use software once management determines the software will be feasible for use generally over a period exceeding one year. Costs are capitalized up to the period management determines the project is substantially complete and ready for its intended use. Once implemented, internally developed software is amortized on a straight-line basis over five years. All software costs were fully amortized at June 30, 2015. Amortization expense for the year ended June 30, 2015 was \$268.

**Prepaid Expenses**

Mountain-Pacific records expenses when incurred. Prepayments of expenses are reported as a current asset. Prepaid expenses are mainly comprised of insurance, membership dues, and rental and software expenses. For the years ended June 30, 2016 and 2015 prepaid expenses were \$247,008 and \$200,970, respectively.

**Accrued Vacation Payable**

Mountain-Pacific employees accrue personal leave/vacation time on a pay period basis. The accrual level varies by employee based upon the number of hours worked and years of service. Full-time and part-time employees may carryover up to 80 hours and 50 hours, respectively, of unused leave from one year to the next. Exceptions to this limit are subject to the Chief Executive Officer's approval. An employee is compensated at termination for unused leave hours at his or her current rate of pay. The accrued vacation payable is \$349,568 and \$374,961 at June 30, 2016 and 2015, respectively.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**1. Summary of Significant Accounting Policies (continued)**

**Accrued Vacation Payable (continued)**

Employees also earn sick leave time on a pay period basis. Sick leave time is accrued at the rate of .0384 hours per hour worked, up to a defined limit based on the state of employment. An employee is not compensated at termination for unused sick leave hours.

**Income Taxes**

With the exception of QHS, Mountain-Pacific and its affiliated corporations are non-profit organizations exempt from federal and state income tax under the provisions of the Internal Revenue Code, Section 501(c)(3). Generally, Mountain-Pacific is not subject to examination by federal or state tax authorities for years before 2013.

Applications for 501(c) (3) status were approved by the Internal Revenue Service for Mountain-Pacific Quality Health Foundation in September 2014.

**Federal Contracts**

Mountain-Pacific is compensated under its QIO contracts on a cost plus fixed-fee or fixed price basis. Costs directly related to performing contract requirements are determined on the accrual basis of accounting. Indirect, fringe benefit, and leave expenses are recorded in cost pools and recovered through rates approved by the cognizant Federal agency. The indirect cost rate is applied to the total costs, less any pass-through expenses. The fringe benefit rate is applied to total labor costs, plus leave. The leave rate is applied to total labor costs.

Approved provisional rates for the fiscal years ending June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Indirect Costs	40.38%	43.82%
Fringe Benefits	30.51%	30.71%
Leave	18.20%	16.99%

**Subsequent Events**

Management has evaluated subsequent events through February 2, 2017, the date which the financial statements were available for issue.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**2. Contract Receivables**

At June 30, 2016 and 2015, contract receivables consisted of the following:

	<u>2016</u>	<u>2015</u>
United States Department of Health and Human Services	\$ 1,252,567	\$ 1,085,699
Montana Department of Public Health and Human Services	52,899	319,605
Other	28,093	63,561
	<u>\$ 1,333,559</u>	<u>\$ 1,468,865</u>

**3. Fixed Assets**

Fixed assets at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Furniture and Equipment	\$ 563,063	\$ 556,306
Computer Hardware/Software	711,096	781,705
Leasehold Improvements	208,703	208,703
Capitalized Software	457,491	457,491
	1,940,353	2,004,205
Less: Accumulated Depreciation	<u>(1,729,631)</u>	<u>(1,716,957)</u>
	<u>\$ 210,722</u>	<u>\$ 287,248</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$129,491 and \$132,274, respectively. Software amortization totaling \$457,491 is included in the accumulated depreciation balance each year and \$1,610 and \$268 is included in the data processing expense for 2016 and 2015, respectively.

**4. Concentrations**

Approximately 57 percent, 37 percent, and 6 percent of Mountain-Pacific's revenue was earned under the QIO, Montana Department of Health and Human Services, and other contracts, respectively, during the year ended June 30, 2016. Approximately 56 percent, 35 percent, and 5 percent of Mountain-Pacific's revenue was earned under the QIO, Montana Department of Health and Human Services, and the ONC contracts, respectively, during the year ended June 30, 2015.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**5. Lease Commitments**

Mountain-Pacific leases office space in various locations under separate operating leases as follows:

Helena, Montana:

The amended lease expires July 31, 2019. The monthly rent was \$21,804 and \$21,859 for the lease years beginning August 2014 and August 2013, respectively. The lease terms call for an annual increase in the monthly rental rate of two percent.

Honolulu, Hawaii:

The amended lease expires July 31, 2019. The monthly rent was \$13,665 for the period July 2014 through June 2015. The monthly rent increased effective July 1, 2015 to \$15,662.

Anchorage, Alaska:

The amended lease expires July 31, 2019. The monthly rent was \$7,210 and \$7,000 for the lease years beginning August 2014 and August 2013, respectively. The lease terms call for an annual increase in the rental rate on August 1st of each subsequent year equal to the change in the Consumer Price Index or three percent, whichever is greater.

Casper, Wyoming:

The amended lease expires on August 31, 2019. The monthly rent was \$1,067 and \$1,420 for the lease years beginning September 2014 and September 2013, respectively. The lease terms call for an annual increase in the monthly rental rate of three percent on September 1 of each subsequent year.

Tamuning, Guam:

The lease agreement was entered into effective August 1, 2016 and is renewable on an annual basis through July 2019. The monthly rent is \$1,006 in year one, and \$1,114 in years two and three.

The minimum rental commitments under the current operating leases for the next four years are as follows:

2017	\$ 575,720
2018	586,416
2019	595,238
2020	50,868
	<hr/>
	\$ 1,808,242

The aggregate rent expense under the operating leases was \$556,344 and \$548,441 for the years ended June 30, 2016 and 2015, respectively.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**6. Capital Lease and Note Payable**

Mountain-Pacific entered into a lease/finance agreement in March 2012 with De Lage Landen Financial Services. The agreement included the leasing of data processing hardware and software over a three-year period, with a \$1 buy-out provision at the end of the term. The fair value of the hardware and software at the lease inception was \$47,745 and \$11,547, respectively. The hardware depreciation and software amortization expenses were \$11,936 and \$2,887, respectively, in fiscal year 2015. The accumulated depreciation on the hardware and accumulated amortization on the software was \$47,745 and \$11,547, respectively, at June 30, 2015. The agreement also provided for the financing of related maintenance fees. The fair value of the maintenance fees at the inception of the agreement was \$44,752. The principal portion of the monthly payments represents a data processing expense. The imputed interest necessary to reduce the net minimum lease payments to present value is considered immaterial.

The capital lease was paid off during fiscal year 2015.

**7. Retirement Plan**

Mountain-Pacific provides a 401 (k) and profit sharing plan for its employees. The mandatory employer contribution is three (3) percent of employee earnings. For the years ended June 30, 2016 and 2015, Mountain-Pacific contributed nine (9) percent of employee earnings to the Plan. Retirement Plan contributions were \$734,610 and \$658,443 for the years ended June 30, 2016 and 2015, respectively. All permanent Mountain-Pacific employees are covered by the Plan, and temporary employees and interns after reaching age 21 and completing at least 1,000 hours of service during an eligibility computation period.

Employees are 100 percent vested upon enrollment into the Plan. Forfeitures occur if the Plan is unable to distribute funds after a participant has five consecutive one-year breaks in service. Forfeiture funds are retained by the Plan and may be used to pay administrative costs. The Plan's forfeiture balance at June 30, 2016 was \$1,502.

**8. Contingency – Federal Contracts**

Contracts with the Federal Government provide that both provisional and incurred indirect cost rates are subject to approval by the cognizant Federal agency. Incurred cost rates have been approved for the fiscal year ended June 30, 2005. Provisional indirect rates for fringe benefits and other indirect expenses have been approved for fiscal years 2016 and 2015. These rates will be subject to review and adjustment by Mountain-Pacific's federal audit agency. Management is of the opinion that the indirect cost rates used to allocate costs to specific contracts as reflected herein will be approved by the contracting federal agency without material adjustments.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2016 and 2015**

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**9. Pending Litigation and Claims**

Mountain-Pacific is involved in various legal actions and claims in the ordinary course of business. It is the opinion of management, based upon legal counsel, that the probability of any pending litigation or claims resulting in a material effect on Mountain-Pacific's financial position is remote.

**10. New QIN-QIO Contract and Task Orders**

Mountain-Pacific was awarded a single Indefinite Delivery/Indefinite Quantity umbrella contract by the Centers of Medicare & Medicaid Services (CMS) in July 2014. This contract qualified Mountain-Pacific to receive individual task orders from CMS to provide services supporting CMS's aims of better health care, better health, and lower healthcare costs for all Medicare beneficiaries. Mountain-Pacific was awarded four task orders under this contract in July 2014. Under the task orders, Mountain-Pacific will provide health care quality improvement services in Montana, Alaska, Hawaii, and Wyoming. The task orders are effective from July 2014 to July 2019 and were awarded for the following amounts – Montana \$6,969,084; Alaska \$7,208,920; Hawaii \$12,650,068; and Wyoming \$5,771,103. Mountain-Pacific has subsequently received three additional task orders under the umbrella contract through June 30, 2016.

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SUPPLEMENTAL INFORMATION

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule I - Combining Statement of Financial Position**  
**As of June 30, 2016**

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	<u>Montana Corp</u>	<u>Health Technology Services, Inc.</u>	<u>Eliminating Adjustments</u>	<u>Combined Balances</u>
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	\$ 2,661,752	\$ -	\$ -	\$ 2,661,752
Contract receivables	1,333,559	-	-	1,333,559
Prepaid expenses	247,008	-	-	247,008
Total Current Assets	<u>4,242,319</u>	<u>-</u>	<u>-</u>	<u>4,242,319</u>
Property and Equipment, at cost				
Furniture and equipment	1,940,353	-	-	1,940,353
Less: Accumulated depreciation	(1,729,631)	-	-	(1,729,631)
Net Property and Equipment	<u>210,722</u>	<u>-</u>	<u>-</u>	<u>210,722</u>
Other Assets				
Employee loans	1,539	-	-	1,539
Travel advances	259	-	-	259
Certificates of deposit, noncurrent	2,457,869	-	-	2,457,869
Deposits	25,751	-	-	25,751
Total Other Assets	<u>2,485,418</u>	<u>-</u>	<u>-</u>	<u>2,485,418</u>
Total Assets	<u>\$ 6,938,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,938,459</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule I - Combining Statement of Financial Position (continued)**  
**As of June 30, 2016**

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	<u>Montana Corp</u>	<u>Health Technology Services, Inc.</u>	<u>Eliminating Adjustments</u>	<u>Combined Balances</u>
<b>Liabilities and Net Assets</b>				
Current Liabilities				
Accounts payable	\$ 95,796	\$ -	\$ -	\$ 95,796
Accrued vacation payable	349,568	-	-	349,568
Accrued payroll and related taxes	490,945	-	-	490,945
Accrued retirement plan contribution	113,536	-	-	113,536
Total Current Liabilities	<u>1,049,845</u>	<u>-</u>	<u>-</u>	<u>1,049,845</u>
Net Assets				
Unrestricted				
Undesignated	4,568,397	-	-	4,568,397
Designated	1,200,000	-	-	1,200,000
Temporarily restricted	120,217	-	-	120,217
Total Net Assets	<u>5,888,614</u>	<u>-</u>	<u>-</u>	<u>5,888,614</u>
	<u>\$ 6,938,459</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,938,459</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule II - Combining Statement of Activities**  
**For the Year Ended June 30, 2016**

	Montana Corp	Health Technology Services, Inc	Eliminating Adjustments	Combined Balances
Changes in unrestricted net assets				
Support and Revenue				
Contract and grant income	\$ 13,022,757	\$ 44,033	\$ -	\$ 13,066,790
Intercompany revenue	42,384	-	(42,384)	-
Unrealized investment gains	4,927	-	-	4,927
Interest income	44,381	-	-	44,381
Net assets released from restrictions	1,258	-	-	1,258
Total unrestricted revenues	<u>13,115,707</u>	<u>44,033</u>	<u>(42,384)</u>	<u>13,117,356</u>
Expenses				
Programs	12,989,388	41,758	(42,384)	12,988,762
Management and general	231,137	626	-	231,763
Total Expenses	<u>13,220,525</u>	<u>42,384</u>	<u>(42,384)</u>	<u>13,220,525</u>
Change in unrestricted net assets	<u>(104,818)</u>	<u>1,649</u>	<u>-</u>	<u>(103,169)</u>
Changes in temporarily restricted net assets				
Support and Revenue				
Contract and grant income	121,475	-	-	121,475
Net assets released from restrictions	(1,258)	-	-	(1,258)
Change in temporarily restricted net assets	<u>120,217</u>	<u>-</u>	<u>-</u>	<u>120,217</u>
Net assets, beginning of year	<u>5,920,366</u>	<u>(48,800)</u>	<u>-</u>	<u>5,871,566</u>
Transfer of net assets	<u>(47,151)</u>	<u>47,151</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 5,888,614</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,888,614</u>

See Independent Auditors' Report.

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**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule III - Schedule of Expenses by Contract (continued)**  
**For the Year Ended June 30, 2016**

QIO SOW 11th Contracts - 2016

	Montana	Wyoming	Hawaii	Alaska	Immunization	Super Utilizer SIP	TCPI	Total QIO
Salaries, wages and fringe benefits	\$ 1,142,944	\$ 920,219	\$ 1,825,780	\$ 1,188,638	\$ 524,918	\$ 66,711	\$ 24,244	\$ 5,693,454
Travel	63,618	67,709	92,822	54,359	31,537	5,970	682	316,697
Supplies	16,572	21,451	27,203	17,111	3,823	348	229	86,737
Printing and publications	2,227	7,515	34,093	1,653	1,797	63	21	47,369
Consultant fees	31,162	15,778	80,742	17,474	2,573	3,066	110	150,905
Subcontractors	807	663	1,312	819	353	47	16	4,017
Dues and membership	18,939	14,031	21,750	16,065	2,781	377	125	74,068
Physician expenses	-	-	-	-	-	-	-	-
Postage	3,647	5,311	8,721	3,918	1,646	181	56	23,480
Data processing	14,988	11,595	18,720	11,720	4,952	671	223	62,869
Insurance	7,415	6,093	12,062	7,531	3,249	440	147	36,937
Equipment rental	1,585	1,302	2,682	1,609	694	94	31	7,997
Professional services	6,261	5,144	10,184	6,359	2,743	371	124	31,186
Telephone	17,520	19,931	29,454	23,210	4,342	614	169	95,240
Maintenance	7,229	7,078	12,690	7,433	2,937	398	133	37,898
Occupancy	65,623	54,823	109,059	67,938	28,712	3,888	1,295	331,338
Depreciation	14,086	11,573	22,913	14,305	6,171	836	278	70,162
Personal property taxes	183	150	297	232	80	11	4	957
Board of Directors fees	1,727	1,419	2,810	1,754	757	102	34	8,603
Meetings and conferences	14,846	5,448	18,409	11,303	4,060	917	431	55,414
Other expenses	4,540	2,583	4,077	4,879	1,002	95	33	17,209
	<u>\$ 1,435,919</u>	<u>\$ 1,179,816</u>	<u>\$ 2,335,780</u>	<u>\$ 1,458,310</u>	<u>\$ 629,127</u>	<u>\$ 85,200</u>	<u>\$ 28,385</u>	<u>\$ 7,152,537</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule III - Schedule of Expenses by Contract (continued)**  
**For the Year Ended June 30, 2016**

	ONC - 2016				Medicaid Contracts - 2016					
	Montana/ Wyoming HTS	Total ONC Program	Drug Prior Authorization	Utilization Review	DD	DUR	Transportation	SDMI	Home & Community Based Services	Total Medicaid
Salaries, wages and fringe benefits	\$ 609,177	\$ 609,177	\$ 753,891	\$ 365,488	\$ 23,160	\$ 810,229	\$ 684,919	\$ 31,604	\$ 1,166,732	\$ 3,836,023
Travel	34,595	34,595	9,792	4,752	2,494	11,501	9,206	407	42,768	80,920
Supplies	3,675	3,675	4,017	1,836	175	4,808	6,091	156	7,334	24,417
Printing and publications	659	659	641	311	21	4,515	602	27	1,104	7,221
Consultant fees	9,997	9,997	3,509	1,707	119	18,397	3,333	153	96,899	124,117
Subcontractors	433	433	489	997	16	568	459	20	842	3,391
Dues and membership	25,862	25,862	4,830	1,866	128	64,182	3,705	160	6,624	81,495
Physician expenses	-	-	-	375	-	-	2,025	-	-	2,400
Postage	1,524	1,524	1,721	2,044	80	3,005	5,830	72	3,119	15,871
Data processing	6,912	6,912	9,542	4,722	360	11,871	9,709	560	17,781	54,545
Insurance	3,977	3,977	4,492	2,180	149	5,223	4,222	187	7,739	24,192
Equipment rental	850	850	960	466	32	1,116	902	40	1,654	5,170
Professional services	3,358	3,358	3,793	1,841	126	4,410	3,566	158	6,535	20,429
Telephone	16,261	16,261	16,567	6,519	210	6,083	30,963	290	43,694	104,326
Maintenance	4,748	4,748	4,061	1,971	135	4,722	3,818	169	6,997	21,873
Occupancy	35,148	35,148	39,701	19,266	1,320	46,159	37,326	1,650	68,400	213,822
Depreciation	7,555	7,555	8,533	4,141	284	9,922	8,023	355	14,702	45,960
Personal property taxes	98	98	111	54	4	129	104	3	191	596
Board of Directors fees	926	926	1,048	508	35	1,217	984	43	1,803	5,638
Meetings and conferences	3,415	3,415	1,248	606	42	2,233	1,174	52	2,151	7,506
Other expenses	967	967	970	489	33	1,128	912	40	1,671	5,243
	<u>\$ 770,137</u>	<u>\$ 770,137</u>	<u>\$ 869,916</u>	<u>\$ 422,139</u>	<u>\$ 28,923</u>	<u>\$ 1,011,418</u>	<u>\$ 817,873</u>	<u>\$ 36,146</u>	<u>\$ 1,498,740</u>	<u>\$ 4,685,155</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule III - Schedule of Expenses by Contract (continued)**  
**For the Year Ended June 30, 2016**

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	<u>Other Contracts</u>	<u>HTS</u>	<u>Total</u>
Salaries, wages and fringe benefits	\$ 213,112	\$ 27,154	\$ 10,378,920
Travel	4,830	2,231	439,273
Supplies	1,260	170	116,259
Printing and publications	235	32	55,516
Consultant fees	68,439	167	353,625
Subcontractors	179	24	8,044
Dues and membership	1,408	257	183,090
Physician expenses	-	-	2,400
Postage	636	287	41,798
Data processing	2,507	339	127,172
Insurance	1,645	8,676	75,427
Equipment rental	352	47	14,416
Professional services	1,389	260	56,622
Telephone	2,152	633	218,612
Maintenance	1,487	201	66,207
Occupancy	14,537	1,964	596,809
Depreciation	3,125	422	127,224
Personal property taxes	41	5	1,697
Board of Directors fees	383	52	15,602
Meetings and conferences	457	62	66,854
Other expenses	20,353	49	43,821
	<u>\$ 338,527</u>	<u>\$ 43,032</u>	<u>\$ 12,989,388</u>

See Independent Auditors' Report.



**SINGLE AUDIT SECTION**

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

	<u>CFDA #</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:			
Centers for Medicare and Medicaid Services:			
* Montana Task Order HHSM-500-TMT01	93.779	HHSM-500-2014-QIN009I	\$ 1,436,639
* Wyoming Task Order HHSM-500-TWY01	93.779	HHSM-500-2014-QIN009I	1,180,411
* Hawaii Task Order HHSM-500-THI01	93.779	HHSM-500-2014-QIN009I	2,336,958
* Alaska Task Order HHSM-500-TAK01	93.779	HHSM-500-2014-QIN009I	1,459,045
* Immunization Task Order HHSM-500-T0002	93.779	HHSM-500-2014-QIN009I	629,444
* Special Innovation Project Task Order HHSM-500-T0003	93.779	HHSM-500-2014-QIN009I	85,245
* Transforming Clinical Practice Initiative HHSM-500-T0004	93.779	HHSM-500-2014-QIN009I	28,399
			<hr/>
Total Centers for Medicare and Medicaid Services			7,156,141
Office of the National Coordinator for Health Information Technology:			
ARRA - Health Information Technology Extension Program - MT/WY	93.718	90RC0063/01	85,766
			<hr/>
Total Office of the National Coordinator for Health Information Technology			85,766
			<hr/>
Total U.S. Department of Health and Human Services			\$ 7,241,907
			<hr/>

\* Denotes major program

See Independent Auditors' Report  
The accompanying notes are an integral part of this schedule.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

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**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant and contract activity of Mountain-Pacific and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Of the grants listed in the accompanying Schedule of Expenditures of Federal Awards, the following was awarded or funded before December 26, 2014 and is subject to pre-Uniform Guidance cost principles:

93.718 ARRA – Health Information Technology Extension Program -Montana/Wyoming

The following grants were awarded before December 26, 2014 and included a modification to their funding in fiscal year 2016; therefore, the grants were subject to pre-Uniform Guidance cost principles until May 2016 and Uniform Guidance cost principles thereafter.

93.779 Montana Task Order HHSM-5000-TMT01  
93.779 Wyoming Task Order HHSM-5000-TWY01  
93.779 Hawaii Task Order HHSM-5000-THI01  
93.779 Alaska Task Order HHSM-5000-TAK01

The remaining grants listed below were awarded or funded after December 26, 2014 and are subject to Uniform Guidance cost principles:

93.779 Immunization Task Order HHSM-500-T0002  
93.779 Special Innovation Project 2 Task Order HHSM-500-T0003  
93.779 Transforming Clinical Practice Initiative HHSM-500-T0004

**2. Health Information Technology Extension Program**

The cooperative agreement with the Office of the National Coordinator for Health Information Technology requires a 10 percent non-Federal match. The agreement also stipulates that Federal funding of activities supporting the implementation of electronic medical record keeping systems by Critical Access Hospitals and Priority Primary Care Physicians is based upon the achievement of defined goals and capped by the amount of actual expenditures incurred. The amounts reported on the Schedule of Expenditures of Federal Awards represent only the Federal share of funds expended.

Activities and spending under this grant terminated effective March 31, 2016.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to Schedule of Expenditures of Federal Awards (continued)**  
**For the Year Ended June 30, 2016**

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**3. Indirect Cost Rate**

A provisional indirect cost rate was approved for fiscal year 2016 by Health and Human Services, which is Mountain-Pacific's cognizant Federal agency. The provisional rate was used to determine the amount of indirect costs applicable to each source of funding on an interim basis. Mountain-Pacific adjusts the amount of indirect costs assessed to its CMS contracts at the end of each fiscal year to reflect the actual calculated rate. Final rates are subject to Federal audit. Provisional and calculated actual indirect cost rates for fiscal year 2016 were 40.38 and 43.43 percent, respectively.



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 of  
Mountain-Pacific Quality Health

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 Mountain-Pacific Quality Health Foundation (a nonprofit organization) ("Mountain-Pacific"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 2, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mountain-Pacific'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 Mountain-Pacific's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mountain-Pacific's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Ridd & Company, PLLC*

Bozeman, Montana  
February 2, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of  
Mountain-Pacific Quality Health

**Report on Compliance for Each Major Federal Program**

We have audited Mountain-Pacific Quality Health Foundation ("Mountain-Pacific") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mountain-Pacific's major federal programs for the year ended June 30, 2016. Mountain-Pacific's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mountain-Pacific's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain-Pacific's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mountain-Pacific's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Mountain-Pacific complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of Mountain-Pacific is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mountain-Pacific's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain-Pacific's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance, this report is not suitable for any other purpose.

Ridd & Company, PLLC

Bozeman, Montana  
February 2, 2017



**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule of Findings and Questioned Costs and Summary of Prior Year Audit Findings**  
**For the Year Ended June 30, 2016**

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**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
 Material weakness identified? No  
 Significant deficiency identified that was not deemed a material Weakness None reported

Noncompliance material to financial statements noted? No

**Federal Awards**

Type of auditor's report on compliance for major programs: Unmodified

Internal control over major programs:  
 Material weakness identified? No  
 Reportable conditions identified that are not considered material weakness? None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516.(a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>	
93.779	US Department of Health and Human Services	Quality Improvement Organizations

The dollar threshold used to distinguish between type A and type B was \$750,000.

Mountain-Pacific Quality Health qualified as a low-risk auditee.

Current Year Findings: None reported

Prior Year Audit Findings: None reported