



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

**June 30, 2017 and 2016**

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
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**June 30, 2017 and 2016**

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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, 2017 and 2016, 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 audits 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, 2017 and 2016, 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 schedule of expenses by contract presented on page 22 to 24 and schedule of expenditures of federal awards presented on page 25, as required by Title 2 U.S. Code of Federal Regulation 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 1, 2018 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 1, 2018

COMBINED FINANCIAL STATEMENTS

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Financial Position**  
**As of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 2,226,072	\$ 2,661,752
Contract receivables	2,184,941	1,333,559
Prepaid expenses	350,097	247,008
Total Current Assets	<u>4,761,110</u>	<u>4,242,319</u>
Property and Equipment		
Furniture and equipment	1,931,559	1,940,353
Less: Accumulated depreciation	<u>(1,810,137)</u>	<u>(1,729,631)</u>
Net Property and Equipment	<u>121,422</u>	<u>210,722</u>
Other Assets		
Employee loans	1,239	1,539
Travel advances	5,999	259
Certificates of deposit, noncurrent	-	2,457,869
Investments, noncurrent	2,564,321	-
Deposits	28,262	25,751
Total Other Assets	<u>2,599,821</u>	<u>2,485,418</u>
Total Assets	<u>\$ 7,482,353</u>	<u>\$ 6,938,459</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, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities		
Accounts payable	\$ 243,921	\$ 95,796
Accrued vacation payable	421,537	349,568
Accrued payroll and related taxes	533,464	490,945
Accrued retirement plan contribution	126,053	113,536
Total Current Liabilities	<u>1,324,975</u>	<u>1,049,845</u>
Net Assets		
Unrestricted		
Undesignated	4,936,364	4,568,397
Designated	1,200,000	1,200,000
Temporarily restricted	21,014	120,217
Total Net Assets	<u>6,157,378</u>	<u>5,888,614</u>
Total Liabilities and Net Assets	<u>\$ 7,482,353</u>	<u>\$ 6,938,459</u>

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

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**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Activities**  
**For the Year Ended June 30, 2017**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and Revenue			
Contract and grant income	\$ 15,039,238	\$ -	\$ 15,039,238
Unrealized gains on investments	66,485	-	66,485
Realized losses on investments	(12,233)	-	(12,233)
Income on long-term investments	7,008	-	7,008
Other investment income	22,470	-	22,470
Net assets released from restrictions	99,203	(99,203)	-
 Total support and revenue	 15,222,171	 (99,203)	 15,122,968
Expenses			
Programs	14,708,960	-	14,708,960
Management and general	145,244	-	145,244
 Total Expenses	 14,854,204	 -	 14,854,204
 Change in net assets	 367,967	 (99,203)	 268,764
Net assets, beginning of year	5,768,397	120,217	5,888,614
Net assets, end of year	\$ 6,136,364	\$ 21,014	\$ 6,157,378

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

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Combined Statements of Activities**  
**For the Year Ended June 30, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and Revenue			
Contract and grant income	\$ 13,066,790	\$ 121,475	\$ 13,188,265
Unrealized gains on investments	4,927	-	4,927
Other investment income	44,381	-	44,381
Net assets released from restrictions	1,258	(1,258)	-
Total support and revenue	<u>13,117,356</u>	<u>120,217</u>	<u>13,237,573</u>
Expenses			
Programs	12,989,388	-	12,989,388
Management and general	231,137	-	231,137
Total Expenses	<u>13,220,525</u>	<u>-</u>	<u>13,220,525</u>
Change in net assets	<u>(103,169)</u>	<u>120,217</u>	<u>17,048</u>
Net assets, beginning of year	<u>5,871,566</u>	<u>-</u>	<u>5,871,566</u>
Net assets, end of year	<u>\$ 5,768,397</u>	<u>\$ 120,217</u>	<u>\$ 5,888,614</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, 2017**

	QIO Program	MT Medicaid Contracts	Health Technology Services Contracts	Major Subcontracts	Other Contracts	Total Program	Management & General	2017 Total
Salaries, wages and fringe benefits	\$ 6,163,140	\$ 4,297,469	\$ 486,984	\$ 359,708	\$ 167,091	\$ 11,474,392	\$ 82,154	\$ 11,556,546
Travel	290,197	76,735	32,809	21,540	6,762	428,043	25,926	453,969
Supplies	106,730	37,036	4,606	3,505	2,472	154,349	10,566	164,915
Printing and publications	37,829	9,261	733	568	261	48,652	143	48,795
Consultant fees	155,361	112,914	3,465	137,584	7,961	417,285	802	418,087
Subcontractors	295,669	12,000	1,369	1,258	46,848	357,144	317	357,461
Dues and membership	105,152	83,929	43,549	2,859	1,312	236,801	3,606	240,407
Physician expenses	-	767	-	-	125	892	-	892
Postage	38,252	19,371	1,570	1,447	662	61,302	1,008	62,310
Data processing	89,096	56,722	5,456	4,623	2,121	158,018	1,164	159,182
Insurance	38,530	24,920	2,961	2,721	1,249	70,381	93	70,474
Equipment rental	9,595	5,833	693	637	292	17,050	160	17,210
Legal and audit	23,965	15,501	1,841	1,693	777	43,777	426	44,203
Telephone	102,444	136,126	13,555	2,551	1,637	256,313	386	256,699
Maintenance	38,154	26,198	1,823	2,053	878	69,106	413	69,519
Occupancy	408,375	204,934	6,726	17,323	4,371	641,729	1,429	643,158
Depreciation	58,161	44,819	3,860	3,689	1,746	112,275	882	113,157
Personal property taxes	810	490	58	54	25	1,437	13	1,450
Board of Director fees	2,754	1,781	212	195	89	5,031	49	5,080
Board of Director travel	3,731	2,414	287	264	121	6,817	66	6,883
Meetings and conferences	55,901	6,666	3,640	1,536	5,211	72,954	6,249	79,203
Other expenses	28,510	32,416	2,566	2,808	8,912	75,212	9,392	84,604
	<u>\$ 8,052,356</u>	<u>\$ 5,208,302</u>	<u>\$ 618,763</u>	<u>\$ 568,616</u>	<u>\$ 260,923</u>	<u>\$ 14,708,960</u>	<u>\$ 145,244</u>	<u>\$ 14,854,204</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, 2016**

	QIO Program	Health Technology Services Contract	Medicaid Contracts	Other Contracts	HTS, LLC	Total Program	Management & General	2016 Total
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 Statements of Cash Flows**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 268,764	\$ 17,048
Adjustments to reconcile change in net assets to net cash from operations:		
Depreciation	113,157	129,491
Amortization included in data processing	1,610	1,610
Unrealized investment (gains)	(66,485)	(4,927)
Realized losses on certificates of deposits	12,233	-
(Increase) decrease in operating assets:		
Contracts receivable	(851,382)	135,306
Prepaid expenses	(103,089)	(46,038)
Employee loans	300	934
Travel advances	(5,740)	3,263
Deposit	(2,511)	(2,285)
Increase (decrease) in operating liabilities:		
Accounts payable	148,125	(43,862)
Accrued vacation expense	71,969	(25,393)
Accrued payroll and related taxes	42,519	195,728
Accrued retirement plan contribution	12,517	14,498
Net cash provided (used) by operating activities	<u>(358,013)</u>	<u>375,373</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of certificate of deposits	2,937,741	1,245,000
Purchases of certificate of deposits	(500,000)	-
Purchases of investments	(2,489,941)	(1,446,982)
Acquisition of property and equipment	(25,467)	(54,575)
Net cash used by investing activities	<u>(77,667)</u>	<u>(256,557)</u>
Net increase in cash and cash equivalents	(435,680)	118,816
Cash and cash equivalents at beginning of year	<u>2,661,752</u>	<u>2,542,936</u>
Cash and cash equivalents at end of year	<u>\$ 2,226,072</u>	<u>\$ 2,661,752</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, 2017 and 2016**

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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. The Foundation became the Professional Standards Review Organization (PSRO) for Montana in May 1975 under 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, 2017 and 2016**

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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.

Health Technology Services, LLC (HTS, LLC) was incorporated on February 21, 2013. Mountain-Pacific was the sole member of the limited liability corporation. An independent group of managers governed HTS, LLC. 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**

Mountain-Pacific Quality Health Foundation's chief executive officer served in the same capacity for HTS, LLC. Because of this common control through management, the net assets transferred during the fiscal year ending June 30, 2016 from HTS, LLC were recorded at book value by Mountain-Pacific in accordance with ASC 805-50-45.

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. In fiscal year 2017, there were no financial transactions in the Alaska, Hawaii, and Wyoming corporations; however, they remain open for future potential operations.

**Affiliated Party Transactions**

Mountain-Pacific provided support to HTS, LLC through an administrative services agreement. Service charges to HTS, LLC from Mountain-Pacific in fiscal year 2016 totaled \$42,384, and none in 2017. The revenue and expense 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.



**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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

**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. Mountain-Pacific is reporting temporarily restricted net assets totaling \$21,014 and \$120,217 at June 30, 2017 and 2016, respectively. 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 a cumulative total of \$100,461 and \$1,258 for eligible purposes through June 2017 and 2016, respectively. Net assets totaling \$6,136,364 and \$5,768,397 at June 30, 2017 and 2016, respectively, 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, 2017 and 2016, 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>2017</u>	<u>2016</u>
Cash in checking and savings accounts	\$ 27,100	\$ 124,384
Cash in money market accounts	300,427	326,055
Repurchase agreements	1,898,545	2,211,313
	<u>\$ 2,226,072</u>	<u>\$ 2,661,752</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 bank balance of \$2,098,138 and \$2,211,313 at June 30, 2017 and June 30, 2016, respectively.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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

**Investments**

Investments include debt and equity mutual funds, money market funds not considered available to fund current operating expenses, and certificates of deposit that Mountain-Pacific maintains with third-party investment managers. Investments consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Money market accounts	\$ 23,930	\$ -
Certificates of deposit	-	2,457,869
Debt and equity mutual funds	<u>2,540,391</u>	<u>-</u>
	<u>\$ 2,564,321</u>	<u>\$ 2,457,869</u>

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.

Investments in debt and equity mutual funds are reported in the statement of financial position at fair value based on quoted market prices. Unrealized gains and losses are included in the change in net assets.

**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 80 and 90 percent of receivables as of June 30, 2017 and 2016, respectively.

**Property and Equipment**

Mountain-Pacific uses equipment acquired under the QIO contracts at a cost of \$349,837 and \$345,068 as reported to CMS at June 30, 2017 and 2016, respectively. Title to this equipment is maintained by the United States Department of Health and Human Services, which must approve of dispositions. Effective July 1, 2016, all other furniture and equipment with an initial cost of \$5,000 or more was recorded at cost. Prior to this date, furniture and equipment with an initial cost of \$1,000 or more was 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 QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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

**Property and Equipment (continued)**

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.

**Prepaid Expenses**

Mountain-Pacific records expenses when incurred. Prepayments of expenses providing a benefit or with an effective period of one-year or more and costing \$1,000 or more 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, 2017 and 2016 prepaid expenses were \$350,097 and \$247,008, 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 \$421,537 and \$349,568 at June 30, 2017 and 2016, respectively.

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**

Mountain-Pacific is a non-profit organization 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 2014.

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

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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

**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. During the fiscal year ended June 30, 2017, general and administrative, and fringe benefit expenses were recorded in cost pools and recovered through rates approved by the cognizant Federal agency. The 2017 fringe benefit pool includes leave expenses and is applied to total productive labor. Leave expenses were recorded in a third pool during the fiscal year ended June 30, 2016. The general and administrative 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 was applied to total labor costs.

Approved provisional rates for the fiscal years ending June 30, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Indirect Costs	34.12%	40.38%
Fringe Benefits	48.45%	30.51%
Leave	-	18.20%

**Income on Long-Term Investments**

Income on long-term investments includes dividends, distributed capital gains and losses, less investment management fees. Investment management fees totaled \$716 during the fiscal year ending June 30, 2017, and none in 2016.

**Subsequent Events**

Management has evaluated subsequent events through February 1, 2018, the date which the financial statements were available for issue.

**2. Fair Value Measurements**

Investments are reported at fair value, which is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value measurement hierarchy based on three levels of inputs, of which the first two are considered observable, and the last unobservable. Following are descriptions of the fair value measurement levels.

Level 1 – Quoted market prices in active markets for identical assets or liabilities.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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**2. Fair Value Measurements (continued)**

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Mountain-Pacific determines at the end of the reporting year the level that applies to an investment. Following is a description of the valuation methodologies used for assets measured at fair value.

Certificates of deposit: Valued at fair value by discounting the related cash flows based on current yields of similar instruments considering the creditworthiness of the issuer.

Mutual funds: Valued at the net asset value (NAV). The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares held at year end. The NAV is quoted in an active market.

The preceding methods described may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, although Mountain-Pacific management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurement at the reporting date.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

**2. Fair Value Measurements (continued)**

The following tables represent, by level, Mountain-Pacific's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2017 and 2016.

	<b>2017</b>			
	<u>Fair Value Level 1 Inputs</u>	<u>Fair Value Level 2 Inputs</u>	<u>Fair Value Level 3 Inputs</u>	<u>Fair Value</u>
Mutual funds				
Marketable equity securities				
Emerging market	\$ 137,271	\$ -	\$ -	\$ 137,271
Small blend	27,049	-	-	27,049
Small value	22,946	-	-	22,946
Mid-cap	125,191	-	-	125,191
Large value	206,893	-	-	206,893
Large growth	553,254	-	-	553,254
Large blend	170,628	-	-	170,628
Foreign large	374,466	-	-	374,466
Real estate	50,389	-	-	50,389
Energy	28,199	-	-	28,199
Fixed income bonds				
High Yield	65,188	-	-	65,188
Intermediate term	620,706	-	-	620,706
Short-term	57,014	-	-	57,014
Ultra short-term	47,056	-	-	47,056
Inflation-protected	30,747	-	-	30,747
Floating rate	23,394	-	-	23,394
Total	<u>\$ 2,540,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,540,391</u>

	<b>2016</b>			
	<u>Fair Value Level 1 Inputs</u>	<u>Fair Value Level 2 Inputs</u>	<u>Fair Value Level 3 Inputs</u>	<u>Fair Value</u>
Certificates of deposit	\$ -	\$ 2,457,869	\$ -	\$ 2,457,869
Total	<u>\$ -</u>	<u>\$ 2,457,869</u>	<u>\$ -</u>	<u>\$ 2,457,869</u>

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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**3. Contract Receivables**

At June 30, 2017 and 2016, contract receivables consisted of the following:

	<u>2017</u>	<u>2016</u>
United States Department of Health and Human Services	\$ 1,752,031	\$ 1,252,567
Montana Department of Public Health and Human Services	77,278	52,899
Federally Funded Subcontractors with Other Organizations	129,424	-
Other	226,208	28,093
	<u>\$ 2,184,941</u>	<u>\$ 1,333,559</u>

**4. Property and Equipment**

Property and Equipment at June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 535,386	\$ 563,063
Computer hardware/software	712,933	711,096
Leasehold improvements	225,749	208,703
Capitalized software	457,491	457,491
	<u>1,931,559</u>	<u>1,940,353</u>
Less: accumulated depreciation	<u>(1,810,137)</u>	<u>(1,729,631)</u>
	<u>\$ 121,422</u>	<u>\$ 210,722</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$113,157 and \$129,491, respectively. Software amortization totaling \$457,491 is included in the accumulated depreciation balance and \$1,610 is included in the data processing expense for the years ended June 30, 2017 and 2016, respectively.

**5. Concentrations**

Approximately 54 percent, 35 percent, and 11 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, 2017. 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.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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**6. 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 \$22,286 and \$22,234 for the lease years beginning August 2016 and August 2015, 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 \$15,662 for the period August 2015 through June 2017.

Anchorage, Alaska:

The amended lease expires July 31, 2019. The monthly rent was \$7,649 and \$7,426 for the lease years beginning August 2016 and August 2015, 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 Wyoming office relocated to a new property in March 2017. The new lease expires on August 31, 2019. The monthly rent under the previous agreement was \$1,132 and \$1,099 for the lease years beginning September 2016 and September 2015, respectively. The monthly rent from March 2017 through June 2017 was \$4,100 under the new agreement. The lease terms call for an annual increase in the monthly rental rate of three percent or 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 three years are as follows:

2018	\$ 616,318
2019	630,531
2020	<u>57,172</u>
	<u>\$ 1,304,021</u>

The aggregate rent expense under the operating leases was \$587,487 and \$556,344 for the years ended June 30, 2017 and 2016, respectively.



**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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**7. Retirement Plan**

Mountain-Pacific provides a 401(k) and profit sharing plan for its employees. Mountain-Pacific paid plan expenses totaling \$13,040 and \$14,432 for the fiscal years ended June 30, 2017 and 2016, respectively. The mandatory employer contribution is three (3) percent of employee earnings. For the years ended June 30, 2017 and 2016, Mountain-Pacific contributed nine (9) percent of employee earnings to the Plan. Retirement Plan contributions were \$797,776 and \$720,178 for the years ended June 30, 2017 and 2016, 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 held a forfeiture balance at June 30, 2017 of less than one dollar.

**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 through the fiscal year ended June 30, 2005, and for the fiscal years ended June 30, 2011 and 2012. Mountain-Pacific has received incurred cost audits for the fiscal years ended June 30, 2006, 2007, 2008, 2009, 2010, 2013, 2014, and 2015. The audit results are pending acceptance by the Centers of Medicare & Medicaid Services (CMS). No material adjustments to the incurred cost rates determined by Mountain-Pacific are anticipated.

Provisional indirect rates for fringe benefits and other indirect expenses have been approved for fiscal years ended June 30, 2017 and 2016. 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.

**9. Pending Litigations 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.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Notes to the Combined Financial Statements**  
**June 30, 2017 and 2016**

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**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 four additional task orders under the umbrella contract through June 30, 2017.

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SUPPLEMENTAL INFORMATION

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule I – Schedule of Expenses by Contract**  
**For the Year Ended June 30, 2017**

QIO Program

	Montana	Wyoming	Hawaii	Alaska	Immunization	Super Utilizer SIP	TCPI	2016 SIP	HealthInsight AIHQI	Total QIO
Salaries, wages and fringe benefits	\$ 1,155,195	\$ 829,690	\$ 2,056,873	\$ 1,139,873	\$ 483,542	\$ 158,175	\$ 73,869	\$ 88,498	\$ 177,425	\$ 6,163,140
Travel	48,139	48,267	100,996	41,570	17,454	8,067	3,375	2,283	20,046	290,197
Supplies	13,041	13,490	50,192	17,762	5,469	2,687	1,212	1,327	1,550	106,730
Printing and publications	7,420	4,158	18,149	4,207	2,743	429	305	205	213	37,829
Consultant fees	19,493	13,412	74,107	25,156	3,507	16,869	472	1,152	1,193	155,361
Subcontractors	3,068	2,238	5,930	3,128	1,385	184,421	186	94,842	471	295,669
Dues and subscriptions	13,725	8,175	16,883	12,650	48,786	2,157	423	1,034	1,319	105,152
Physician expenses	-	-	-	-	-	-	-	-	-	-
Postage	5,920	4,270	15,444	5,210	5,013	1,089	218	547	541	38,252
Data processing	12,420	8,460	25,470	12,078	5,091	21,489	685	1,672	1,731	89,096
Insurance	6,637	4,842	12,829	6,767	2,996	2,053	403	984	1,019	38,530
Equipment rental	1,553	1,133	3,580	1,584	701	481	94	230	239	9,595
Legal and audit	4,128	3,011	7,979	4,209	1,864	1,277	251	612	634	23,965
Telephone	21,914	15,646	30,704	18,782	6,811	5,652	501	1,312	1,122	102,444
Maintenance	5,962	5,221	13,171	7,625	3,135	1,320	244	851	625	38,154
Occupancy	41,089	33,203	202,634	89,367	25,565	5,495	857	7,794	2,371	408,375
Depreciation	10,630	7,432	19,598	9,937	4,602	2,746	520	1,374	1,322	58,161
Personal property taxes	131	105	252	176	59	40	8	19	20	810
Board of Directors fees	474	346	917	484	214	147	29	70	73	2,754
Board of Directors travel	643	469	1,242	655	290	199	39	95	99	3,731
Meetings and conferences	10,127	4,464	16,565	5,833	4,899	13,157	279	195	382	55,901
Other expenses	5,323	3,824	7,560	7,174	2,071	1,178	231	565	584	28,510
	<u>\$ 1,387,032</u>	<u>\$ 1,011,856</u>	<u>\$ 2,681,075</u>	<u>\$ 1,414,227</u>	<u>\$ 626,197</u>	<u>\$ 429,128</u>	<u>\$ 84,201</u>	<u>\$ 205,661</u>	<u>\$ 212,979</u>	<u>\$ 8,052,356</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule I – Schedule of Expenses by Contract**  
**For the Year Ended June 30, 2017**

Medicaid Contracts - 2017

	Drug Prior Authorization	Utilization Review	DD	DUR	Transportation	SDMI	Home & Community Based Services	Total Medicaid	Health Technology Services Contracts
Salaries, wages and fringe benefits	\$ 874,514	\$ 408,137	\$ 15,950	\$ 974,811	\$ 710,774	\$ 40,273	\$ 1,273,010	\$ 4,297,469	\$ 486,984
Travel	8,805	4,229	2,045	13,615	7,958	413	39,670	76,735	32,809
Supplies	6,282	2,719	391	7,281	8,994	269	11,100	37,036	4,606
Printing and publications	996	478	20	5,232	900	47	1,588	9,261	733
Consultant fees	5,586	2,683	112	19,043	5,049	262	80,179	112,914	3,465
Subcontractors	2,206	1,540	44	2,595	1,994	104	3,517	12,000	1,369
Dues and subscriptions	6,644	2,408	101	62,014	4,532	235	7,995	83,929	43,549
Physician expenses	-	-	-	-	767	-	-	767	-
Postage	2,531	2,136	62	3,574	6,834	119	4,115	19,371	1,570
Data processing	10,301	5,034	271	12,721	9,992	605	17,798	56,722	5,456
Insurance	4,772	2,292	96	5,614	4,313	224	7,609	24,920	2,961
Equipment rental	1,117	537	22	1,314	1,010	52	1,781	5,833	693
Professional services	2,968	1,426	60	3,492	2,683	139	4,733	15,501	1,841
Telephone	19,566	11,353	206	7,499	44,763	611	52,128	136,126	13,555
Maintenance	4,615	2,590	71	4,983	6,085	283	7,571	26,198	1,823
Occupancy	33,730	21,375	382	33,416	56,688	2,489	56,854	204,934	6,726
Depreciation	8,125	4,333	139	9,037	9,516	457	13,212	44,819	3,860
Personal property taxes	94	45	2	110	85	4	150	490	58
Board of Directors fees	341	164	7	401	308	16	544	1,781	212
Board of Directors travel	462	222	9	544	418	22	737	2,414	287
Meetings and conferences	946	454	19	2,777	855	44	1,571	6,666	3,640
Other expenses	2,742	4,918	58	3,228	16,965	129	4,376	32,416	2,566
	<u>\$ 997,343</u>	<u>\$ 479,073</u>	<u>\$ 20,067</u>	<u>\$ 1,173,301</u>	<u>\$ 901,483</u>	<u>\$ 46,797</u>	<u>\$ 1,590,238</u>	<u>\$ 5,208,302</u>	<u>\$ 618,763</u>

See Independent Auditors' Report.

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule I – Schedule of Expenses by Contract**  
**For the Year Ended June 30, 2017**

	Major Subcontracts					
	Lewin CPC+	MT DPHHS		Total Major Subcontracts	Other Contracts	Total Contracts
		Infection Control	Other Subcontracts			
Salaries, wages and fringe benefits	\$ 141,160	\$ 35,335	\$ 183,213	\$ 359,708	\$ 167,091	\$ 11,474,392
Travel	4,401	1,631	15,508	21,540	6,762	428,043
Supplies	1,082	1,048	1,375	3,505	2,472	154,349
Printing and publications	166	184	218	568	261	48,652
Consultant fees	929	135,434	1,221	137,584	7,961	417,285
Subcontractors	367	409	482	1,258	46,848	357,144
Dues and subscriptions	834	929	1,096	2,859	1,312	236,801
Physician expenses	-	-	-	-	125	892
Postage	421	469	557	1,447	662	61,302
Data processing	1,348	1,502	1,773	4,623	2,121	158,018
Insurance	794	884	1,043	2,721	1,249	70,381
Equipment rental	186	207	244	637	292	17,050
Professional services	494	550	649	1,693	777	43,777
Telephone	1,126	497	928	2,551	1,637	256,313
Maintenance	681	534	838	2,053	878	69,106
Occupancy	9,118	1,867	6,338	17,323	4,371	641,729
Depreciation	1,126	1,141	1,422	3,689	1,746	112,275
Personal property taxes	16	17	21	54	25	1,437
Board of Directors fees	57	63	75	195	89	5,031
Board of Directors travel	77	86	101	264	121	6,817
Meetings and conferences	1,029	175	332	1,536	5,211	72,954
Other expenses	453	1,750	605	2,808	8,912	75,212
	<u>\$ 165,865</u>	<u>\$ 184,712</u>	<u>\$ 218,039</u>	<u>\$ 568,616</u>	<u>\$ 260,923</u>	<u>\$ 14,708,960</u>

See Independent Auditors' Report.

**SINGLE AUDIT SECTION**



**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

	CFDA #	Contract Number	Expenditures
U.S. Department of Health and Human Services:			
Centers for Medicare and Medicaid Services:			
<i>Direct</i>			
* Montana Task Order HHSM-500-TMT01	93.779	HHSM-500-2014-QIN009I	\$ 1,387,032
* Wyoming Task Order HHSM-500-TWY01	93.779	HHSM-500-2014-QIN009I	1,011,856
* Hawaii Task Order HHSM-500-THI01	93.779	HHSM-500-2014-QIN009I	2,681,075
* Alaska Task Order HHSM-500-TAK01	93.779	HHSM-500-2014-QIN009I	1,414,227
* Immunization Task Order HHSM-500-T0002	93.779	HHSM-500-2014-QIN009I	626,197
* Special Innovation Project Task Order HHSM-500-T0003	93.779	HHSM-500-2014-QIN009I	429,128
* Special Innovation Projects 1 and 2 HHSM-500-T0005	93.779	HHSM-500-2014-QIN009I	205,661
* Transforming Clinical Practice Initiative HHSM-500-T0004	93.779	HHSM-500-2014-QIN009I	84,201
Total for Direct Centers for Medicare and Medicaid Services			<u>7,839,377</u>
<i>Pass through by Health Research and Education Trust</i>			
* Hospital Improvement Innovation Network	93.779	HHSM-500-2016-00067C	28,077
<i>Pass through by Lewin Group</i>			
* CPC Plus HHSM-500-T0008	93.779	HHSM-500-2014-00033I	165,865
<i>Pass through by Montana Health Research and Education Foundation</i>			
* Hospital Engagement Network II	93.779	HHSM-500-2015-00297C	24,971
<i>Pass through by HealthInsight</i>			
* American Indian/Alaskan Native Healthcare Quality Initiative	93.779	HHSM-500-2014-QIN007I	212,979
Total for Pass Through for Centers for Medicare and Medicaid Services			<u>431,892</u>
Total Centers for Medicare and Medicaid Services			8,271,269
Health Resources and Services Administration			
<i>Pass through by the University of Hawaii</i>			
Geriatrics Workforce Enhancement Program	93.969	U1QHP28729-02-00	3,802
Total U.S. Department of Health and Human Services			<u>\$ 8,275,071</u>

\* 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, 2017**

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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.

All contracts listed on the Schedule of Expenditures of Federal Awards were awarded or funded after December 26, 2014 and are subject to Uniform Guidance cost principles.

**2. Indirect Cost Rate**

A provisional indirect cost rate was approved for fiscal year 2017 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 Federal 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 2017 were 34.12 and 36.65 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, 2017, 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 1, 2018.

**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 1, 2018



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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the 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, 2017.

## 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Rudd & Company, PLLC

Bozeman, Montana  
February 1, 2018

**MOUNTAIN-PACIFIC QUALITY HEALTH**  
**Schedule of Findings and Questioned Costs and Summary of Prior Year Audit Findings**  
**For the Year Ended June 30, 2017**

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**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:  
 Material weakness identified? No  
 Significant deficiencies identified? 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  
 Significant deficiencies identified? None reported

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)? 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