

**MERCY CARE**

**SUB-CAPITATED EXPENSES REPORT**

Contract Year Ended September 30, 2020

**MERCY CARE**  
**SUB-CAPITATED EXPENSES REPORT**

Year Ended September 30, 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

### **MERCY CARE**

#### ***Opinion***

We have audited the sub-capitated expenses report of **Mercy Care** (the "Organization"), as defined in the Complete Care, ALTCS, DDD and Regional Behavioral Health Authority contracts between **Mercy Care** and the Arizona Health Care Cost Containment System ("AHCCCS") for the contract year ended September 30, 2020.

In our opinion, based on our audit and our reports on **Mercy Care's** financial statements for the years ended June 30, 2021 and 2020, dated November 10, 2021 and November 20, 2020, respectively, the sub-capitated expenses report for the contract year ended September 30, 2020 referred to above presents fairly, in all material respects, the activities of **Mercy Care** for the contract year ended September 30, 2020, as defined in the AHCCCS contracts referred to in the first paragraph.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Sub-Capitated Expenses Report***

Management is responsible for the preparation and fair presentation of the sub-capitated expenses report in accordance with accounting principles generally accepted in the United States of America and the AHCCCS contracts and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of sub-capitated expenses report that are free from material misstatement, whether due to fraud or error.

In preparing the sub-capitated expenses report, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the sub-capitated expenses report is available to be issued.

### ***Auditors' Responsibilities for the Audit of the Sub-Capitated Expenses Report***

Our objectives are to obtain reasonable assurance about whether the sub-capitated expenses report is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the sub-capitated expenses report.

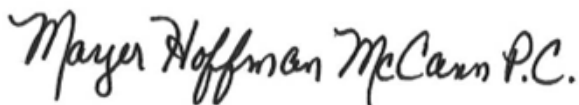
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the sub-capitated expenses report, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the sub-capitated expenses report.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the sub-capitated expenses report.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

### ***Other Matter***

The accompanying sub-capitated expenses report has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The format of the accompanying sub-capitated expenses report has been presented in accordance with the AHCCCS financial reporting guidelines as defined in the AHCCCS contracts with Mercy Care. Our opinion is not modified in respect to this matter.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Phoenix, Arizona  
November 1, 2022

MERCY CARE  
SUB-CAPITATED EXPENSES REPORT  
Contract Year Ended September 30, 2020

Account	Account Description	Age 1+	Age 1-20	Age 21+	Duals	SSI w/ Med	Prop 204 Children Adults	Expansion Adults	ACC Total	Duals	Non-Duals	ALICES Total	Duals	SSI w/ Med	DDD Total	TXN/XXI Other Child	TXN/XXI SMI	TXN/XXI Other Child (C)	TXN/XXI Other Adult (C)	Titm XIX Total	Non-Titm XIX/XXI Total	RBMA Total	MCA Total	Mercy Care Total		
Sub-Capitated Behavioral Health Expenses:																										
60190-01	Total Treatment Services																								\$ 49,342,026	
60299-01	Total Rehabilitation Services																								\$ 60,134,096	
60399-01	Total Medical Services																								\$ 27,628,443	
60499-01	Total Support Services																								\$ 148,662,220	
60599-01	Total Crisis Intervention Services																								\$ 94,305,569	
60699-01	Total Inpatient Services																								\$ 10,784,412	
60799-01	Total Residential Services																								\$ 10,887,707	
60899-01	Total Behavioral Health Day Program																								\$ 2,204,875	
60999-01	Total Prevention Services																								\$ -	
61099-01	Total Pharmacy Expense																								\$ 1,584,933	
61100-01	PPC Bk Title XIX																								\$ -	
61105-01	Other Service Expenses Not RFD Above																								\$ -	
61205-01	BH/CH/CHC Services																								\$ -	
	Total Sub-Capitated Behavioral Health Expenses:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,060,547	\$ 216,005,740	\$ 6,487,304	\$ 41,656,437	\$ 308,193,668	\$ 98,286,254	\$ 406,469,922	\$ -	\$ 406,469,922		
Sub-Capitated Hospitalization Expenses:																										
50105-01	Hospital Inpatient																								\$ 258,455	
50110-01	Behavioral Health Hospital Inpatient																								\$ -	
	Total Sub-Capitated Hospitalization Expenses:	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 207,153	\$ 51,302	\$ 258,455	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 258,455	
Sub-Capitated Medical Compensation Expenses:																										
50205-01	Primary Care Physician Services	164,148	2,888,036	1,083,049	319,979	175,684	1,085,938	443,395	6,160,229	1,033,070	271,230	1,304,300	63,793	255,619	319,372	-	-	-	-	-	-	-	-	-	-	\$ 1,138,824
50210-01	Behavioral Health Physician Services																									\$ -
50215-01	Referral Physician Services																									\$ -
50220-01	PH/CH/CHC Services																									\$ -
50225-01	Other Professional Services																									\$ -
	Total Sub-Capitated Medical Compensation Expenses:	\$ 164,148	\$ 2,888,036	\$ 1,083,049	\$ 319,979	\$ 175,684	\$ 1,085,938	\$ 443,395	\$ 6,160,229	\$ 1,033,070	\$ 271,230	\$ 1,304,300	\$ 63,793	\$ 255,619	\$ 319,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,138,824
Sub-Capitated Other Medical Expenses:																										
50305-01	Emergency Facility Services																									\$ -
50310-01	PH Pharmacy																									\$ -
50315-01	Laboratory, Radiology and Medical Imaging	481,029	6,671,099	2,472,254	424,591	446,778	2,310,387	636,113	13,442,250	215,554	99,886	315,239	68,580	490,622	559,202	-	-	-	-	-	-	-	-	-	-	\$ 1,022,768
50320-01	Outpatient Facility																									\$ 863,603
50325-01	Outpatient Medical Equipment	34,298	374,603	138,893	40,879	23,264	129,830	38,486	768,104	272,188	68,840	339,189	1,172,772	4,648,886	6,822,637	-	-	-	-	-	-	-	-	-	-	\$ 6,822,637
50330-01	Dental	1,644,927	23,506,815	-	2,565,120	1,442,479	8,617,877	2,207,809	39,385,027	645,463	160,097	805,560	405,436	1,654,558	2,059,995	-	-	-	-	-	-	-	-	-	-	\$ 3,801,134
50335-01	Transportation																									\$ -
50340-01	Respite Facility, Home Health Care																									\$ -
50345-01	Therapies																									\$ -
50350-01	Alternative Payment Model Performance Based Payments to Providers																									\$ -
50355-01	Behavioral Health Day Program																									\$ -
50355-05	Behavioral Health Case Management Services																									\$ -
50355-06	Peer/Family Support																									\$ -
50355-07	Support Services																									\$ -
50355-10	Behavioral Health Crisis Intervention Services																									\$ -
50355-11	Living Skills Training																									\$ -
50355-12	Supported Employment																									\$ -
50355-15	Behavioral Health Rehabilitation Services																									\$ -
50355-20	Behavioral Health Residential Services																									\$ -
50355-21	Counseling																									\$ -
50355-22	Assessment, Evaluation and Screening																									\$ -
50355-23	Treatment Services																									\$ -
50355-25	All Other Behavioral Health Services																									\$ -
50360-01	RESERVED																									\$ -
50370-01	Other Medical Expenses	277,798	3,766,618	-	250	53,262	140,046	35,876	4,273,849	828,755	212,227	1,040,982	709	188,439	189,148	-	15,696	-	-	15,696	-	-	-	-	\$ 15,696	
	Total Sub-Capitated Other Medical Expenses:	\$ 2,428,612	\$ 34,319,136	\$ 2,610,946	\$ 3,030,840	\$ 1,960,773	\$ 10,598,240	\$ 2,916,286	\$ 57,869,231	\$ 1,961,940	\$ 538,956	\$ 2,500,896	\$ 1,647,497	\$ 6,938,156	\$ 8,585,654	\$ -	\$ 973,639	\$ -	\$ -	\$ 973,639	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,372,663
	Total Sub-Capitated Expenses:	\$ 2,592,161	\$ 37,207,171	\$ 3,693,995	\$ 3,350,819	\$ 2,141,456	\$ 11,684,177	\$ 3,359,691	\$ 64,029,460	\$ 3,202,163	\$ 861,482	\$ 4,063,646	\$ 1,711,250	\$ 7,193,775	\$ 9,605,025	\$ 43,060,547	\$ 216,979,379	\$ 6,487,304	\$ 41,656,437	\$ 308,193,668	\$ 98,286,254	\$ 406,469,922	\$ -	\$ 10,511,487	\$ 493,979,540	

# MERCY CARE

## NOTES TO THE SUB-CAPITATED EXPENSES REPORT

Contract Year Ended September 30, 2020

### (1) Nature of operations

**Company operations** - Mercy Care (the Plan) is a nonprofit corporation, whose sponsor organizations are CommonSpirit Health (Dignity) and Ascension, collectively the "Sponsors". Equality Health Foundation owns a 0.5% nonvoting interest in the Plan. Mercy Care provides medical care under various contracts with the Arizona Health Care Cost Containment System (AHCCCS), a department of the state of Arizona charged with administering health care for the state's indigent population. Mercy Care provides medical coverage, through contracts with providers of health care services, under the AHCCCS contract for the following populations:

- AHCCCS Complete Care (ACC) (effective October 1, 2018) – Integrated physical and behavioral healthcare for members eligible under Title XIX Medicaid and Title XXI program requirements
- Arizona Long Term Care System (ALTCS) - Provide institutional care, home and community-based services and behavioral health services to long term care members
- Arizona Department of Economic Security, Division of Developmental Disabilities (DES/DDD) - provide medical services to eligible members
- Regional Behavioral Health Authority (RBHA) - behavioral health care services to Medicaid eligible adults with serious mental illness
- Department of Child Services (DCS), Comprehensive Medical and Dental Program (CHP) (effective April 1, 2021) – integrated physical and behavioral health for children in foster care eligible under Title XIX Medicaid and Title XXI program requirements

AHCCCS requires the submission of the sub-capitated expenses report for each contract year for the lines of business included above. The report is a summary of sub-capitation expenses, by risk group, by individual expense line item, by date of service. The sub-capitated expenses report for the contract year ended September 30, 2020 is presented in accordance with the associated AHCCCS template. Sub-capitation is a fixed premium paid by Mercy Care to a provider of health care services with which Mercy Care has a contract. The provider is at risk for the designated services.

### (2) Significant accounting policies

The significant accounting policies followed by Mercy Care, referred to in these financial statements as the "Plan", are summarized below:

**Basis of presentation** - The accompanying sub-capitated expenses report has been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The accompanying sub-capitated expenses report has been presented in accordance with the AHCCCS financial reporting guidelines as defined in the AHCCCS contracts of Mercy Care for the lines of business described in Note 1.

**Management's use of estimates** - The preparation of the sub-capitated expenses report in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Healthcare service cost recognition** - The costs of providing hospitalization, medical compensation, ancillary and other medical services, institutional, and home and community based services are accrued in the period in which the service is provided to eligible recipients based in part on estimates, including an accrual for services incurred but not yet reported.

# MERCY CARE

## NOTES TO THE SUB-CAPITATED EXPENSES REPORT

Contract Year Ended September 30, 2020

(2) **Significant accounting policies (continued)**

Mercy Care contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mental Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms, including the measurement of encounter value. Block payments that do not meet the criteria for revenue recognition during the contract year may be subject to recoupment by Mercy Care from the healthcare provider. The accompanying Sub-Capitated Expenses Report for the contract year ended September 30, 2020 includes a reduction in expenses of approximately \$13,000,000 for underencountered block funding contracts with providers. From time to time, Mercy Care amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

The accompanying Sub-Capitated Expenses Report for the contract year ended September 30, 2020 includes expenses for contracts with entities affiliated with Equality Health Foundation, a related party, totaling \$8,900,000.

**Subsequent events** - The Company has evaluated subsequent events through November 1, 2022, which is the date the financial statements were available to be issued.