MERCY CARE

FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION, ADDITIONAL INFORMATION AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Years Ended June 30, 2022 and 2021

MERCY CARE

FINANCIAL STATEMENTS, SUPPLEMENTAL INFORMATION, ADDITIONAL INFORMATION AND UNIFORM GUIDANCE SUPPLEMENTAL REPORTS

Years Ended June 30, 2022 and 2021

CONTENTS

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MERCY CARE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercy Care, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mercy Care as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 Mercy Care and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 and *Government Auditing Standards* 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 financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, 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 financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Mercy Care'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Care's ability to continue as a going concern for a reasonable period of time.

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.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* 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 audits 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 GAAS. 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 December 1, 2022, on our consideration of Mercy Care'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 solely 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 the effectiveness of Mercy Care's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Care's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

December 1, 2022

MERCY CARE

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021
(In thousands)

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	$ 470,232	$ 226,978
Short-term investments	95,619	81,566
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of $12,759 and $15,323 at June 30, 2022 and 2021, respectively	20,866	47,115
Reconciliation receivables	53,883	82,199
Capitation and supplemental receivables	19,392	1,220
Pharmacy rebate receivable	19,151	20,650
Third party liability receivable, net of allowance for doubtful accounts of $1,963 and $0 at June 30, 2022 and 2021, respectively	4,723	7,296
Interest receivable	1,259	1,267
Provider advances, net of allowance for doubtful accounts of $704 and $1,199 at June 30, 2022 and 2021, respectively	8,047	8,226
Other receivables	17,314	8,022
Risk share settlement, current portion	13,395	13,394
Grant receivable	5,588	2,095
Prepaid assets	781	1,636
TOTAL CURRENT ASSETS	730,250	501,664
RECONCILIATION RECEIVABLES, net of current portion	29,339	20,632
LONG-TERM INVESTMENTS	437,090	496,579
TOTAL ASSETS	1,196,679	1,018,875

LIABILITIES AND NET ASSETS

	2022	2021
CURRENT LIABILITIES		
Claims payable	368,527	367,075
Payable to providers	12,103	22,618
Reconciliation payables	257,083	128,791
Grant payables	2,870	1,425
Due to Aetna	21,053	7,999
Deferred revenue	5,920	835
Other current liabilities	20,770	13,444
TOTAL CURRENT LIABILITIES	688,326	542,187
RECONCILIATION PAYABLE, net of current portion	96,116	60,176
TOTAL LIABILITIES	784,442	602,363
NET ASSETS WITHOUT DONOR RESTRICTIONS	412,237	416,512
TOTAL LIABILITIES AND NET ASSETS	$ 1,196,679	$ 1,018,875

MERCY CARE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2022 and 2021
(In thousands)

	2022	2021
OPERATING REVENUES		
Capitation premiums	$ 4,454,116	$ 3,990,834
Delivery supplement	47,425	45,521
Grants	149,627	160,226
Other, net	(166,424)	(76,462)
TOTAL OPERATING REVENUES	4,484,744	4,120,119
HEALTH CARE EXPENSES		
Hospitalization	486,508	523,977
Medical compensation	480,974	430,753
Ancillary and other medical services	2,566,781	2,333,779
Institutional	213,030	198,699
Home and community based services	256,058	239,498
Less: net third part liablity recoveries	(2,493)	(7,205)
Less: net reinsurance recoveries	(83,782)	(95,126)
TOTAL HEALTH CARE EXPENSES	3,917,076	3,624,375
GENERAL AND ADMINISTRATIVE EXPENSES	373,196	328,248
PREMIUM TAX EXPENSE	86,893	78,276
TOTAL EXPENSES	4,377,166	4,030,899
OPERATING INCOME	107,579	89,220
NONOPERATING INCOME (EXPENSE)		
Investment income	27,206	29,610
Investment fees	(2,099)	(1,915)
Community reinvestment	(7,252)	(5,799)
TOTAL NONOPERATING INCOME	17,854	21,896
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS	125,433	111,116
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	(69,979)	38,950
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS	55,454	150,066
DISTRIBUTION TO SPONSOR ORGANIZATIONS	(60,000)	(99,500)
REPAYMENT OF NOTE RECEIVABLE FROM MEMBER	271	214
NET ASSETS, BEGINNING OF YEAR	416,512	365,732
NET ASSETS, END OF YEAR	$ 412,237	$ 416,512

See Notes to Financial Statements

MERCY CARE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021
(In thousands)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 55,454	$ 150,066
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	(1,095)	(2,181)
Net unrealized (gains) losses on investments	69,979	(38,950)
Net realized gains on investments	(18,360)	(22,237)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	20,105	10,779
Reconciliation receivables	28,316	(6,184)
Capitation and supplemental receivables	(18,172)	(75)
Pharmacy rebate receivable	1,499	11,082
Third-party liability receivable	610	(812)
Interest receivable	8	(256)
Provider advances	674	(1,635)
Other receivables	(9,292)	(2,465)
Risk share settlement, net	-	(16,806)
Grant receivable	(3,494)	984
Prepaid assets	855	(74)
Increase (decrease) in:		
Claims payable	1,452	95,446
Grant payable	1,445	254
Payable to providers	(10,515)	(1,518)
Reconciliation payable	164,232	119,059
Due to Aetna	13,054	(1,674)
Deferred revenue	5,085	751
Other current liabilities	7,326	1,053
Net cash provided by operating activities	309,166	294,607
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(225,538)	(291,989)
Proceeds from sale of investments	219,355	186,773
Net cash used in investing activities	(6,183)	(105,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Distributions to Sponsor Organizations	(60,000)	(99,500)
Repayment received on note receivable from member	271	214
Net cash used in financing activities	(59,729)	(99,286)
NET CHANGE IN CASH AND CASH EQUIVALENTS	243,254	90,105
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	226,978	136,873
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 470,232	$ 226,978

See Notes to Financial Statements

(1) Plan operations and significant accounting policies

Company operations - Mercy Care (the Plan) is a nonprofit corporation, whose sponsor organizations are CommonSpirit Health (Dignity) and Ascension, collectively the “Sponsors.” 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 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

In July 2020, Mercy Care was selected to provide physical and behavioral healthcare services through the Comprehensive Medical and Dental Program statewide. The Comprehensive Medical and Dental Program integrates physical and behavioral health care under a unified model of care for DCS members. The DCS healthcare model is based on the fundamentals of the AHCCCS Complete Care program offering an integrated delivery model for a more cohesive health care system for members incentivizing quality health care outcomes with value-based purchasing and leveraged health information technology for improved care coordination. Mercy Care began administering the Comprehensive Medical and Dental Program contract on April 1, 2021. The contract is a three-year agreement, with the possibility of two two-year extensions and three one-year extensions totaling ten years.

In March 2018, Mercy Care was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central and South regions of Arizona. The AHCCCS Complete Care program integrates physical and behavioral health care contacts under managed care plans for the majority of the AHCCCS members. The integrated delivery model offers a more cohesive health care system for members incentivizing quality health care outcomes with value-based purchasing and leveraged health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts will drive strategic, innovative health care initiatives forward. The Plan operates the Complete Care contract effective October 1, 2018 as well as the remainder of the RBHA contract with AHCCCS to provide physical and behavioral health services to the seriously mentally ill and other defined populations within Maricopa County through September 30, 2022.The contract is a three-year agreement, with the possibility of three two-year extensions. As of October 1, 2021, the contract had entered the 1st extension period of the contract.

In November 2021, Mercy Care was awarded the Central Region Competitive Contract Expansion (CCE) for Behavioral Health Services in the State of Arizona. This contract award allows Mercy Care to continue to serve the central counties: Maricopa, Pinal, and Gila, with the delivery of integrated behavioral health for Medicaid-eligible members with a designation of severe mental illness (SMI), the non-title population with a designation of SMI, court-ordered evaluations, grants administration, and crisis services for the entire central region.

(1) Plan operations and significant accounting policies (continued)

Effective October 1, 2022, the current AHCCCS Complete Care program will be replaced with the CCE that is all inclusive of RBHA services. The new contract replaces the former AHCCCS Complete Care program and the RBHA contracts with combined services for a period of five years through September 30, 2027.

In connection with the commencement of the Complete Care contract, Mercy Care sold a 0.5% nonvoting interest in the Plan to Equality Health Foundation in return for a $1.5 million promissory note. The promissory note dated January 1, 2021 is payable in seven annual installments of $214,286 plus interest at 3% per year, maturing January 2026. As of June 30, 2022, the promissory note balance is $0 and has been fully settled with Equality Health Foundation.

Mercy Care operates a Medicare Advantage plan with the Centers for Medicare and Medicaid Services (CMS), offering medical and prescription drug benefits to qualified members. Medicare Advantage operates as a special needs plan under CMS guidelines. The populations covered under Medicare Advantage are members who are eligible for both Medicare and Medicaid coverage.

Mercy Care has had a plan management services agreement with Aetna since 2007, which is a continuation of the agreement held with Schaller Anderson, L.L.C. since 2001. The new contract became effective August 15, 2016 and effective November 17, 2020 the first amendment to the contract continues through the expiration or termination of the ACC contract with AHCCCS or through September 30, 2023. Mercy Maricopa Integrated Care ("MMIC") entered into a five-year management agreement with Aetna effective May 1, 2013, which was assumed by Mercy Care upon the merger of MMIC into Mercy Care on July 1, 2018. The RBHA management agreement automatically renews for a second five-year term and thereafter for successive one-year periods. A new agreement became effective July 1, 2022, and includes RBHA and DCS contracts and is in effect for an initial period of six years through June 30, 2028. The contract will automatically renew for successive three-year terms. The new contract replaced the MMIC prior management agreement with Aetna effective May 1, 2013, which was assumed by Mercy Care upon the merger of MMIC into Mercy Care on July 1, 2018. New Service Lines will require a written amendment that includes Base Monthly Management Fee and any other amendment to the agreement reasonably necessary to contemplate the New Service Lines, including, without limitation, appropriate Performance Metrics. Under the terms of the agreements, Mercy Care pays a monthly fee to Aetna, as defined in the agreements, to cover the employee salary and benefit costs and general and administrative expenses incurred to operate the organization. Mercy Care incurred management fees per the management agreements of approximately $322,347,000 and $300,045,000 for the years ended June 30, 2022 and June 30, 2021, respectively. This amount is included in general and administrative expenses in the accompanying statements of activities and changes in net assets. At June 30, 2022 and 2021, respectively, net management fees due to Aetna from Mercy Care total approximately $719,000 and $2,512,000, and are included in the net Due to Aetna in the accompanying statements of financial position.

Mercy Care's management agreement provides for a share of risk of the results of operations. Subject to certain performance measures, amounts will either be due from or due to Aetna. Additionally, the management agreement provides for supplemental compensation to be paid to Aetna upon meeting certain performance measures. At June 30, 2022 and 2021, the amount Due to Aetna includes $18,626,000 and $3,469,000, respectively, for the share of risk related to the Plan's performance. On November 17, 2021, the management agreement amendment states that Aetna agrees to relinquish $10,000,000 of the fiscal year 2021 plan risk share resulting in $1,152,000 paid to Aetna at December 31, 2021. At June 30, 2022 and 2021, Due to Aetna included $1,338,000 and $1,542,000 respectively, of supplemental compensation measured based on the performance of the Plan. The RBHA management agreement does not provide for a share of the risk of the results from operations.

(1) Plan operations and significant accounting policies (continued)

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 financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954-205, *Health Care Entities - Presentation of Financial Statements*. The Plan's financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements.* Under FASB ASC 958-205, the Plan is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of June 30, 2022 and 2021, there were no net assets with donor restrictions.

Management's use of estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. Material estimates potentially susceptible to change in the near term include the claims payable liability and reconciliation receivables and payables.

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. The Plan considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Amounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Capitation premiums - The Plan receives from AHCCCS, DES/DDD, DCS/CHP and CMS fixed capitation payments, generally in advance, based on certain rates for each member enrolled with the Plan. The Plan is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, the Plan retains the funds as profit; if the costs are higher than the amount of capitation payments, the Plan absorbs the loss. Capitation premiums are recognized in the month that enrollees are entitled to health care services. Certain provisions of the AHCCCS ACC, DES/DDD, DCS/CHP and ALTCS contracts include a risk band whereby Mercy Care and the AHCCCS programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). Mercy Care has recorded an estimate of the reconciliation revenue, or contra-revenue, within other revenue in the accompanying statements of activities and changes in net assets, based on the operational performance of the AHCCCS ACC, ALTCS, RBHA, DES/DDD and DCS/CHP lines of business from year to year. The Plan may also recover certain losses for those cases eligible for reinsurance payments.

Capitation is paid prospectively as well as for prior period coverage (PPC) under the AHCCCS ACC and ALTCS contracts. The PPC period is the period of time prior to the member's enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a contractor. The risk under PPC is shared by both the Plan and AHCCCS for the contract years ended September 30, 2022 and 2021. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year.

(1) Plan operations and significant accounting policies (continued)

The Plan shares risk with AHCCCS, DES/DDD and DCS/CHP for specific populations as follows:

- ACC Prospective
- ACC Prior Period Coverage
- ALTCS Prospective
- ALTCS Prior Period Coverage
- Share of Cost
- RBHA Title XIX/XXI
- DDD
- CHP

Profits in excess of the percentages set forth by the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth by the contract will be paid to the Plan. As of June 30, 2022, the Plan has recorded an estimated receivable from AHCCCS of approximately $64,361,000 and an estimated payable to AHCCCS of approximately $352,062,000 which is included in reconciliation receivables and reconciliation payables, respectively, in the accompanying statements of financial position. As of June 30, 2021, the Plan has recorded an estimated receivable from AHCCCS of approximately $100,697,000 and an estimated payable to AHCCCS of approximately $188,967,000 which is included in reconciliation receivables and reconciliation payables, respectively. Reconciliation receivable and payable amounts pertaining to separate contracts cannot be offset against reconciliation receivable and payable balances of a different contract, and as such, amounts have been presented separately as a payable and receivable balances in the accompanying statements of financial position. The reconciliation receivables and payables are classified as current and noncurrent based on the expected timing of settlement of the estimate with AHCCCS. As a result of claim experience due to the COVID-19 pandemic the estimated reconciliation payable is higher than prior fiscal years.

AHCCCS subjects 1% of gross prospective capitation of ACC contractors in Arizona to measurements based on each contractor's performance on selected Quality Management Performance Measures as determined by AHCCCS. The program is an effort to encourage activity for AHCCCS contractors in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. As of June 30, 2022, and 2021, the Plan anticipates achieving the required targets and accordingly, has not recorded a liability for the performance measures.

Capitation and supplemental and reconciliation receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation and supplemental and reconciliation receivables. Capitation and supplemental and reconciliation receivables at June 30, 2022 and 2021 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Care receives a majority of its revenue from its contracts with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, Mercy Care is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Capitation, grant and other revenues including reinsurance recoveries and third-party liability recoveries totaled approximately $4,571,000,000 and $4,222,450,000 for the years ended June 30, 2022 and 2021, respectively.

(1) <u>Plan operations and significant accounting policies (continued)</u>

Revenue recognition - Mercy Care adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606) for the year ended June 30, 2020. The Plan's capitation arrangements, including PPC coverage and other modifications to monthly membership, are accounted for in accordance with ASC 606. Under each contract with AHCCCS, DES and DCS, including ACC, ALTCS, MCA, DDD, CHP and RBHA, Mercy Care is paid a per member per month capitation premium to manage the overall care of the specific members of the contracts, which represents Mercy Care's sole performance obligation under each contract. The per member per month capitation rate is a fixed fee per member with no implicit or explicit price concessions. Capitation revenue is recognized over the applicable coverage period for covered members, using an over-time recognition convention. Revenue is recorded by Mercy Care based upon the estimated amounts management expects to collect.

Mercy Care's contracts contain certain variable consideration components, including risk sharing, or profit corridor, with AHCCCS for each contract, along with the 1% of capitation at risk based on performance measures. Both components are directly related to the performance of each contract and the estimated variable consideration is determined monthly based on historical trends, contract performance, claims activity and other operating data available to date. Management records the variable consideration in the period when the estimate is determined, as long as a significant reversal of the estimate is not considered probable. Management has recorded estimated receivables and payables for the AHCCCS and CMS risk share, or profit corridor, reconciliations as of June 30, 2022 and 2021 as a significant reversal of the estimate is not considered probable.

Grant revenue - The RBHA contract is partially funded by state, county and block grants (non-title revenue), which represent annual appropriations. Mercy Care recognizes revenue under the RBHA contract from this funding ratably over the period to which the funding applies. The Plan adopted FASB Accounting Standards Update (ASU) No. 2018-08, Not-For-Profit Entities (Topic 958) effective July 1, 2019. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). In accordance with ASU 2018-08, Mercy Care has determined that all of the grant funding received from AHCCCS represents nonreciprocal transactions and is appropriately classified as contributions. ASU 2018-08 also provided additional guidance to distinguish between conditional and unconditional contributions. The Plan evaluates the contributions for criteria indicating the existence of measurable barriers to entitlement for the Plan or the right of return to AHCCCS. Revenue related to grant funds determined to have conditions require Mercy Care to recognize revenue when the barriers are overcome. Revenue related to grant funds determined not to have conditions are recognized ratably over the period which the funding applies. Non-Title revenues, including block grants, totaled approximately $149,693,000 and $160,226,000 for the years ended June 30, 2022 and 2021, respectively. Based on the requirements of Mercy Care in its contracts with AHCCCS, grant revenue subject to conditions for the year ended June 30, 2022 and 2021 totaled $11,484,000 and $8,408,000, respectively. Mercy Care has determined that the conditions for the revenue recorded have been met as of June 30, 2022 and 2021.

Deferred revenue consists of grant payments from multiple grantors which exceeded the amounts earned by Mercy Care. Deferred revenue for the RBHA contract totaled approximately $5,920,000 and $835,000 at June 30, 2022 and 2021, respectively.

Delivery supplement - As part of the AHCCCS ACC contract, AHCCCS supplements capitation premiums with lump-sum payments for births by women eligible under the Medicaid program. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Delivery revenue of approximately $47,425,000 and $45,521,000 was recognized for the years ended June 30, 2022 and 2021, respectively. As of June 30, 2022, and 2021, approximately $599,200 and $499,100, respectively, was due from AHCCCS related to delivery supplement which is included in capitation and supplemental receivables in the accompanying statements of financial position.

(1) Plan operations and significant accounting policies (continued)

Premium taxes - Mercy Care is subject to a 2% tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations, excluding Non-Title NXIX/XXI payments, which are remitted directly to the Arizona Department of Insurance (ADOI).

Reinsurance - AHCCCS and DES/DDD provide a stop-loss reinsurance program for the Plan for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on the Plan's enrollment and the eligibility category of the members. AHCCCS and DES/DDD reimburse the Plan based on a coinsurance amount for reinsurable covered services incurred above the deductible. Mercy Care contracts with commercial reinsurers to provide reinsurance for the Medicare Advantage Plan. Reinsurance recoveries are stated at the actual and estimated amounts due to Mercy Care pursuant to the AHCCCS Acute/ACC, DES/DDD, ALTCS, DCS/CHP and Medicare Advantage Plan contracts. Reinsurance recoveries have been offset against health care expenses in the accompanying statements of activities and changes in net assets.

Below are the reinsurance thresholds by line of business:

Line of Business	Annual Deductible Effective October 1, 2021	Annual Deductible Effective October 1, 2020	Coinsurance
AHCCCS Acute/ACC – Prospective Only	$ 50,000	$ 35,000	75%
DES/DDD	50,000	50,000	75%
DCS/CHP	50,000	NA	75%
ALTCS w/Medicare	20,000	20,000	75%
ALTCS w/o Medicare	30,000	30,000	75%
RBHA SMI Membership	50,000	35,000	75%

Line of Business	Annual Deductible Effective January 1, 2022	Annual Deductible Effective January 1, 2021	Coinsurance
Mercy Care Medicare Advantage	$ 750,000	$ 700,000	90%

To be eligible for reinsurance billing, qualified healthcare expenses must be incurred during the contract year. Reinsurance is recorded based on actual billed reinsurance claims adjusted for medical cost completion factors and historical collection experience. Reinsurance is subject to review by AHCCCS, DES/DDD, DCS/CHP and the Medicare Advantage Plan's commercial reinsurer, and as a result, there is at least a reasonable possibility that recorded reinsurance will change by a material amount in the near future.

(1) Plan operations and significant accounting policies (continued)

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, DCS/CHP and the Medicare Advantage Plan's commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by Mercy Care were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. At June 30, 2022 and 2021, gross reinsurance receivables totaled approximately $33,626,000 and $62,437,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately $12,759,000 and $15,323,000 at June 30, 2022 and 2021, respectively.

Pharmacy rebate receivable - The Plan receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Plan records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the years ended June 30, 2022 and 2021, health care expenses were reduced by approximately $42,203,000 and $35,087,000 for rebates, respectively. Pharmacy rebates receivable totaled approximately $19,151,000 and $20,650,000 at June 30, 2022 and 2021, respectively. Management believes the pharmacy rebate receivable at June 30, 2022 and 2021 is fully collectible and accordingly, an allowance has not been established.

Third-party liability receivable - In cases such as motor vehicle accidents and worker's compensation claims, a third-party insurer may be liable for a claim. When Mercy Care pays claims on behalf of its members and determines a third-party insurance company is ultimately responsible for that claim, it estimates a receivable and recoups the claim cost from the third-party insurer. Mercy Care has hired an asset recovery company to manage the third-party receivable collections. Third-party liability receivables are stated at the amount management expects to collect and is compared to the annual recoveries received. Recovery rates are updated periodically and confirmed by the vendor. At June 30, 2022 and 2021, gross third-party liability receivables totaled approximately $6,686,000 and $7,296,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately $1,963,000 and $0 at June 30, 2022 and 2021, respectively.

Provider advances - Upon request, Mercy Care may advance monies to high-volume providers based on cash flow needs and timing of claims payments. Advances are stated at the amount management expects to collect or offset against future claims. Advances are non-interest bearing and are expected to be settled within 12 months. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowances and a credit to provider advances receivable. At June 30, 2022 and 2021, Mercy Care gross provider advances receivable totaled approximately $8,752,000 and $9,425,000, respectively. Mercy Care had an allowance for doubtful provider advances of approximately $704,000 and $1,199,000 at June 30, 2022 and 2021, respectively.

Risk share settlement - The risk share settlement receivable represents the CMS risk adjustment for the Medicare Advantage, Medicare Part C, enrollees. CMS performs a risk adjustment each year using health status indicators to correlate payment to the health acuity of the member and consequently establishes incentives for plans to enroll and treat less healthy Medicare beneficiaries. Management estimates the expected impact from the CMS rate risk adjustment on the Plan's enrolled population for each contract year. As of June 30, 2022, and 2021, the Plan has recorded an estimated current receivable from CMS of approximately $12,876,000 and $1,455,500, respectively, which are included in capitation and supplement receivables in the accompanying statements of financial position. Risk share settlement receivables at June 30, 2022 and 2021 are considered by management to be fully collectible and accordingly, an allowance for doubtful accounts has not been provided.

(1) Plan operations and significant accounting policies (continued)

Management estimates expected risk share settlements to be paid to or received from CMS in connection with the pharmacy component of Medicare Advantage, Medicare Part D. This balance is reviewed and monitored by management and adjusted as necessary as experience develops or new information becomes available. Such adjustments are netted against the capitation premiums on the statements of activities and changes in net assets. Net amounts recorded under this program totaled approximately $5,522,000 and $8,331,000 for the years ended June 30, 2022 and 2021, respectively, which are included as capitation premiums in the accompanying statements of activities and changes in net assets. As of June 30, 2022, the Plan recorded a receivable of $14,469,000 for Medicare Part D settlements relating to contract year 2021, and $2,992,000 relating to contract year 2022, which is included in capitation receivable in the accompanying statement of financial position. As of June 30, 2021 the plan had recorded an estimated receivable from CMS of approximately $13,395,000 which is included in the capitation receivable in the accompanying statement of financial position. The settlement for contract year 2020 was completed in January 2022 with CMS paying Mercy Care approximately $3,904,000. As of June 30, 2022, $2,133,000 of the Medicare Part D estimated settlements related to contract year 2018 were presented as a long-term reconciliation receivable based on the expected timing of final settlement. The settlements for calendar years 2022 and 2021 are expected to be finalized in fiscal 2023.

AHCCCS at times performs a review of the Medicaid program rates for its enrollees and assesses the appropriateness of rates applied to services for those enrollees. The risk adjustment of capitation payments modifies revenue to contractors based on the health status of their covered population relative to the average health status of the population. To estimate the impact to its capitation rates for the open contract years, the Plan performed an analysis of the impact of the published rate change for its enrolled populations based on member months during those years. As of June 30, 2022 and 2021, the Plan has not recorded any estimates related to risk adjustment.

Premium deficiency reserve - Mercy Care evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within claims payable on the statements of financial position. Mercy Care recorded for the years ended June 30, 2022 and 2021, respectively, $5,899,000 and $4,242,000 for expected losses within its Medicare contract for the contract years ended December 31, 2022 and 2021, respectively.

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 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. 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.

Mercy Care's estimates for unreported claims payable is developed using actuarial methods based on historical experience and are continually reviewed by management and adjusted as necessary based on current claims data, and medical cost completion factors. Such adjustments are included in health care expenses in the statements of activities and changes in net assets in each period when necessary. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. There is at least a reasonable possibility that the recorded estimates will change by a material amount, in the near future.

(1) Plan operations and significant accounting policies (continued)

As part of AHCCCS' Alternative Payment Model (APM) (formerly Value-Based Purchasing Initiative), and in accordance with the AHCCCS contract, Mercy Care has agreements with certain providers that provide for the establishment of a pool into which Mercy Care places funds based on the performance of the provider as defined in the contract. Mercy Care manages the disbursement of the funds from this account as well as reviews the utilization and designated quality scores based on members assigned to the provider. Mercy Care APM expense totaled approximately $8,151,000 and $24,027,000 for the years ended June 30, 2022 and 2021, respectively, and is included within health care expenses in the accompanying statements of activities and changes in net assets. Mercy Care accrued approximately $6,151,000 and $21,082,000 as of June 30, 2022 and 2021, respectively, which is included in payable to providers in the accompanying statements of financial position.

Payable to providers - Mercy Care compensates providers for authorized healthcare and substance abuse services to covered beneficiaries. Mercy Care used a variety of methods to estimate the amount payable to providers including authorization for services to be provided, payments to be made under contract arrangements currently in force, and correspondence with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

Investments and restricted securities - Investments and restricted securities are recorded in accordance with FASB ASC 958-320, *Investments-Debt Securities* and FASB ASC 958-321, *Investments - Equity Securities*. The Plan reports investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value based on quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets. The Plan's investment portfolio is managed by professional investment managers within guidelines established by the Company's Board of Directors which, as a matter of policy, limits the amounts which may be invested in any one issuer or type of investment.

Investment securities in general, are exposed to various risks, such as interest rate, credit, global economic events and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

Fair value measurement - FASB ASC 820, *Fair Value Measurement*, establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. FASB ASC 820 also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

(1) Plan operations and significant accounting policies (continued)

Investment income - Investment income consists of interest, dividends, and realized gains and losses on investments. Interest is recognized on the accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Accrual of income has not been suspended for any bonds or mortgage loans during the years ended June 30, 2022 and 2021. The Plan has a policy to review and identify investments with declines in value that would be considered to be other-than-temporary. Such other-than-temporary declines, if significant, are accounted for as realized losses in the statements of activities and changes in net assets (See Note 3).

Income taxes - Mercy Care qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes included in the accompanying financial statements. Income determined to be unrelated business taxable income would be taxable.

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty in income taxes which requires the application of a “more likely than not” threshold recognition and de-recognition of uncertain tax positions in operations in the year of such change. The Plan evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2022 and 2021, the Plan did not have any uncertain tax positions.

Mercy Care Returns of Organization Exempt from Income Tax (Form 990) for 2019, 2020 and 2021 are subject to examination by the IRS, generally for the three years after they were filed. As of the date of this report, the fiscal 2022 tax return for Mercy Care had not yet been filed.

Performance indicator - The statements of activities and changes in net assets include the performance indicator operating income (loss). The performance indicator excludes investment income and fees and net unrealized investment gains/losses, which is consistent with industry practice.

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

(2) Reconciliation

The Plan's AHCCCS contract revenue is limited by the terms of the individual line of business contract to a maximum profit/loss percentage. Profits and losses related to capitation payments from AHCCCS have a maximum percentage able to be recognized under the contract, and as a result any profits or losses greater than this limit will result in a receivable or payable to/from AHCCCS. Reconciliation balances are recorded as a net receivable or payable on the statements of financial position by line of business. A summary of the balances by line of business at June 30 is as follows (in thousands):

	2022		2021	
	Reconciliation Receivable	Reconciliation Payable	Reconciliation Receivable	Reconciliation Payable
ACC	$ 30,625	$ 155,061	$ 47,900	$ 104,909
ALTCS	26,461	17,258	37,277	6,281
DDD	1,521	10,127	1,197	8,948
DCS	46	43,495	700	-
RBHA	22,436	127,258	13,623	68,829
Total	81,089	353,199	100,697	188,967
Less current portion	(53,883)	(257,083)	(82,199)	(128,791)
Non-current portion	$ 27,206	$ 96,116	$ 18,498	$ 60,176

(3) Investments

The cost and fair value of the Plan's investments by type at June 30 are as follows (in thousands):

	2022		2021	
	Cost	Fair Value	Cost	Fair Value
Short-term:				
Marketable equity securities	$ 70,126	$ 70,126	$ 69,565	$ 69,564
Money Market Instruments	6,987	6,992	1,500	1,500
Corporate bonds	19,136	18,501	10,466	10,502
	96,249	95,619	81,531	81,566
Long-term:				
Marketable equity securities	167,804	189,598	155,500	229,809
U.S. Government securities	143,991	135,835	124,573	125,126
Corporate bonds	79,606	73,301	95,556	95,550
Mortgage-backed securities	40,127	38,356	46,059	46,094
	431,528	437,090	421,688	496,579
	$ 527,777	$ 532,709	$ 503,219	$ 578,145

Management continually reviews their investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the years ended June 30, 2022 and 2021, the Plan recorded no losses for other-than-temporary declines in the fair value of investments.

(3) Investments (continued)

The following table summarizes the unrealized losses on investments held at June 30, 2022 (in thousands):

	Less than twelve months		Twelve months or longer		Total	
Description of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	$ -	$ -	$ 123,190	$ 8,332	$ 123,190	$ 8,332
Marketable equity securities	-	-	62,297	12,456	62,297	12,456
Corporate bonds	17,796	643	72,674	6,308	90,470	6,952
Mortgage-backed securities	-	-	38,355	1,772	38,355	1,771
Preferred securities	-	-	-	-	-	-
Total	$ 17,796	$ 643	$ 296,516	$ 28,867	$ 314,312	$ 29,511

The following table summarizes the unrealized losses on investments held at June 30, 2021 (in thousands):

	Less than twelve months		Twelve months or longer		Total	
Description of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	$ -	$ -	$ 59,201	$ 723	$ 59,201	$ 723
Marketable equity securities	-	-	4,648	209	4,648	209
Corporate bonds	3,829	34	57,014	711	60,843	745
Mortgage-backed securities	-	-	26,986	263	26,986	263
Preferred securities	-	-	-	-	-	-
Total	$ 3,829	$ 34	$ 147,849	$ 1,906	$ 151,678	$ 1,940

Investments classified as long-term are based on management's intent to hold such investments. Long-term investments can be liquidated without significant penalty typically within twenty-four hours and are considered short-term for purposes of calculating current ratios under AHCCCS reporting guidelines.

(4) Fair value measurement

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2022 (in thousands):

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. Government securities	$ -	$ 135,835	$ -	$ 135,835
Marketable equity securities				
U.S. large cap	189,598	-	-	189,598
Money market mutual funds	57,098	-	-	57,098
Other	20,020	-	-	20,020
Total marketable equity securities	266,716	-	-	266,716
Corporate bonds	-	91,802	-	91,802
Mortgage-backed securities	-	38,356	-	38,356
Total Investments	$ 266,716	$ 265,993	$ -	$ 532,709

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. Government securities	$ -	$ 125,126	$ -	$ 125,126
Marketable equity securities				
U.S. large cap	229,809	-	-	229,809
Money market mutual funds	57,020	-	-	57,020
Other	14,044	-	-	14,044
Total marketable equity securities	300,873	-	-	300,873
Corporate bonds	-	106,052	-	106,052
Mortgage-backed securities	-	46,094	-	46,094
Total Investments	$ 300,873	$ 277,272	$ -	$ 578,145

Restricted securities, which consist of U.S. Treasury notes, are valued using proprietary models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers and other data.

(5) Claims payable

At June 30, 2022 and 2021, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, were approximately $369 million and $367 million, respectively. The balances were certified by an actuary. Activity in the liability for claims payable and health care expense for the years ended June 30, 2022 and 2021 is as follows (in thousands):

	2022	2021
Claims unpaid at beginning of year prior to reinsurance recoverable	$ 414,190	$ 328,174
Reinsurance recoverable, beginning of year	(47,115)	(56,545)
Claims unpaid, beginning of year	367,075	271,629
Incurred related to:		
Current year	3,660,930	3,297,110
Prior years	(88,028)	(43,480)
Total incurred	3,572,902	3,253,630
Paid related to:		
Current year	(3,270,725)	(2,881,184)
Prior years	(279,860)	(229,885)
Total paid	(3,550,585)	(3,111,069)
Claims unpaid at end of year prior to reinsurance recoverable	389,392	414,190
Reinsurance recoverable, end of year	(20,865)	(47,115)
Claims unpaid, end of year	$ 368,527	$ 367,075

Estimates for incurred claims are based on historical enrollment, cost trends, and consider operational changes. Future actual results will typically differ from the estimates. Differences could be due to factors such as an overall change in medical expenses per member or a change in client mix affecting medical costs due to the addition of new members.

The liability for Mercy Care claims unpaid at June 30, 2021 was more than the actual claims incurred related to fiscal year 2021 and prior by approximately $813,000 or 0.22% of Mercy Care claims unpaid. The primary drivers for the claim development variations include member mix changes, changes in anticipated member utilization, a shift in costs due to the public health emergency (PHE), speed of claims processing, and initiative levels to recoup provider overpayments.

Estimated third-party subrogation, net of allowances included as a reduction to medical and hospital expenses in the accompanying statements of activities and changes in net assets at June 30, 2022 and 2021 totaled approximately $2,493,000 and $7,205,000 respectively.

(6) Related party transactions

In September 2015, Tenet Healthcare Corporation, Dignity Health and Ascension Health finalized a joint venture to own and operate Carondelet Health Network in Tucson, Arizona. Tenet Healthcare Corporation is the majority partner at 60% ownership share and Dignity Health and Ascension Health each having a 20% ownership share. In July 2021, Dignity Health and Ascension Health sold all their ownership shares in Carondelet Health Network to Tenet Healthcare Corporation. Mercy Care paid approximately $292,375,000 in 2022 and $274,410,000 in 2021 to Dignity Health, Ascension, Equality Health and its affiliates for services provided to members. These balances include net prospective provider advance payments made to Dignity. Provider advances to Dignity amounted to approximately $71,148,000 and $62,629,000 for year ending June 30, 2022 and 2021. During the year ended June 30, 2022 Mercy Care made distributions to Dignity and Ascension Health of $29,850,000 each and $300,000 to Equality Health. Equality Health distribution totaled $242,900 and $57,100 was applied to the remaining note receivable balance for the 0.5% member interest.

(7) Commitments and contingencies

Performance bonds - Mercy Care obtains unsecured surety bonds to satisfy the AHCCCS ACC, ALTCS, DES/DDD, RBHA and Medicare performance bond requirements. The following table sets forth the Mercy Care contract requirement and the Performance Bond amounts at June 30, 2022:

Line of Business	AHCCCS Minimum Requirement	Performance Bond Amount	Effective Date
ACC	90% of Capitation Revenue	$ 161,000,000	10/1/2021
ALTCS	90% of Capitation Revenue	$ 58,000,000	10/1/2021
DDD	90% of Capitation Revenue	$ 16,000,000	10/1/2021
Medicare	$1,050 PMPM	$ 18,200,000	1/1/2022
DCS	90% of Capitation Revenue	$ 18,500,000	4/1/2022
RBHA	90% of Capitation Revenue	$ 91,000,000	10/1/2021

Litigation - Periodically, Mercy Care is involved in litigation and claims arising in the normal course of operations. In the opinion of management based on consultation with legal counsel, losses, if any, from these matters are covered by insurance or are immaterial. Management believes that any resulting liability will not materially affect Mercy Care's financial position.

Liability insurance - Mercy Care maintain directors and officers, errors and omissions, and cyber liability insurance coverage under claims-made policies. Each policyholder is insured for losses up to $30 million per claim and in the aggregate under each of its directors and officers liability policy and $10 million per claim and in the aggregate under each of its errors and omissions and cyber liability policies. Claims reported endorsement (tail) coverage is available if the policy is not renewed to cover claims incurred but not reported. Mercy Care anticipates that renewal coverage will be available at expiration of the current policy. Aetna maintains the general liability coverage for Mercy Care and is insured for losses up to $1 million per claim and $2 million in the aggregate under its general liability policy.

Healthcare regulation - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Mercy Care is in compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future reviews and interpretation as well as regulatory actions unknown or unasserted at this time.

(7) Commitments and contingencies (continued)

Health reform legislation at both the federal and state levels continues to evolve. Changes continue to impact existing and future laws and rules. Such changes may impact the way the Plan does business, restrict revenue and enrollment growth in certain products and market segments, restrict growth rates for certain products and market segments, increase medical, administrative and capital costs, and expose the Plan to increased risk of loss or further liabilities. Mercy Care's operating results, financial position and cash flows could be adversely impacted by such changes.

Community reinvestment program - In accordance with the AHCCCS contract, Mercy Care has approved a Community Reinvestment program. Under the program, Mercy Care will demonstrate a commitment to the local communities in which it operates through community reinvestment activities including contributing 6% of its annual profits for ACC, ALTCS, DCS and RBHA to community reinvestment. The program funds community projects that enhance the lives of people in the communities in Mercy Care's geographic service area. These funds are for projects and services not eligible for service or prevention dollars.

For the years ended June 30, 2022 and 2021, Mercy Care approved amounts of approximately $7,252,000 and $5,799,000, respectively, to be spent on various healthcare community projects. These amounts are included in nonoperating expenses in the accompanying statements of activities and changes in net assets. At June 30, 2022 and 2021, respectively, Mercy Care has recorded a liability for unspent Community Reinvestment program funds of approximately $10,084,000 and $7,011,000, which is included in other current liabilities in the accompanying statements of financial position.

Contract compliance - Under the terms of the AHCCCS and Medicare Advantage contracts, Mercy Care is required to meet certain financial covenants for both AHCCCS and CMS products, as applicable.

In accordance with the AHCCCS Contract, Mercy Care is required to maintain certain minimum financial reporting and viability measures.

Mercy Care's contract contains various quarterly financial performance requirements, including a required minimum liquidity ratio, an administrative cost percentage, and service expense percentages. As of June 30, 2022, the DDD line of business fell below the minimum $500 per member per month ("PMPM") equity requirement as a result of year-end net income results. Mercy Care submitted an equity recommendation to AHCCCS on July 19, 2022 recommending a $6 million transfer from the ACC line of business to the DDD line of business. The equity recommendation was approved by AHCCCS on August 17, 2022. As of June 30, 2021, Mercy Care was in compliance with these requirements.

Should Mercy Care be in default of any material obligations under the AHCCCS contract, AHCCCS may, at its discretion, in addition to other remedies, either adjust the amount of future payments or withhold future payment until satisfactory resolution of the default or exception. Further, if monies are not appropriated by the State or are not otherwise available, the AHCCCS contract may be cancelled upon written notice until such monies are so appropriated or available.

(7) Commitments and contingencies (continued)

Mercy Care is required to meet quarterly and contract year end minimum encounter submission percentages or be subject to sanction by AHCCCS. Typically, Mercy Care has up to eight months after the contract period end to meet the minimum number of encounters. Through the date of this report, AHCCCS has not yet completed its encounter evaluation assessment for the contract years ended September 30, 2022 and 2021. As of June 30, 2022, Mercy Care anticipates meeting the required encounter threshold for the contract year ending September 30, 2022. Accordingly, as of June 30, 2022, Mercy Care has not recorded a liability associated with an encounter sanction. As of June 30, 2021, Mercy Care anticipated meeting the required encounter threshold for the contract year ending September 30, 2021 for non-title block funding. For title block funding for the contract year ended June 30, 2021, Mercy Care expected any underencounter for title block funding to not be payable back to AHCCCS and accordingly, as of June 30, 2021, Mercy Care had not recorded a liability associated with an encounter sanction. In January 2022, AHCCCS communicated to Mercy Care the intention to collect under encountered title block funding for contract years ending June 30, 2020 and 2021. Mercy Care has recorded a liability for expected underencounters for the contract years ended June 30, 2021 and 2020 as of June 30, 2022 of approximately $33,482,000, which Mercy Care expects to recoup from providers. As of June 30, 2022, Mercy Care has recorded receivables for under encounters from providers for the contract year ended June 30, 2020 and 2021, respectively, of approximately $15,779,000 and $16,727,000 which Mercy Care expects to collect from providers. Contract year 2020 is included within other accounts receivable and contract year 2021 is included within long term receivable in the accompanying statement of financial position as of June 30, 2022.

AHCCCS has a right to sanction Mercy Care for other matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. Mercy Care received total sanctions for the years ended June 30, 2022 and 2021 of $50,000 and $38,000, respectively.

COVID-19 Pandemic - On March 11, 2020 the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a “pandemic”. First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. Mercy Care’s operations for the year’s ended June 30, 2022 and 2021 have not been significantly impacted; however, Mercy Care continues to monitor the situation. No impairments were recorded for the year’s ended June 30, 2022 and 2021 as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. The COVID-19 outbreak has triggered volatility in financial markets and a negative impact on the global economy. The extent of the impact of COVID-19 on Mercy Care’s operational and financial performance will depend on certain developments and the financial markets volatility may have an adverse impact on Mercy Care’s investment portfolio depending on the duration and severity of the pandemic.

(8) Concentration of credit risk

Mercy Care’s future contract awards are contingent upon the continuation of the AHCCCS ACC, DES/DDD, DCS/CHP, ALTCS and RBHA programs by the State of Arizona and Mercy Care’s ability and desire to retain its status as a Contractor under these programs. The AHCCCS ACC contract is effective through September 30, 2022 . Effective October 1, 2022 the current AHCCCS Complete Care program will be replaced with a comprehensive service agreement that is all inclusive of RBHA services. The new contract replaces the former AHCCCS Complete Care program and the RBHA contracts with combined services for a period of five years through September 30, 2027.

(8) Concentration of credit risk (continued)

Mercy Care was awarded a new ALTCS contract effective October 1, 2018, for an initial period of three years with three renewal periods: one renewal of two years, and two renewals of one year each. Mercy Care is currently in the first renewal period of two years through September 30, 2023. The DES/DDD contract was renewed through September 30, 2023. Mercy Care's Medicare Advantage contract is renewed annually by CMS. Mercy Care's RBHA contract with AHCCCS has been renewed through September 30, 2027 in the form of a new contract structure under AHCCCS (see Note 1).

Mercy Care was awarded a new DCS/CHP contract effective April 1, 2022, for an initial period of three years with five renewal periods: two renewals of two years, and three renewals of one year each.

Failure to renew these contracts could have a significant impact on operations.

(9) Functional expenses

The costs of providing Mercy Care's various programs and other activities have been reported on a functional basis in the accompanying statements of activities and changes in net assets. The presentation of functional expenses below presents the natural classification detail of expense by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to program and supporting services on the basis of program membership and other appropriate allocation methods. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Mercy Care and are allocated based on program membership or other appropriate indicators.

The following table summarizes the functional expenses at June 30, 2022 (in thousands):

	Program Services	Management & General	Total Expenses
Hospitalization	$ 486,508	$ -	$ 486,508
Medical compensation	480,974	-	480,974
Ancillary and other medical services	2,566,781	-	2,566,781
Institutional	213,030	-	213,030
Home and community-based services	256,058	-	256,058
Premium tax expense	-	86,893	86,893
Management fees	-	342,312	342,312
Other Expenses	-	30,884	30,884
Total Expenses	$ 4,003,351	$ 460,089	$ 4,463,440

(9) Functional expenses (continued)

The following table summarizes the functional expenses at June 30, 2021 (in thousands):

	Program Services	Management & General	Total Expenses
Hospitalization	$ 523,977	$ -	$ 523,977
Medical compensation	430,753	-	430,753
Ancillary and other medical services	2,333,779	-	2,333,779
Institutional	198,699	-	198,699
Home and community-based services	239,498	-	239,498
Premium tax expense	-	78,276	78,276
Management fees	-	295,055	295,055
Other Expenses	-	33,193	33,193
Total Expenses	$ 3,726,706	$ 406,524	$ 4,133,230

(10) Liquidity and Availability of Resources

Mercy Care monitors its cash position on a monthly basis to ensure the fulfillment of all obligations. As part of the Mercy Care's liquidity plan, excess cash is invested according to Mercy Care's investment policy. As of June 30, 2022, Mercy Care's financial assets available within one year of the statement of financial position date for general expenditures are as follows (in thousands):

Cash and equivalents	$ 470,232
Receivables	163,618
Investments	532,709
Financial assets available to meet cash needs for general expenditure within one year	$ 1,166,559

While a portion of Mercy Care's investments are classified as long-term in the accompanying statements of financial position based on management's intent, the investments could be readily liquidated without significant penalty to fund operating cash flow needs, except as noted above.

SUPPLEMENTAL INFORMATION

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

MERCY CARE

We have audited the financial statements of ***Mercy Care*** as of and for the year ended June 30, 2022, and our report thereon dated December 1, 2022, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. We previously audited the financial statements of Mercy Care as of and for the year ended June 30, 2021, and our report thereon dated November 10, 2021, contained an unmodified opinion. Our audits were performed for the purpose of forming opinions on the June 30, 2022 and 2021 financial statements as a whole. The accompanying supplemental statement of activities for the year ended June 30, 2022, supplemental schedule of activities – schedule A disclosure for the year ended June 30, 2022 and supplemental sub-capitated expenses report for the contract year ended September 30, 2021 (collectively, the "supplemental information") on pages 26 through 30 are presented for purposes of additional analysis and are 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 for the years ended June 30, 2022 and 2021. The information has been subjected to the auditing procedures applied in the audits of the 2022 and 2021 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2022 and 2021 financial statements or to the 2022 and 2021 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the 2022 and 2021 financial statements as a whole.

Mayer Hoffman McCann P.C.

December 1, 2022

MERCY CARE

ADDITIONAL INFORMATION

SUB-CAPITATED EXPENSES REPORT

Contract Year Ended September 30, 2021

		ACC							
Account	Account Description	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	ACC Total
Sub-Capitated Behavioral Health Expenses:									
60199-01	Total Treatment Services								
60299-01	Total Rehabilitation Services								
60399-01	Total Medical Services								
60499-01	Total Support Services								
60599-01	Total Crisis Intervention Services								
60699-01	Total Inpatient Services								
60799-01	Total Residential Services								
60899-01	Total Behavioral Health Day Program								
60999-01	Total Prevention Services								
61099-01	Total Pharmacy Expense								
61100-01	PPC BH Title XIX								
61105-01	Other Service Expenses Not Rpt'd Above								
61205-01	BH FQHC/RHC Services								
	Total Sub-Capitated Behavioral Health Expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sub-Capitated Hospitalization Expenses:									
50105-01	Hospital Inpatient								
50110-01	Behavioral Heath Hospital Inpatient								
	Total Sub-Capitated Hospitalization Expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sub-Capitated Medical Compensation Expenses:									
50205-01	Primary Care Physician Services	131,068	2,349,522	862,357	159,555	147,649	926,367	364,955	4,941,473
50210-01	Behavioral Health Physician Services								
50215-01	Referral Physician Services								
50220-01	PH FQHC/RHC Services								
50225-01	Other Professional Services								
	Total Sub-Capitated Medical Compensation Expenses:	$ 131,068	$ 2,349,522	$ 862,357	$ 159,555	$ 147,649	$ 926,367	$ 364,955	$ 4,941,473
Sub-Capitated Other Medical Expenses:									
50305-01	Emergency Facility Services								
50310-01	PH Pharmacy								
50315-01	Laboratory, Radiology and Medical Imaging	472,262	8,261,720	3,031,952	547,131	528,434	3,111,555	1,219,412	17,172,466
50320-01	Outpatient Facility								
50325-01	Durable Medical Equipment	36,402	664,484	243,486	71,677	39,063	250,142	99,726	1,404,979
50330-01	Dental	1,534,376	27,934,785	-	3,014,281	1,644,807	10,426,488	4,156,053	48,710,791
50335-01	Transportation								
50340-00	Nursing 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	231,544	4,046,728	-	297	57,093	186,602	69,739	4,592,003
	Total Sub-Capitated Other Medical Expenses:	$ 2,274,584	$ 40,907,718	$ 3,275,438	$ 3,633,385	$ 2,269,397	$ 13,974,787	$ 5,544,930	$ 71,880,238
	Total Sub-Capitated Expenses:	$ 2,405,652	$ 43,257,240	$ 4,137,795	$ 3,792,940	$ 2,417,046	$ 14,901,154	$ 5,909,884	$ 76,821,711

		ALTCS			DDD			RBHA						
Account	Account Description	Duals	Non-Duals	ALTCS Total	Duals	SSI w/o Med	DDD Total	TXIX/XXI CMDP Child	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	Title XIX Total	Non-Title XIX/XXI Total	RBHA Total
Sub-Capitated Behavioral Health Expenses:														
60199-01	Total Treatment Services							$ 5,872,423	$ 31,562,838	$ -	$ -	$ 37,435,262	$ 16,371,018	$ 53,806,280
60299-01	Total Rehabilitation Services							$ 3,664,578	$ 39,783,111	$ -	$ -	$ 43,447,689	$ 5,626,067	$ 49,073,757
60399-01	Total Medical Services							$ 4,803	$ 7,561,912	$ -	$ -	$ 7,566,715	$ 5,042,301	$ 12,609,016
60499-01	Total Support Services							$ 8,437,816	$ 100,284,608	$ -	$ -	$ 108,722,424	$ 42,257,276	$ 150,979,700
60599-01	Total Crisis Intervention Services							$ -	$ -	$ 4,321,161	$ 82,648,776	$ 86,969,937	$ 13,269,729	$ 100,239,667
60699-01	Total Inpatient Services							$ 38,367	$ 11,431,824	$ -	$ -	$ 11,470,191	$ 2,526,151	$ 13,996,342
60799-01	Total Residential Services							$ -	$ 2,003,961	$ -	$ -	$ 2,003,961	$ 11,889,367	$ 13,893,328
60899-01	Total Behavioral Health Day Program							$ -	$ 986,748	$ -	$ -	$ 986,748	$ 152,650	$ 1,139,397
60999-01	Total Prevention Services												$ 1,574,406	$ 1,574,406
61099-01	Total Pharmacy Expense													$ -
61100-01	PPC BH Title XIX													$ -
61105-01	Other Service Expenses Not Rpt'd Above													$ -
61205-01	BH FQHC/RHC Services													$ -
	Total Sub-Capitated Behavioral Health Expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,017,987	$ 193,615,003	$ 4,321,161	$ 82,648,776	$ 298,602,927	$ 98,708,965	$ 397,311,893
Sub-Capitated Hospitalization Expenses:														
50105-01	Hospital Inpatient	$ 163,483	$ 42,722	$ 206,205										
50110-01	Behavioral Heath Hospital Inpatient													
	Total Sub-Capitated Hospitalization Expenses:	$ 163,483	$ 42,722	$ 206,205	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sub-Capitated Medical Compensation Expenses:														
50205-01	Primary Care Physician Services	1,033,070	271,230	$ 1,304,300	-	-	-	-	-	-	-	-	-	-
50210-01	Behavioral Health Physician Services							-	-	-	-	-	-	-
50215-01	Referral Physician Services							-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services							-	-	-	-	-	-	-
50225-01	Other Professional Services							-	-	-	-	-	-	-
	Total Sub-Capitated Medical Compensation Expenses:	$ 1,033,070	$ 271,230	$ 1,304,300	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Sub-Capitated Other Medical Expenses:														
50305-01	Emergency Facility Services							$ -	$ -	$ -	$ -	$ -	$ -	$ -
50310-01	PH Pharmacy							-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	220,970	110,246	$ 331,215	80,097	581,831	661,929	-	-	-	-	-	-	-
50320-01	Outpatient Facility							-	1,375,429	-	-	1,375,429	-	$ 1,375,429
50325-01	Durable Medical Equipment	188,299	49,278	$ 237,577	1,296,358	5,213,798	6,510,156	-	-	-	-	-	-	-
50330-01	Dental	674,086	177,169	$ 851,255	427,951	1,721,925	2,149,877	-	25,107	-	-	25,107	-	$ 25,107
50335-01	Transportation							-	-	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care				-	6,748	6,748	-	-	-	-	-	-	-
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	882,969	238,270	$ 1,121,239	656	216,021	216,677	-	14,990	-	-	14,990	-	$ 14,990
	Total Sub-Capitated Other Medical Expenses:	$ 1,966,324	$ 574,962	$ 2,541,286	$ 1,805,063	$ 7,740,324	$ 9,545,387	$ -	$ 1,415,526	$ -	$ -	$ 1,415,526	$ -	$ 1,415,526
	Total Sub-Capitated Expenses:	$ 3,162,876	$ 888,915	$ 4,051,791	$ 1,805,063	$ 7,740,324	$ 9,545,387	$ 18,017,987	$ 195,030,529	$ 4,321,161	$ 82,648,776	$ 300,018,453	$ 98,708,965	$ 398,727,418

		MCA	DCS-CHP									TOTAL
Account	Account Description	MCA Total	Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	Non-Title XIX/XXI Total	DCS-CHP Total	Mercy Care Total
Sub-Capitated Behavioral Health Expenses:												
60199-01	Total Treatment Services											$ 53,806,280
60299-01	Total Rehabilitation Services											$ 49,073,757
60399-01	Total Medical Services											$ 12,609,016
60499-01	Total Support Services											$ 150,979,700
60599-01	Total Crisis Intervention Services											$ 100,239,667
60699-01	Total Inpatient Services											$ 13,996,342
60799-01	Total Residential Services											$ 13,893,328
60899-01	Total Behavioral Health Day Program											$ 1,139,397
60999-01	Total Prevention Services											$ 1,574,406
61099-01	Total Pharmacy Expense											$ -
61100-01	PPC BH Title XIX											$ -
61105-01	Other Service Expenses Not Rpt'd Above											$ -
61205-01	BH FQHC/RHC Services											$ -
	Total Sub-Capitated Behavioral Health Expenses:	$ -									$ -	$ 397,311,893
Sub-Capitated Hospitalization Expenses:												
50105-01	Hospital Inpatient											$ 206,205
50110-01	Behavioral Heath Hospital Inpatient											
	Total Sub-Capitated Hospitalization Expenses:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 206,205
Sub-Capitated Medical Compensation Expenses:												
50205-01	Primary Care Physician Services	8,686									-	$ 6,254,458
50210-01	Behavioral Health Physician Services											-
50215-01	Referral Physician Services											-
50220-01	PH FQHC/RHC Services											-
50225-01	Other Professional Services											-
	Total Sub-Capitated Medical Compensation Expenses:	$ 8,686	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,254,458
Sub-Capitated Other Medical Expenses:												
50305-01	Emergency Facility Services									$ -		$ -
50310-01	PH Pharmacy									-		-
50315-01	Laboratory, Radiology and Medical Imaging	1,183,273	32,065	282,749	-	-	10,660	-	-	22,176	347,651	$ 19,696,534
50320-01	Outpatient Facility											1,375,429
50325-01	Durable Medical Equipment		9,298	81,837	-	-	2,817	-	-	5,831	99,784	$ 8,252,495
50330-01	Dental	3,082,030	182,200	1,595,564	-	-	55,091	-	-	112,295	1,945,149	$ 56,764,210
50335-01	Transportation											-
50340-00	Nursing Facility, Home Health Care	4,067,909										$ 4,074,658
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		18,963	167,124	-	-	5,828	-	-	12,950	204,865	$ 6,149,773
	Total Sub-Capitated Other Medical Expenses:	$ 8,333,212	$ 242,526	$ 2,127,274	$ -	$ -	$ 74,396	$ -	$ -	$ 153,253	$ 2,597,449	$ 96,313,098
	Total Sub-Capitated Expenses:	$ 8,341,898	$ 242,526	$ 2,127,274	$ -	$ -	$ 74,396	$ -	$ -	$ 153,253	$ 2,597,449	$ 500,085,654

See Independent Auditors' Report on Supplemental Information

Amounts expressed in whole dollars, differences are due to rounding

Paragraph 3.05

Mercy Care

Statement Of Activities

Fiscal Year Ending June 30, 2022

		TXIX/XXI SMI	TXIX/XXI Crisis (24 Hours)	Total TXIX/XXI	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total
00999	**Total Member Months**	328,141	14,814,766	15,142,907																	
	REVENUE																				
40105-01	Capitation	$ 851,952,329	$ 107,957,263	$ 959,909,592	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 959,909,592	$ -	$ 959,909,592
40115-01	Alternative Payment Model Initiatives Reconciliation/Settlement	(4,087,470)	-	(4,087,470)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,087,470)	-	(4,087,470)
40135-01	Title XIX/XXI Reconciliation Settlement	(55,800,976)	-	(55,800,976)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(55,800,976)	-	(55,800,976)
40145-01	Other Reconciliation Settlements*	279,899	1,364,625	1,644,524	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,644,524	-	1,644,524
40160-01	Health Insurance Provider Fee Revenue																				
40205-01	Non-Title XIX/XXI Revenue	-	-	-	8,155,356	31,138,359	738,206	4,387,459	813,513	-	6,727,851	3,979,537	569,071	16,273,600	11,493,840	64,618,622	65,700	148,961,116	148,961,116	-	148,961,116
40210-01	Specialty and Other Grants*			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40215-01	Non-Title XIX/XXI Profit Limit	-	-	-	-	-	-	-	-	-	(0)	0	-	(0)	-	(0)	-	(0)	(0)	-	(0)
40305-01	Investment Income	2,041,416	-	2,041,416	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,041,416	-	2,041,416
40310-01	Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49999	**TOTAL REVENUE**	794,385,197	109,321,888	903,707,085	8,155,356	31,138,359	738,206	4,387,459	813,513	-	6,727,851	3,979,537	569,071	16,273,600	11,493,840	64,618,622	65,700	148,961,116	1,052,668,201	-	1,052,668,201
	EXPENSES																				
	Behavioral Health (BH) Medical Expenses:																				
	Treatment Services																				
60105-01	Counseling																				
	a Counseling, Individual	14,761,310	-	14,761,310	-	376,808	-	-	-	-	1,612,942	1,589,680	-	577,456	-	1,184,224	-	5,341,110	20,102,420	-	20,102,420
	b Counseling, Family	281,619	-	281,619	-	12,115	-	-	-	-	280,486	19,422	-	6,032	-	109,248	-	427,302	708,921	-	708,921
	c Counseling, Group	2,789,294	-	2,789,294	-	103,294	-	-	-	-	203,584	119,350	-	614,309	-	459,507	-	1,500,044	4,289,337	-	4,289,337
60105-05	Assessment, Evaluation and Screening	20,219,983	-	20,219,983	-	1,286,565	-	-	-	-	646,284	318,520	-	565,987	-	3,842,258	-	6,659,614	26,879,597	-	26,879,597
60105-10	Other Professional	11,997,714	-	11,997,714	-	98,574	421,963	-	-	-	55,751	-	-	1,007,436	-	392,311	-	1,976,035	13,973,749	-	13,973,749
60199	**Total Treatment Services**	50,049,920	-	50,049,920	-	1,877,356	421,963	-	-	-	2,799,046	2,046,972	-	2,771,220	-	5,987,548	-	15,904,105	65,954,025	-	65,954,025
	Rehabilitation Services																				
60205-01	Living Skills Training	19,033,246	-	19,033,246	-	1,051,297	48,107			-	528,593	69,915	-	22,137	-	1,246,855	-	2,966,903	22,000,149	-	22,000,149
60205-05	Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60205-10	Health Promotion	11,569,855	-	11,569,855	-	452,353	-	-	-	-	107,298	332,860	-	16,167	-	545,878	-	1,454,556	13,024,411	-	13,024,411
60205-15	Supported Employment Services	10,541,196	-	10,541,196	-	592,175	-	-	-	-	286	53,367	-	2,884	-	584,052	-	1,232,764	11,773,959	-	11,773,959
60299	**Total Rehabilitation Services**	41,144,297	-	41,144,297	-	2,095,825	48,107	-	-	-	636,177	456,142	-	41,188	-	2,376,784	-	5,654,223	46,798,519	-	46,798,519
	Medical Services																				
60305-01	Medication Services	1,650,924	-	1,650,924	-	52,985	-	-	-	-	-	2,987	-	2,376,187	-	456,925	-	2,889,084	4,540,009	-	4,540,009
60305-05	Medical Management	5,511,523	-	5,511,523	-	465,444	57,115	-	-	-	483	47,495	-	305,630	-	515,064	-	1,391,231	6,902,753	-	6,902,753
60305-10	Laboratory, Radiology and Medical Imaging	1,147,173	-	1,147,173	-	39,728	-	-	-	-	26	-	-	259,676	-	441,236	-	740,666	1,887,839	-	1,887,839
60305-15	Electro-Convulsive Therapy	1,334,984	-	1,334,984	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,334,984	-	1,334,984
60399	**Total Medical Services**	9,644,603	-	9,644,603	-	558,157	57,115	-	-	-	509	50,482	-	2,941,492	-	1,413,226	-	5,020,982	14,665,584	-	14,665,584
	Support Services																				
60405-01	Case Management	74,054,092	-	74,054,092	-	5,382,912	139,847	-	-	-	1,228,014	767,452	-	471,405	-	6,608,179	-	14,597,809	88,651,901	-	88,651,901
60405-05	Personal Care Services	12,836,909	-	12,836,909	-	371,238	-	-	-	-	87	25,903	-	106	-	364,295	-	761,629	13,598,538	-	13,598,538
60405-10	Family Support	207,531	-	207,531	-	25,723	9,411	-	-	-	189,941	8,380	-	592	-	42,812	-	276,859	484,390	-	484,390
60405-15	Peer Support	7,592,817	-	7,592,817	-	686,461	447	-	-	-	2,568	29,691	-	246,188	-	710,968	-	1,676,323	9,269,140	-	9,269,140
60405-20	Therapeutic Foster Care	86,938	-	86,938	-	-	-	-	-	-	-	-	-	-	-	-	-	-	86,938	-	86,938
60405-21	Adult Behavioral Health Therapeutic Home	769,799	-	769,799	-	-	-	-	-	-	-	-	-	-	-	-	-	-	769,799	-	769,799
60405-25	Unskilled Respite Care	1,323,212	-	1,323,212	-	3,310	-	-	-	-	16,573	-	-	-	-	3,246	-	23,130	1,346,341	-	1,346,341
60405-30	Supported Housing*	-	-	-	-	-	-	4,036,462	751,035	-	-	-	-	-	-	-	-	4,787,498	4,787,498	-	4,787,498
60405-35	Reserved for Future Use																				
60405-40	Transportation	27,253,572	-	27,253,572	-	1,250,847	819	-	-	-	1,502	10,372	-	55,562	-	2,672,746	-	3,991,848	31,245,419	-	31,245,419
60499	**Total Support Services**	124,124,870	-	124,124,870	-	7,720,491	150,524	4,036,462	751,035	-	1,438,685	841,799	-	773,852	-	10,402,246	-	26,115,094	150,239,964	-	150,239,964
	Crisis Intervention Services																				
60505-01	Crisis Intervention - Mobile	-	10,261,601	10,261,601	1,911,393	11,418	-	-	-	-	-	-	-	11,575	-	4,561,103	-	6,495,489	16,757,090	-	16,757,090
60505-05	Crisis Intervention - Stabilization	-	71,803,490	71,803,490	3,933,201	69,623	-	-	-	-	-	-	-	166,495	-	8,367,820	-	12,537,140	84,340,629	-	84,340,629
60505-10	Crisis Intervention - Telephone	-	4,658,564	4,658,564	1,684,430	618,772	-	-	-	-	-	-	-	-	-	4,106,132	-	6,409,334	11,067,898	-	11,067,898
60599	**Total Crisis Intervention Services**	-	86,723,655	86,723,655	7,529,025	699,814	-	-	-	-	-	-	-	178,070	-	17,035,055	-	25,441,963	112,165,617	-	112,165,617
	Inpatient Services																				
60605-01	Hospital																				
	a Psychiatric (Provider Types 02 & 71)	87,869,019	-	87,869,019	-	-	-	-	-	-	-	-	-	-	-	18,935,036	-	18,935,036	106,804,055	-	106,804,055
	b Detoxification (Provider Types 02 & 71)	1,350,238	-	1,350,238	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,350,238	-	1,350,238
60605-05	Sub acute Facility																				
	a Psychiatric (Provider Types B5 & B6)	25,151,654	-	25,151,654	-	1,480,283	-	-	-	-	-	-	-	-	-	1,451,881	-	2,932,165	28,083,819	-	28,083,819
	b Detoxification (Provider Types B5 & B6)	1,679,773	-	1,679,773	-	109,571	-	-	-	-	-	-	-	-	-	107,469	-	217,040	1,896,812	-	1,896,812
60605-10	Residential Treatment Center (RTC)																				
	a Psychiatric - Secure & Non-Secure Provider Types 78,B1,B2,B3)	258,764	-	258,764	-	-	-	-	-	-	-	-	-	-	-	-	-	-	258,764	-	258,764
	b Detoxification - Secure & Non-Secure (Provider Types (78,B1,B2,B3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60605-15	Inpatient Services, Professional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60699	**Total Inpatient Services**	116,309,448	-	116,309,448	-	1,589,854	-	-	-	-	-	-	-	-	-	20,494,386	-	22,084,240	138,393,688	-	138,393,688
	Residential Services																				
60705-01	Behavioral Health Residential Facilities	75,887,074	-	75,887,074	-	429,427	-	-	-	-	-	93,897	-	4,336,279	-	421,188	-	5,280,791	81,167,865	-	81,167,865
60705-05	Reserved for Future Use																				
60705-10	Room and Board	-	-	-	-	3,572,596	-	-	-	-	226,256	23,842	-	1,977,135	-	-	-	5,799,829	5,799,829	-	5,799,829
60799	**Total Residential Services**	75,887,074	-	75,887,074	-	4,002,023	-	-	-	-	226,256	117,739	-	6,313,415	-	421,188	-	11,080,620	86,967,694	-	86,967,694
	Behavioral Health Day Program																				
60805-01	Supervised Day Program	558,592	-	558,592	-	76,714	1,359	-	-	-	19	-	-	-	-	76,659	-	154,751	713,344	-	713,344
60805-05	Therapeutic Day Program	363,202	-	363,202	-	26,222	-	-	-	-	-	1,593	-	31,011	-	26,281	-	85,107	448,309	-	448,309
60805-10	Medical Day Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60899	**Total Behavioral Health Day Program**	921,794	-	921,794	-	102,936	1,359	-	-	-	19	1,593	-	31,011	-	102,939	-	239,858	1,161,652	-	1,161,652
	Prevention Services																				
60905-01	Prevention																				
60905-05	HIV	-	-	-	-	-	-	-	-	-	-	-	-	907,262	-	-	-	907,262	907,262	-	907,262
60999	**Total Prevention Services**	-	-	-	-	-	-	-	-	-	-	-	-	907,262	-	-	-	907,262	907,262	-	907,262
	BH Pharmacy Expenses																				
61005-01	BH Pharmacy Expense	106,623,277	-	106,623,277	-	8,343,552	160	-	-	-	-	-	-	-	-	-	-	8,343,712	114,966,990	-	114,966,990
61099	**Total Pharmacy Expense**	106,623,277	-	106,623,277	-	8,343,552	160	-	-	-	-	-	-	-	-	-	-	8,343,712	114,966,990	-	114,966,990
61100-01	PPC BH Title XIX	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
61105-01	Other Service Expenses Not Reported Above*	(3,220,925)	-	(3,220,925)	-	1,804,486	-	-	-	-	841,345	-	527,918	415,334	10,641,598	-	65,700	14,296,381	11,075,456	-	11,075,456
61205-01	BH FQHC/RHC Services	1,105,327	-	1,105,327	-	(0)	-	-	-	-	-	-	-	-	-	0	-	0	1,105,327	-	1,105,327
61299	**Subtotal BH Medical Expenses**	522,589,684	86,723,655	609,313,339	7,529,025	28,794,493	679,227	4,036,462	751,035	-	5,942,038	3,514,727	527,918	14,372,843	10,641,598	58,233,372	65,700	135,088,440	744,401,779	-	744,401,779
61305-01	Specialty and Other Grant Expenses*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
69998	**Total BH Medical Expenses**	522,589,684	86,723,655	609,313,339	7,529,025	28,794,493	679,227	4,036,462	751,035	-	5,942,038	3,514,727	527,918	14,372,843	10,641,598	58,233,372	65,700	135,088,440	744,401,779	-	744,401,779
59999	**Total PH Medical Expenses (details below)**	195,683,586	-	195,683,586	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195,683,586	-	195,683,586
69999	**Total BH and PH Medical Expenses**	718,273,271	86,723,655	804,996,925	7,529,025	28,794,493	679,227	4,036,462	751,035	-	5,942,038	3,514,727	527,918	14,372,843	10,641,598	58,233,372	65,700	135,088,440	940,085,365	-	940,085,365
70105-01	Less: Reinsurance	(3,994,034)	-	(3,994,034)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,994,034)	-	(3,994,034)
70205-02	Less: Third Party Liability	(143,140)	-	(143,140)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(143,140)	-	(143,140)
70305-01	Less: Claims Overpayment Recoveries	(6,773,158)	-	(6,773,158)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,773,158)	-	(6,773,158)
70310-05	Less: Pharmacy Rebates	(647,331)	-	(647,331)	-	(33,520)	-	-	-	-	-	-	-	-	-	-	-	(33,520)	(680,852)	-	(680,852)
70310-10	Less: Pharmacy Performance Guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
85999	**Total Net Medical Expense**	706,715,607	86,723,655	793,439,262	7,529,025	28,760,973	679,227	4,036,462	751,035	-	5,942,038	3,514,727	527,918	14,372,843	10,641,598	58,233,372	65,700	135,054,920	928,494,181	-	928,494,181

See Independent Auditors' Report on Supplemental Information
Amounts expressed in whole dollars, differences are due to rounding

Mercy Care

Statement Of Activities

Fiscal Year Ending June 30, 2022

		TXIX/XXI SMI	TXIX/XXI Crisis (24 Hours)	Total TXIX/XXI	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total
00999	**Total Member Months**	328,141	14,814,766	15,142,907																	
	Hospitalization																				
50105-01	Hospital Inpatient	35,450,840	-	35,450,840														-	35,450,840	-	35,450,840
50110-01	Behavioral Health Hospital Inpatient	9,366	-	9,366														-	9,366	-	9,366
50199	**Total Hospitalization**	35,460,205	-	35,460,205														-	35,460,205	-	35,460,205
	Medical Compensation																				
50205-01	Primary Care Physician Services	36,824,343	-	36,824,343														-	36,824,343	-	36,824,343
50210-01	Behavioral Health Physician Services	233,339	-	233,339														-	233,339	-	233,339
50215-01	Referral Physician Services	6,841,157	-	6,841,157														-	6,841,157	-	6,841,157
50220-01	PH FQHC/RHC Services	662	-	662														-	662	-	662
50225-01	Other Professional Services	6,618,328	-	6,618,328														-	6,618,328	-	6,618,328
50299	**Total Medical Compensation**	50,517,829	-	50,517,829														-	50,517,829	-	50,517,829
	Other Medical Expenses																				
50305-01	Emergency Facility Services	8,953,829	-	8,953,829	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,953,829	-	8,953,829
50310-01	PH Pharmacy	53,076,365	-	53,076,365														-	53,076,365	-	53,076,365
50315-01	Laboratory, Radiology & Medical Imaging	4,715,591	-	4,715,591														-	4,715,591	-	4,715,591
50320-01	Outpatient Facility	17,731,062	-	17,731,062														-	17,731,062	-	17,731,062
50325-01	Durable Medical Equipment	191,419	-	191,419														-	191,419	-	191,419
50330-01	Dental	623,531	-	623,531														-	623,531	-	623,531
50335-01	Transportation	7,807,520	-	7,807,520														-	7,807,520	-	7,807,520
50340-00	Nursing Facility, Home Health Care	3,243,033	-	3,243,033														-	3,243,033	-	3,243,033
50345-01	Therapies	10,077	-	10,077														-	10,077	-	10,077
50350-01	Alternative Payment Model Performance Based Payments to Providers	-	-	-														-	-	-	-
50370-01	Other Medical Expenses	13,353,125	-	13,353,125														-	13,353,125	-	13,353,125
50399	**Total Other Medical Expenses**	109,705,552	-	109,705,552	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109,705,552	-	109,705,552
59999	**Total Physical Health Expense**	195,683,586	-	195,683,586	-	-	-	-	-	-	-	-	-	-	-	-	-	-	195,683,586	-	195,683,586
	Administrative Expenses:																				
80105-01	Compensation	13,335,358	1,832,461	15,167,820	139,525	529,598	12,629	77,032	13,918	-	115,102	68,051	9,769	278,414	196,641	1,105,517	-	2,546,195	17,714,015	-	17,714,015
80205-01	Occupancy	325,028	44,663	369,692	3,401	12,908	308	1,973	339	-	2,805	1,659	238	6,786	4,793	26,945	-	62,155	431,846	-	431,846
80305-01	Depreciation	173	24	197	2	7	0	0	0	-	1	1	0	4	3	14	-	32	229	-	229
80405-01	Care Management/Care Coordination	8,039,001	1,104,669	9,143,670	84,110	319,259	7,613	46,922	8,390	-	69,388	41,023	5,889	167,837	118,542	666,443	-	1,535,417	10,679,087	-	10,679,087
80505-01	Professional and Outside Services	30,969,468	4,250,381	35,219,849	323,626	1,228,399	29,294	184,954	32,282	-	266,979	157,843	22,658	645,780	456,106	2,564,240	-	5,912,161	41,132,010	-	41,132,010
80605-01	Office Supplies and Equipment	1,902,355	261,410	2,163,765	19,904	75,550	1,802	8,193	1,985	-	16,420	9,708	1,394	39,717	28,052	157,708	-	360,431	2,524,196	-	2,524,196
80705-01	Travel	130,371	17,915	148,285	1,364	5,178	123	327	136	-	1,125	665	96	2,722	1,922	10,808	-	24,466	172,752	-	172,752
80805-01	Repair and Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80905-01	Bank Service Charge	442,650	-	442,650	-	-	-	-	-	-	-	-	-	-	-	-	-	-	442,650	-	442,650
81005-01	Insurance	260,332	714	261,046	54	206	5	31	5	-	45	27	4	109	77	431	-	993	262,039	-	262,039
81105-01	Marketing	1,292,808	142,691	1,435,499	10,865	41,239	983	5,406	1,084	-	8,963	5,299	761	21,680	15,312	86,085	-	197,676	1,633,175	-	1,633,175
81205-01	Interest Expense	289,724	-	289,724	-	-	-	-	-	-	-	-	-	-	-	-	-	-	289,724	-	289,724
81305-01	Pharmacy Benefit Manager Expenses	2,300,765	-	2,300,765	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,300,765	-	2,300,765
81405-01	Fraud Reduction Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81505-01	Third Party Activities	68,436	-	68,436	-	-	-	-	-	-	-	-	-	-	-	-	-	-	68,436	-	68,436
81605-01	Sub Capitation Block Administration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81705-01	Health Care Quality Improvement	2,441,498	335,495	2,776,993	25,545	96,961	2,312	15,840	2,548	-	21,073	12,459	1,788	50,973	36,002	202,403	-	467,906	3,244,899	-	3,244,899
82505-01	Interpretation/Translation Services	1,714,282	235,566	1,949,848	17,936	68,081	1,624	10,320	1,789	-	14,797	8,748	1,256	35,791	25,278	142,116	-	327,735	2,277,582	-	2,277,582
83005-01	Other Administrative Expenses*	3,973	-	3,973	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,973	-	3,973
83999	**Subtotal Administrative Expenses**	63,516,221	8,225,989	71,742,211	626,331	2,377,386	56,694	350,997	62,478	-	516,699	305,482	43,851	1,249,812	882,727	4,962,710	-	11,435,168	83,177,379	-	83,177,379
83105-01	Non-Title XIX/XXI Encounter Valuation Sanctions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83205-01	Admin Expenses from Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
84999	**Total Administrative Expense**	63,516,221	8,225,989	71,742,211	626,331	2,377,386	56,694	350,997	62,478	-	516,699	305,482	43,851	1,249,812	882,727	4,962,710	-	11,435,168	83,177,379	-	83,177,379
86999	**Total Expenses**	770,231,828	94,949,644	865,181,472	8,155,356	31,138,359	735,921	4,387,459	813,513	-	6,458,737	3,820,209	571,769	15,622,656	11,524,325	63,196,082	65,700	146,490,088	1,011,671,560	-	1,011,671,560
87999	**Profit (Loss) from Operations**	24,153,368	14,372,245	38,525,613	-	0	2,285	-	-	-	269,114	159,328	(2,698)	650,944	(30,485)	1,422,541	-	2,471,028	40,996,641	-	40,996,641
88999	Profit (Loss) from Non-Operating*	3,758,215	-	3,758,215	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,758,215	-	3,758,215
89999	**Profit/(Loss) Before Taxes**	27,911,584	14,372,245	42,283,828	-	0	2,285	-	-	-	269,114	159,328	(2,698)	650,944	(30,485)	1,422,541	-	2,471,028	44,754,856	-	44,754,856
90105-01	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90205-01	Premium Taxes	17,610,435	2,212,654	19,823,089	-	-	-	-	-	-	-	-	-	-	-	-	-		19,823,089	-	19,823,089
90305-01	Reserved for Future Use	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
99999	**Net Profit/(Loss)**	10,301,149	12,159,590	22,460,739	-	0	2,285	-	-	-	269,114	159,328	(2,698)	650,944	(30,485)	1,422,541	-	2,471,028	24,931,768	-	24,931,768
990105-01	Community Reinvestment																			1,188,471	1,188,471
990205-01	Non Covered Services																			-	-
990305-01	Unreimbursed Performance Based Payments																			-	-
999999	**Net Profit/(Loss) After CRI NCS and Unreim PBP**																			(1,188,471)	23,743,297

Mercy Care

Statement of Activities

Schedule A Disclosure

Fiscal Year Ending June 30, 2022

	TXIX/XXI SMI	TXIX/XXI Crisis (24 Hours)	Total TXIX/XXI	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total
Disclosure of NTXIX/XXI Other, Other Federal and Mgmt & Gen AHCCCS Revenue reported on line 40205-01																				
SUDS						$79,408											$79,408	$79,408		$79,408
Childrens Behavioral Health						$658,798											$658,798	$658,798		$658,798
ER-COVID														$528,742			$528,742	$528,742		$528,742
ER-COVID Supplement														$641,660			$641,660	$641,660		$641,660
State Opioid Response (SOR)														$300,910			$300,910	$300,910		$300,910
State Opioid Response (SOR) Supplement														$374,792			$374,792	$374,792		$374,792
State Opioid Response SOR II														$6,324,568			$6,324,568	$6,324,568		$6,324,568
Suicide Prevention Gun Lock Project														$9,997			$9,997	$9,997		$9,997
CRRSAA-SABG														$3,313,172			$3,313,172	$3,313,172		$3,313,172
																	$0	$0		$0
																	$0	$0		$0
Total NTXIX/XXI Other and Other Federal Column	$0	$0	$0	$0	$0	$738,206	$0	$0	$0	$0	$0	$0	$0	$11,493,840	$0	$0	$12,232,046	$12,232,046	$0	$12,232,046
Disclosure of Other Reconciliation Settlements on line 40145-01																				
BH PPC - CYE19		572,431	$572,431														$0	$572,431		$572,431
BH PPC - CYE20		8,268	$8,268														$0	$8,268		$8,268
BH PPC - CYE21		270,019	$270,019														$0	$270,019		$270,019
BH PPC - CYE22		513,907	$513,907														$0	$513,907		$513,907
APSI - CYE19	136,016		$136,016														$0	$136,016		$136,016
COVID - CYE22	143,883		$143,883														$0	$143,883		$143,883
Total Other Reconciliations	$279,899	$1,364,625	$1,644,524	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,644,524	$0	$1,644,524
Disclosure of Specialty and Other Grants Reported on line 40210-01																				
			$0														$0	$0		$0
			$0														$0	$0		$0
			$0														$0	$0		$0
Total Specialty and Other Grants	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Disclosure of Supported Housing Reported on line 60405-30																				
Rental Subsidy							2,696,058	501,636									$3,197,694	$3,197,694		$3,197,694
Management Fees							871,421	162,139									$1,033,560	$1,033,560		$1,033,560
Utility Payments							143,079	26,622									$169,701	$169,701		$169,701
Repair & Maintenance							44,815	8,338									$53,154	$53,154		$53,154
Damages							106,616	19,837									$126,453	$126,453		$126,453
Deposits							137,941	25,666									$163,606	$163,606		$163,606
Start UP							0	0									$0	$0		$0
Eviction Prevention							36,533	6,797									$43,330	$43,330		$43,330
																	$0	$0		$0
Housing Trust Fund - Construction/Improvements																	$0	$0		$0
																	$0	$0		$0
Total Supported Housing	$0	$0	$0	$0	$0	$0	$4,036,462	$751,035	$0	$0	$0	$0	$0	$0	$0	$0	$4,787,498	$4,787,498	$0	$4,787,498
Disclosure of Other Services Reported on line 61105-01																				
Alternative Payment Model - Behavioral Health	(3,220,925)		($3,220,925)														$0	($3,220,925)		($3,220,925)
PASRR			$0													$65,700	$65,700	$65,700		$65,700
FEP Grant Expense			$0									$527,918					$527,918	$527,918		$527,918
Opioid STR			$0											($451)			($451)	($451)		($451)
State Opioid Response (SOR)			$0											$249,218			$249,218	$249,218		$249,218
State Opioid Response (SOR) Supplement			$0											$345,787			$345,787	$345,787		$345,787
State Opioid Response SOR II			$0											$5,880,976			$5,880,976	$5,880,976		$5,880,976
CRRSAA-SABG			$0											$3,047,233			$3,047,233	$3,047,233		$3,047,233
ER-COVID			$0											$514,599			$514,599	$514,599		$514,599
ER-COVID SUPP			$0											$594,238			$594,238	$594,238		$594,238
Suicide Prevention Gun Lock Project			$0											$9,997			$9,997	$9,997		$9,997
NT SMI - Non Encounterable Coordinated Entry Position			$0		$150,000												$150,000	$150,000		$150,000
NT SMI - Non Encounterable Connections Conference			$0		$50,647												$50,647	$50,647		$50,647
NT SMI - Non Encounterable HMIS			$0		$4,097												$4,097	$4,097		$4,097
NT SMI - Non Encounterable WICHE			$0		$20,000												$20,000	$20,000		$20,000
NT SMI - Non Encounterable Health Equity Training			$0		$6,500												$6,500	$6,500		$6,500
NT SMI - Non Encounterable Eviction Prevention			$0		$278,903												$278,903	$278,903		$278,903
NT SMI - Non Encounterable TLP			$0		$1,287,799												$1,287,799	$1,287,799		$1,287,799
NT SMI - Non Encounterable Zero Suicide Training			$0		$6,540												$6,540	$6,540		$6,540
Oxford House			$0										$415,334				$415,334	$415,334		$415,334
MHBG SED Non Encounterable Outreach Positions			$0							$163,642							$163,642	$163,642		$163,642
MHBG SED 5% Crisis Set-Aside										$677,703							$677,703	$677,703		$677,703

Mercy Care
Statement of Activities
Schedule A Disclosure
Fiscal Year Ending June 30, 2022

	TXIX/XXI SMI	TXIX/XXI Crisis (24 Hours)	Total TXIX/XXI	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total
																	$0	$0		$0
																	$0	$0		$0
Total Specialty and Other Grants Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
on line 83005-01																				
Meeting Expense	$3,973		$3,973														$0	$3,973		$3,973
			$0														$0	$0		$0
			$0														$0	$0		$0
Total Specialty and Other Grants Expenses	$3,973	$0	$3,973	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,973	$0	$3,973
Disclosure of Non-Title XIX/XXI Encounter Valuation Reported on line 83105-01																				
			$0														$0	$0		$0
			$0														$0	$0		$0
			$0														$0	$0		$0
Total Non-Title XIX/XXI Encounter Valuation Sanctions	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Disclosure of Administrative Expenses from Specialty and Other Grants Reported on line 83205-01																				
			$0														$0	$0		$0
			$0														$0	$0		$0
			$0														$0	$0		$0
Total Adm Expenses from Specialty and Other Grants Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Disclosure of Non-Operating Reported on line 88999-01																				
Investment Income	$3,758,215		$3,758,215														$0	$3,758,215		$3,758,215
			$0														$0	$0		$0
			$0														$0	$0		$0
Total Non-Operating	$3,758,215	$0	$3,758,215	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,758,215	$0	$3,758,215

ADDITIONAL INFORMATION

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

MERCY CARE

We have audited the financial statements of ***Mercy Care*** as of and for the year ended June 30, 2022, and our report thereon dated December 1, 2022, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The additional information on pages 32 and 33 is presented for purposes of additional analysis and is not a required part of 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 additional information on pages 32 and 33 is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

December 1, 2022

MERCY CARE

ADDITIONAL INFORMATION

STATEMENT OF FINANCIAL POSITION

June 30, 2022
(In thousands)

A S S E T S

	ACC	DES/DDD	DCS/CHP	ALTCS	Medicare	RBHA	Total
CURRENT ASSETS							
Cash and cash equivalents	$ 239,183	$ 7,331	$ 56,626	$ 55,011	$ (5,708)	$ 117,789	$ 470,232
Short-term investments	43,136	3,931	3,523	14,538	8,411	22,080	95,619
Receivables:	-	-	-	-	-	-	
Reinsurance receivables, net	5,654	1,609	3,907	3,264	-	6,432	20,866
Reconciliation receivables	23,226	1,029	-	24,993	-	4,635	53,883
Capitation and supplemental receivables	1,724	-	-	141	17,481	46	19,392
Pharmacy rebate receivable	1,321	67	14	174	17,394	181	19,151
Third-party liability receivable	3,034	-	-	528	836	325	4,723
Interest receivable	568	52	46	191	111	291	1,259
Provider advances, net	5,657	251	293	529	1,006	311	8,047
Other receivables	438	12	1	6	18	16,839	17,314
Risk share settlement, current portion	-	-	-	-	13,395	-	13,395
Grant receivable	-	-	-	-	-	5,588	5,588
Prepaid assets	332	31	36	118	73	191	781
TOTAL CURRENT ASSETS	324,273	14,313	64,446	99,493	53,017	174,708	730,250
RECONCILIATION RECEIVABLES, LT	7,399	493	46	1,468	2,133	17,800	29,339
LONG-TERM INVESTMENTS	197,182	17,971	16,103	66,456	38,449	100,929	437,090
TOTAL ASSETS	$ 528,854	$ 32,777	$ 80,595	$ 167,417	$ 93,599	$ 293,437	$ 1,196,679

L I A B I L I T I E S A N D N E T A S S E T S

	ACC	DES/DDD	DCS/CHP	ALTCS	Medicare	RBHA	Total
CURRENT LIABILITIES							
Claims payable	$ 170,571	$ 15,676	$ 19,042	$ 67,134	$ 41,010	$ 55,094	$ 368,527
Payable to providers	4,704	369	48	3,871	1,506	1,605	12,103
Reconciliation payable	121,494	8,041	17,768	10,235	-	99,545	257,083
Grant payable	-	-	-	-	-	2,870	2,870
Due to Aetna	11,574	1,341	(442)	3,947	2,959	1,674	21,053
Deferred revenue	-	-	-	-	-	5,920	5,920
Other current liabilities	9,315	59	455	2,685	194	8,062	20,770
TOTAL CURRENT LIABILITIES	317,658	25,486	36,871	87,872	45,669	174,770	688,326
RECONCILIATION PAYABLE, LT	33,567	2,086	25,727	7,023	-	27,713	96,116
TOTAL LIABILITIES	351,225	27,572	62,598	94,895	45,669	202,483	784,442
NET ASSETS WITHOUT DONOR RESTRICTIONS	177,629	5,205	17,997	72,522	47,930	90,954	412,237
TOTAL LIABILITIES AND NET ASSETS	$ 528,854	$ 32,777	$ 80,595	$ 167,417	$ 93,599	$ 293,437	$ 1,196,679

MERCY CARE

ADDITIONAL INFORMATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2022
(In thousands)

	ACC	DES/DDD	DCS/CHP	ALTCS	Medicare	RBHA	Total
OPERATING REVENUES							
Capitation premiums	$ 2,019,512	$ 179,596	$ 205,807	$ 686,953	$ 402,338	$ 959,910	$ 4,454,116
Delivery supplement	47,425	-	-	-	-	-	47,425
Grants	-	-	-	-	-	149,627	149,627
Other	(55,049)	(856)	(44,084)	(8,257)	-	(58,178)	(166,424)
TOTAL OPERATING REVENUES	2,011,888	178,741	161,724	678,695	402,338	1,051,359	4,484,744
HEALTH CARE EXPENSES							
Hospitalization	280,254	25,445	(14,489)	26,529	113,619	55,149	486,508
Medical compensation	353,726	13,178	14,356	18,164	44,322	37,227	480,974
Ancillary and other medical services	1,122,141	137,200	147,739	106,513	212,934	840,255	2,566,781
Institutional	-	-	-	213,030	-	-	213,030
Home and community based services	-	-	-	256,058	-	-	256,058
Less: net third party liability recoveries	(2,661)	(21)	-	63	268	(143)	(2,493)
Less: net reinsurance recoveries	(47,548)	(9,177)	(6,683)	(16,355)	(25)	(3,994)	(83,782)
TOTAL HEALTH CARE EXPENSES	1,705,913	166,625	140,923	604,003	371,118	928,494	3,917,076
GENERAL AND ADMINISTRATIVE EXPENSES	178,903	15,090	13,220	43,109	39,641	83,234	373,196
PREMIUM TAX EXPENSE	50,139	-	-	16,931	-	19,823	86,893
TOTAL EXPENSES	1,934,954	181,716	154,143	664,042	410,759	1,031,551	4,377,166
OPERATING INCOME (LOSS)	76,934	(2,975)	7,580	14,653	(8,421)	19,808	107,579
NONOPERATING INCOME (EXPENSE)							
Investment income	12,278	1,119	1,003	4,138	2,394	6,274	27,206
Investment fees	(947)	(86)	(77)	(319)	(185)	(485)	(2,099)
Community reinvestment	(4,691)	-	(465)	(907)	-	(1,188)	(7,252)
TOTAL NONOPERATING INCOME	6,639	1,033	460	2,912	2,209	4,601	17,854
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS	83,573	(1,943)	8,040	17,565	(6,211)	24,409	125,433
UNREALIZED (LOSSES) ON INVESTMENTS	(30,328)	(2,681)	(781)	(11,199)	(6,854)	(18,137)	(69,979)
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTION TO SPONSOR ORGANIZATIONS	53,245	(4,623)	7,259	6,366	(13,066)	6,272	55,454
DISTRIBUTION TO SPONSORS	(30,000)	-	-	-	-	(30,000)	(60,000)
EQUITY TRANSFERS	-	-	-	(15,000)	15,000	-	-
REPAYMENT OF NOTE RECEIVABLE FROM MEMBER	271	-	-	-	-	-	271
NET ASSETS, BEGINNING OF YEAR	154,112	9,828	10,737	81,157	45,996	114,682	416,512
NET ASSETS END OF YEAR	$ 177,629	$ 5,205	$ 17,997	$ 72,522	$ 47,930	$ 90,954	$ 412,237

See Independent Auditors' Report on Additional Information

UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS

MERCY CARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

Federal Grantor / Pass-Through Agency / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services				
Arizona Health Care Cost Containment System:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	11356415170214	$ 14,372,843	$ 15,622,656
Block Grants for Prevention and Treatment of Substance Abuse - COVID-19	93.959	11356415170214	3,067,752	3,313,172
Subtotal Block Grants for Prevention and Treatment of Substance Abuse (93.959)			17,440,595	18,935,828
Block Grants for Community Mental Health Services				
SMI - Non-Title XIX	93.958	11356415170214	3,514,727	3,820,356
Children - Non-Title XIX	93.958	11356415170214	5,264,335	5,781,034
First Episode of Psychosis	93.958	11356415170214	526,918	569,071
Crisis 5% Set-Aside	93.958	11356415170214	677,703	731,919
Subtotal Block Grants for Community Mental Health Services (93.958)			9,983,683	10,902,380
Substance Abuse and Mental Health Services, Projects of Regional and National Significance				
Arizona State Opioid Response Grant	93.788	11356415170214	278,620	300,910
Arizona State Opioid Response Supplemental Grant	93.788	11356415170214	347,030	374,792
Arizona State Opioid Response II Grant	93.788	11356415170214	5,856,080	6,324,567
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19	93.665	11356415170214	489,575	528,741
Emergency Grants to Address Mental and Substance Use Disorders During COVID-19 - Supplemental	93.665	11356415170214	594,130	641,660
Subtotal Substance Abuse and Mental Health Services			7,565,435	8,170,670
Total Passed-Through Arizona Health Care Cost Containment System			34,989,713	38,008,878
Injury Prevention and Control Research and State and Community Based Programs	93.136	11356415170214	9,997	9,997
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 34,999,710	$ 38,018,875

MERCY CARE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of ***Mercy Care*** under programs of the federal government for the year ended June 30, 2022. The information in the 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* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of ***Mercy Care***, it is not intended to and does not present the financial position, changes in net assets or cash flows of ***Mercy Care***.

(2) Summary of significant accounting policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. ***Mercy Care*** has not elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

(3) Assistance listing numbers

The program titles and assistance listing numbers were obtained from the 2022 Catalog of Federal Domestic Assistance.

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' 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

MERCY CARE

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 ***Mercy Care***, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 1, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ***Mercy Care'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 ***Mercy Care's*** internal control. Accordingly, we do not express an opinion on the effectiveness of ***Mercy Care'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 ***Mercy Care'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 ***Mercy Care's*** internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Mercy Care's*** internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

December 1, 2022

4722 North 24th Street, Suite 300 ■ Phoenix, AZ 85016
Main: 602.264.6835 ■ Fax: 602.265.7631 ■ www.mhmcpa.com

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

To the Board of Directors of

MERCY CARE

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Mercy Care's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Mercy Care's major federal programs for the year ended June 30, 2022. Mercy Care's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Mercy Care complied, in all material respects, with the 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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Mercy Care and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Mercy Care's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Mercy Care's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Mercy Care's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Mercy Care's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, 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 Mercy Care's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of Mercy Care's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Mercy Care's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Mayer Hoffman McCann P.C.

December 1, 2022

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2022

Section I – Summary of Auditors' Results

Financial Statements

1. Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
3. Noncompliance material to financial statements noted?	No

Federal Awards

1. Internal control over major federal program:	
a. Material weakness(es) identified?	No
b. Significant deficiency(ies) identified?	None reported
2. Type of Auditor's report issued on compliance for major federal program:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

4. Identification of major federal programs:

Assistance Listing Number	Name of Federal Program or Cluster
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
93.788	Arizona State Opioid Grant
93.665	Emergency Grants to Address Mental and Substance Use Disorders During COVID-19

5. Dollar threshold used to distinguish between type A and type B programs:	$1,140,566
6. Auditee qualified as a low-risk auditee?	Yes

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2022

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

Section IV – Prior Audit Findings

None