

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

Years Ended June 30, 2020 and 2019

MERCY CARE

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

Years Ended June 30, 2020 and 2019

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 23
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Supplemental Information	24 - 25
Sub-Capitated Expenses Report – Contract Year	26 - 27
Supplemental Statement of Activities	28 - 29
Supplemental Statement of Activities – Schedule A	30 - 31
ADDITIONAL INFORMATION	
Independent Auditors' Report on Additional Information	32
Statement of Financial Position	33
Statement of Activities and Changes in Net Assets	34
UNIFORM GUIDANCE SUPPLEMENTAL REPORTS	
Schedule of Expenditures of Federal Awards	35
Notes to the Schedule of Expenditures of Federal Awards	36
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 <i>Government Auditing Standards</i>	37 - 38
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	39 - 40
Schedule of Findings and Questioned Costs	41 - 42



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MERCY CARE

We have audited the accompanying financial statements of **Mercy Care**, which comprise the statements of financial position as of June 30, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Mercy Care** as of June 30, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of **Mercy Care** 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 Principals and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2020, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Mercy Care's** internal control over financial reporting and compliance.

Emphasis of Matters

As discussed in Note 1 to the financial statements, Mercy Care changed its method of accounting for revenue from contracts with customers effective July 1, 2019, under the modified retrospective method.

As discussed in Note 1 to the financial statements, **Mercy Care** adopted Financial Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2020. Our opinion is not modified with respect to this matter.



November 20, 2020

MERCY CARE

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019
(In thousands)

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 136,873	\$ 180,356
Short-term investments	51,388	49,233
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of \$16,672 and \$17,926 at June 30, 2020 and 2019, respectively	56,545	25,948
Reconciliation receivables, current portion	76,015	80,599
Capitation and supplemental receivables	1,145	2,450
Pharmacy rebate receivable	31,732	19,452
Third party liability receivable, net of allowance for doubtful accounts of \$967 and \$0 at June 30, 2020 and 2019, respectively	5,517	5,003
Interest receivable	1,011	960
Provider advances, net of allowance for doubtful accounts of \$1,064 and \$698 at June 30, 2020 and 2019, respectively	6,726	7,119
Other receivables	5,557	8,608
Risk share settlement	10,342	8,282
Grant receivable	3,079	2,848
Prepaid assets	1,562	1,670
TOTAL CURRENT ASSETS	<u>387,492</u>	<u>392,528</u>
RECONCILIATION RECEIVABLES, net of current portion	11,400	-
LONG-TERM INVESTMENTS	<u>360,354</u>	<u>283,828</u>
TOTAL ASSETS	<u>\$ 759,246</u>	<u>\$ 676,356</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Claims payable	271,629	271,974
Payable to providers	222	2,132
Reconciliation payables, current portion	9,732	16,371
Grant payables	1,171	-
Due to Aetna	9,673	3,286
Deferred revenue	84	221
Other current liabilities	36,305	38,551
TOTAL CURRENT LIABILITIES	<u>328,816</u>	<u>332,535</u>
RECONCILIATION PAYABLE, net of current portion	<u>64,698</u>	<u>-</u>
TOTAL LIABILITIES	<u>393,514</u>	<u>332,535</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>365,732</u>	<u>343,821</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 759,246</u>	<u>\$ 676,356</u>

See Notes to Financial Statements

MERCY CARE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2020 and 2019
(In thousands)

	2020	2019
OPERATING REVENUES		
Capitation premiums	\$ 3,625,003	\$ 3,504,816
Delivery supplement	46,242	51,128
Grants	156,550	150,576
Other, net	(45,658)	25,120
TOTAL OPERATING REVENUES	3,782,137	3,731,640
HEALTH CARE EXPENSES		
Hospitalization	449,688	451,370
Medical compensation	347,845	371,831
Ancillary and other medical services	2,184,645	2,202,077
Institutional	222,245	222,816
Home and community based services	245,017	221,048
Less: net third part liability recoveries	(7,017)	(6,782)
Less: net reinsurance recoveries	(101,578)	(100,027)
TOTAL HEALTH CARE EXPENSES	3,340,845	3,362,333
GENERAL AND ADMINISTRATIVE EXPENSES	319,820	293,965
PREMIUM TAX EXPENSE	67,518	64,096
TOTAL EXPENSES	3,728,183	3,720,394
OPERATING INCOME	53,954	11,246
NONOPERATING INCOME (EXPENSE)		
Investment income	14,675	11,409
Investment fees	(1,428)	(1,259)
Community reinvestment	(2,176)	(1,354)
TOTAL NONOPERATING INCOME	11,071	8,796
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS	65,025	20,042
UNREALIZED GAINS ON INVESTMENTS	16,372	8,706
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS	81,397	28,748
DISTRIBUTION TO DISTRICT	-	(10,000)
DISTRIBUTIONS TO SPONSOR ORGANIZATIONS	(59,700)	-
SALE OF 0.5% INTEREST IN THE PLAN	-	(1,500)
NOTE RECEIVABLE FOR 0.5% INTEREST IN THE PLAN	-	1,500
REPAYMENT OF NOTE RECEIVABLE FROM MEMBER	214	-
NET ASSETS, BEGINNING OF YEAR	343,821	325,073
NET ASSETS, END OF YEAR	\$ 365,732	\$ 343,821

See Notes to Financial Statements

MERCY CARE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 81,397	\$ 28,748
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	(3,839)	(7,904)
Amortization expense	-	577
Net unrealized gains on investments	(16,372)	(8,706)
Net realized gains on investments	(6,579)	(2,633)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	(28,374)	(3,320)
Reconciliation receivables	(6,816)	(34,252)
Capitation and supplemental receivables	1,305	(633)
Pharmacy rebate receivable	(12,280)	7,026
Third-party liability receivable	453	(179)
Interest receivable	(51)	(264)
Provider advances	1,042	740
Other receivables	3,051	(5,287)
Risk share settlement, net	(2,060)	(19,550)
Due from AHCCCS	-	26,179
Due from Aetna	-	9,777
Grant receivable	(231)	-
Prepaid assets	108	32
Increase (decrease) in:		
Claims payable	(345)	34
Grant payable	1,171	(2,848)
Payable to providers	(1,910)	(25,902)
Reconciliation payable	58,059	1,326
Due to AHCCCS	-	(2)
Due to Aetna	6,387	2,965
Deferred revenue	(137)	(36,369)
Other current liabilities	(2,246)	34,146
Net cash provided by (used in) operating activities	<u>71,733</u>	<u>(36,299)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capitalized software costs	-	437
Purchases of investments	(280,222)	(186,642)
Proceeds from sale of investments	<u>224,492</u>	<u>153,915</u>
Net cash used in investing activities	<u>(55,730)</u>	<u>(32,290)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to Sponsor Organizations	(59,700)	-
Repayment received on note receivable from member	214	-
Distribution to District	-	(10,000)
Net cash used in financing activities	<u>(59,486)</u>	<u>(10,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(43,483)	(78,589)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>180,356</u>	<u>258,945</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 136,873</u>	<u>\$ 180,356</u>

See Notes to Financial Statements

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(1) Company 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

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 contracts 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. Mercy Care began administering the Complete Care contract on October 1, 2018. The contract is a three-year agreement, with the possibility of two two-year extensions.

Effective January 22, 2013, Mercy Maricopa Integrated Care (MMIC), was incorporated in the State of Arizona with a dissolution date of the later of December 31, 2021 or six months after the expiration of the RBHA contract. The initial members of MMIC were Southwest Catholic Health Network d/b/a/ Mercy Care Plan (SCHN), its two sponsor organizations Dignity and Ascension, and Maricopa County Special Health Care District (District). The by-laws provided that MMIC would have one class of members.

MMIC was formed to provide physical and behavioral health care services on an integrated basis to Medicaid eligible adults with serious mental illness, and to operate as the RBHA to coordinate the delivery of health care services to eligible persons in Maricopa County, Arizona. On March 25, 2013, MMIC was awarded a \$3 billion three-year contract with the Arizona Department of Health Services (ADHS) to serve as the designated RBHA for the geographical service area (GSA) of Maricopa County.

In conjunction with SCHN’s acquisition of District’s noncontrolling interest (see Note 6), MMIC merged into SCHN effective July 1, 2018 to form the combined organization operating as Mercy Care. 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, 2021. Additionally, in connection with 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, 2019 is payable in seven annual installments of \$214,286 plus interest at 3% per year, maturing January 2026. As of June 30, 2020, Mercy Care has received \$259,286 under the promissory note which included \$45,000 in interest.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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 management 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 continues through the expiration or termination of the October 1, 2018 ACC contract with AHCCCS and will automatically renew for a five-year term. MMIC entered into a five-year management agreement with Aetna effective May 1, 2013, which has been assumed by Mercy Care. The RBHA management agreement automatically renews for a second five-year term and thereafter for successive one-year periods. Under the terms of the agreements, Mercy Care pays a monthly fee to Aetna, as defined in the agreement, 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 \$276,791,000 and \$273,138,000 for the years ended June 30, 2020 and June 30, 2019, respectively. This amount is included in general and administrative expenses in the accompanying statements of activities and changes in net assets. At June 30, 2020 and 2019, respectively, net management fees paid in advance and due from Aetna for Mercy Care totaled approximately \$3,364,000 and \$208,000, 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, 2020 and 2019, the amount Due to Aetna includes \$11,152,000 and \$1,658,000 respectively, for the share of risk related to the Plan's performance. At June 30, 2020, and 2019, Due to Aetna included \$1,550,000 and \$1,760,000 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.

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 Company'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 Company 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, 2020 and 2019, 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. A material estimate potentially susceptible to change in the near term relates to the claims payable liability.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. The Company 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 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 Acute/ACC, DES/DDD 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, within other revenue in the accompanying statements of activities and changes in net assets, based on the operational performance of the AHCCCS ACC, RBHA and ALTCS lines of business. 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, 2020 and 2019. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year.

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

- ACC Prospective
- ACC Prior Period Coverage
- Adult Group above 106% Federal Poverty Level (formerly known as the Newly Eligible Adults Prospective and Prior Period Coverage)
- ALTCS Prior Period Coverage
- Home and Community Based Services
- Share of Cost
- RBHA Title XIX/XXI

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, 2020, the Company has recorded an estimated receivable from AHCCCS of approximately \$85,282,000 and an estimated payable to AHCCCS of approximately \$74,430,000 which is included in reconciliation receivables and reconciliation payables, respectively. As of June 30, 2019, the Company has recorded an estimated receivable from AHCCCS of approximately \$80,599,000 and an estimated payable to AHCCCS of approximately \$16,371,000 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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, 2020, and 2019, 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, 2020 and 2019 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Care receives substantially all 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 and other revenues including Reinsurance recoveries and Third-Party Liability recoveries totaled approximately \$3,890,732,000 and \$3,830,214,000 for the years ended June 30, 2020 and 2019, respectively.

Adoption of ASC 606 - Mercy Care adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606) for the year ended June 30, 2020. The Plan applied the modified retrospective approach to all applicable contracts when adopting ASC 606. 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, including ACC, ALTCS, MCA 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 disclosed herein as of June 30, 2020 as a significant reversal of the estimate is not considered probable.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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 on a modified prospective basis. 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. In accordance with ASU 2018-08, 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 \$156,166,000 and \$148,398,000 for the years ended June 30, 2020 and 2019, respectively. Based on the requirements of Mercy Care in its contracts with AHCCCS, grant revenue subject to conditions for the year ended June 30, 2020 totals \$7,422,000. Mercy Care has determined that the conditions for the revenue recorded have been met as of June 30, 2020.

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 \$84,000 and \$221,000 at June 30, 2020 and 2019, 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 \$46,242,000 and \$51,128,000 was recognized for the years ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, approximately \$327,000 and \$630,000, respectively, was due from AHCCCS related to delivery supplement which is included in capitation and supplemental receivables in the accompanying statements of financial position.

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 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(1) **Company operations and significant accounting policies (continued)**

Below are the reinsurance thresholds by line of business:

<u>Line of Business</u>	Annual Deductible Effective October 1, 2019	Annual Deductible Effective October 1, 2018	<u>Coinsurance</u>
AHCCCS Acute/ACC – Prospective Only	\$ 35,000	\$ 35,000	75%
DES/DDD	50,000	50,000	75%
ALTCS w/Medicare	20,000	20,000	75%
ALTCS w/o Medicare	30,000	30,000	75%
RBHA SMI Membership	35,000	35,000	75%

<u>Line of Business</u>	Annual Deductible Effective January 1, 2020	Annual Deductible Effective January 1, 2019	<u>Coinsurance</u>
Mercy Care Medicare Advantage	\$ 700,000	\$ 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, 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.

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, 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, 2020 and 2019, gross reinsurance receivables totaled approximately \$73,217,000 and \$43,874,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately \$16,672,000 and \$17,926,000 at June 30, 2020 and 2019, respectively.

Pharmacy rebate receivable - The Company receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Company records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the years ended June 30, 2020 and 2019, health care expenses were reduced by approximately \$35,413,000 and \$36,882,000 for rebates, respectively. Pharmacy rebates receivable totaled approximately \$31,732,000 and \$19,452,000 at June 30, 2020 and 2019, respectively. Management believes the pharmacy rebate receivable at June 30, 2020 and 2019 is fully collectible and accordingly, an allowance has not been established.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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, 2020 and 2019, gross third-party liability receivables totaled approximately \$6,484,000 and \$5,003,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately \$967,000 and \$0 at June 30, 2020 and 2019, 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, 2020 and 2019, Mercy Care gross provider advances receivable totaled approximately \$7,790,000 and \$7,817,000, respectively. Mercy Care had an allowance for doubtful provider advances of approximately \$1,064,000 and \$698,000 at June 30, 2020 and 2019, 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 establish 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, 2020, and 2019, the Plan has recorded an estimated current receivable from CMS of approximately \$10,342,000 and \$8,282,000, respectively. Risk share settlement receivables at June 30, 2020 and 2019 are considered by management to be fully collectible, accordingly, an allowance for doubtful accounts has not been provided.

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 \$15,411,000 and \$5,803,000 for the years ended June 30, 2020 and 2019, respectively, which are included as capitation premiums in the accompanying statements of activities and changes in net assets. As of June 30, 2020, the Plan recorded a payable of \$6,171,000 for Medicare Part D settlements relating to contract year 2019, which is included in other current liabilities in the accompanying statement of financial position. As of June 30, 2020, the Plan recorded receivables of \$3,608,000 for Medicare Part D settlements relating to contract year 2020, which is included in risk share receivable in the accompanying statement of financial position. As of June 30, 2020, \$2,133,000 of the Medicare Part D estimated settlements related to contract year 2018 were presented as a long-term receivable based on the expected timing of final settlement. The settlements for calendar years 2020 and 2019 are expected to be finalized in fiscal 2021. As of June 30, 2019, the Plan recorded \$17,974,000 for Medicare Part D settlements relating to contract years 2018 and 2019, which is included in other current liabilities in the accompanying statement of financial position.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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, 2020 and 2019, the Plan has not recorded any estimates related to risk adjustment. In September 2018, AHCCCS recouped approximately \$11,206,000 for risk adjustment related to contract year 2018.

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. For the years ended June 30, 2020 and 2019, Mercy Care recorded no premium deficiency reserve for probable losses within its contracts.

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.

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 \$27,732,000 and \$10,832,000 for the years ended June 30, 2020 and 2019, respectively, and is included within health care expenses in the accompanying statements of activities and changes in net assets. Mercy Care accrued approximately \$23,914,000 and \$13,276,000 as of June 30, 2020 and 2019, respectively, which is included in other current liabilities 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

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 Company 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 Company'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, 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 measurements - FASB ASC 820, *Fair Value Measurements*, 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.

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, 2020 and 2019. The Company 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 Company 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, 2020 and 2019, the Company did not have any uncertain tax positions.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

Mercy Care and MMIC's Federal Exempt Organization Business Income Tax Returns (Form 990) for 2017, 2018, and 2019 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 2020 tax return for Mercy Care had not yet been filed. MMIC's 2018 tax return was its final individual tax return.

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.

Recent accounting pronouncements - In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of the new guidance is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Additionally, the guidance requires disclosures related to the nature, amount, timing, and uncertainty of revenue that is recognized.

Mercy Care adopted this standard for the year ended June 30, 2020 under the modified retrospective method. The adoption of this standard did not have a material impact on the financial statements as there was no transition adjustment recorded. As part of the adoption of Topic 606, Mercy Care elected two of the available practical expedients provided for by the standard. First, Mercy Care did not adjust the transaction price for any financing components as those were deemed to be insignificant. Additionally, Mercy Care expensed all incremental customer contract acquisition and fulfillment costs as incurred as such costs are not material. As a result of the adoption of this standard and ASU No. 2018-08, certain revenue amounts in the statement of activities and changes in net assets were reclassified from capitation premiums and grants revenue to conform to the presentation of the statement of activities and changes in net assets for the year ended June 30, 2020. There was no impact to total revenue for the year ended June 30, 2019.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 improves the current guidance on determining whether transactions are contributions or exchange transactions. ASU No. 2018-08 also requires determining if a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. Mercy Care adopted the standard for the year ended June 30, 2020 under the modified prospective method. The adoption of this standard did not have a material impact on the financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. This ASU requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in the ASU do not provide a definition of restricted cash or restricted cash equivalents. The ASU is effective for all nonpublic business entities for fiscal years beginning after December 15, 2018. Mercy Care adopted this standard for the year ended June 30, 2020. The adoption of this standard did not have a material impact on the financial statements.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

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

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10). This ASU makes targeted improvements to current guidance. The ASU requires, among other changes, equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized as a component of the change in net assets. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Mercy Care adopted the standard for the year ended June 30, 2020. The adoption of this standard did not have a material impact on the financial statements.

Subsequent events - The Company has evaluated subsequent events through November 20, 2020, 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):

	2020		2019	
	Reconciliation Receivable	Reconciliation Payable	Reconciliation Receivable	Reconciliation Payable
ACC	\$ 40,726	\$ 55,953	\$ 30,385	\$ 13,055
ALTCS	15,827	1,111	28,430	738
DDD	532	5,133	74	0
RBHA	28,197	12,233	21,710	2,578
Total	85,282	74,430	80,599	16,371
Less current portion	(76,015)	(9,732)	(80,599)	(16,371)
Non-current portion	\$ 9,267	\$ 64,698	\$ -	\$ -

(3) Investments

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

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Short-term:				
Marketable equity securities	\$ 48,139	\$ 48,319	\$ 42,434	\$ 42,435
Corporate bonds	3,082	3,069	6,814	6,798
	51,221	51,388	49,248	49,233
Long-term:				
Marketable equity securities	128,730	158,232	105,100	122,282
U.S. Government securities	103,557	108,371	98,970	100,624
Corporate bonds	60,772	62,311	48,469	49,193
Mortgage-backed securities	31,312	31,440	11,680	11,729
	324,371	360,354	264,219	283,828
	\$ 375,592	\$ 411,742	\$ 313,467	\$ 333,061

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(3) Investments (continued)

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, 2020 and 2019, the Plan recorded no losses for other-than-temporary declines in the fair value of investments.

The following table summarizes the unrealized losses on investments held at June 30, 2020 (in thousands):

Description of securities	Less than twelve months		Twelve months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	\$ -	\$ -	\$ 3,191	\$ 32	\$ 3,191	\$ 32
Marketable equity securities	-	-	28,796	3,423	28,796	3,423
Corporate bonds	1,347	29	5,213	92	6,560	121
Mortgage-backed securities	-	-	6,451	295	6,451	295
Preferred securities	-	-	-	-	-	-
Total	\$ 1,347	\$ 29	\$ 43,651	\$ 3,842	\$ 44,998	\$ 3,871

The following table summarizes the unrealized losses on investments held at June 30, 2019 (in thousands):

Description of securities	Less than twelve months		Twelve months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	\$ -	\$ -	\$ 10,029	\$ 8	\$ 10,029	\$ 8
Marketable equity securities	-	-	13,261	1,298	13,261	1,298
Corporate bonds	4,702	48	3,285	32	7,987	80
Mortgage-backed securities	-	-	4,510	61	4,510	61
Preferred securities	-	-	-	-	-	-
Total	\$ 4,702	\$ 48	\$ 31,085	\$ 1,399	\$ 35,787	\$ 1,447

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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(4) Fair value measurements

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2020 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 108,371	\$ -	\$ 108,371
Marketable equity securities				
U.S. large cap	158,232	-	-	158,232
Money market mutual funds	36,809	-	-	36,809
Other	<u>11,510</u>	<u>-</u>	<u>-</u>	<u>11,510</u>
Total marketable equity securities	<u>206,551</u>	<u>-</u>	<u>-</u>	<u>206,551</u>
Corporate bonds	-	65,379	-	65,379
Mortgage-backed securities	-	31,441	-	31,441
Preferred securities	-	-	-	-
Total Investments	<u>\$ 206,551</u>	<u>\$ 205,191</u>	<u>\$ -</u>	<u>\$ 411,742</u>

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2019 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 100,624	\$ -	\$ 100,624
Marketable equity securities				
U.S. large cap	122,283	-	-	122,283
Money market mutual funds	33,274	-	-	33,274
Other	<u>9,160</u>	<u>-</u>	<u>-</u>	<u>9,160</u>
Total marketable equity securities	<u>164,717</u>	<u>-</u>	<u>-</u>	<u>164,717</u>
Corporate bonds	-	55,991	-	55,991
Mortgage-backed securities	-	11,729	-	11,729
Total Investments	<u>\$ 164,717</u>	<u>\$ 168,344</u>	<u>\$ -</u>	<u>\$ 333,061</u>

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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(5) Claims payable

At June 30, 2020 and 2019, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, were approximately \$272 million and \$272 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, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Claims unpaid at beginning of year prior to reinsurance recoverable	\$ 297,922	\$ 286,332
Reinsurance recoverable, beginning of year	<u>(25,948)</u>	<u>(14,392)</u>
Claims unpaid, beginning of year	271,974	271,940
Incurred related to:		
Current year	3,053,399	2,965,479
Prior years	<u>(41,198)</u>	<u>(16,830)</u>
Total incurred	<u>3,012,201</u>	<u>2,939,455</u>
Paid related to:		
Current year	(2,721,816)	(2,693,357)
Prior years	<u>(234,185)</u>	<u>(246,064)</u>
Total paid	<u>(2,956,001)</u>	<u>(2,939,421)</u>
Claims unpaid at end of year prior to reinsurance recoverable	328,174	297,922
Reinsurance recoverable, end of year	<u>(56,545)</u>	<u>(25,948)</u>
Claims unpaid, end of year	<u>\$ 271,629</u>	<u>\$ 271,974</u>

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, 2019 was more than the actual claims incurred related to fiscal year 2019 and prior by approximately \$11.1 million or 5.3% of Mercy Care claims unpaid. The primary drivers for the claim development variations include member mix changes, active cost and encounter management, changes in anticipated member utilization, a shift in inpatient costs and re-admittance utilization to physician office visits, inpatient unit cost variations related to state-mandated outlier reform, 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, 2020 and 2019 totaled approximately \$7,017,000 and \$6,781,000 respectively.

(6) District noncontrolling interest

On March 30, 2018, District notified MMIC that District elected to exercise the \$10 million put option effective July 1, 2018. On July 1, 2018, the \$10 million was paid to District. At that time, the remaining noncontrolling interest totaling \$6,877,275 at June 30, 2018 was reclassified from noncontrolling to controlling net assets without restriction. Simultaneous with this transaction, MMIC was merged in with SCHN to form Mercy Care (see Note 1).

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(7) 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. Mercy Care paid approximately \$242,217,000 in 2020 and \$244,760,000 in 2019 to Dignity Health and its affiliates. These balances include net prospective provider advance payments made to Dignity. Provider advances to Dignity amounted to approximately \$4,129,000 and \$5,316,000 at June 30, 2020 and 2019, respectively. During the year ended June 30, 2020 Mercy Care made an asset distribution to Dignity and Ascension Health of \$29,850,000 each and \$300,000 to Equality Health respectively. The \$300,000 to Equality Health was applied to the note receivable for the 0.5% member interest.

(8) 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, 2020:

Line of Business	AHCCCS Minimum Requirement	Performance Bond Amount	Effective Date
ACC	90% of Capitation Revenue	\$ 135,000,000	10/1/2019
ALTCS	90% of Capitation Revenue	\$ 58,000,000	10/1/2019
DDD	90% of Capitation Revenue	\$ 12,500,000	10/1/2019
Medicare	\$1,050 PMPM	\$ 18,200,000	1/1/2020
RBHA	90% of Capitation Revenue	\$ 84,000,000	10/1/2019

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 maintains 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 \$15 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(8) 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 Company 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 Company 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 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, 2020 and June 30, 2019, Mercy Care approved amounts that resulted in grants to providers of approximately \$2,176,000 and \$1,354,000, to be spent on various healthcare community projects. These amounts are included in non-operating expenses in the accompanying statements of activities and changes in net assets. At June 30, 2020 and 2019, respectively, Mercy Care has recorded a liability for unspent Community Reinvestment program funds of approximately \$2,298,000 and \$1,429,000, 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, 2020 and 2019, 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.

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, 2020 and 2019. As of June 30, 2020, Mercy Care anticipates meeting the required encounter threshold for the contract years ending September 30, 2020 and 2019. Accordingly, as of June 30, 2020, Mercy Care has not recorded a liability associated with an encounter sanction. As of June 30, 2019, Mercy Care anticipated meeting the required encounter threshold for the contract year ending September 30, 2019. Accordingly, as of June 30, 2019, Mercy Care has not recorded a liability associated with an encounter sanction.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(8) Commitments and contingencies (continued)

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, 2020 and 2019 of \$203,000 and \$406,000, 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 ended June 30, 2020 have not been significantly impacted; however, Mercy Care continues to monitor the situation. No impairments were recorded for the year ended June 30, 2020 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.

(9) Concentration of credit risk

Mercy Care's future contract awards are contingent upon the continuation of the AHCCCS ACC, DES/DDD, 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, 2021 with two (2) two-year options to extend, not to exceed a total contracting period of seven years.

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. The DES/DDD contract was renewed through September 30, 2022. Mercy Care's Medicare Advantage contract is renewed annually by CMS. Mercy Care's RBHA contract with AHCCCS has been renewed through September 30, 2021.

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

(10) 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2020 and 2019

(10) Functional expenses (continued)

The following table summarizes the functional expenses at June 30, 2020 (in thousands):

	Program Services	Management & General	Total Expenses
Hospitalization	\$ 449,688	\$ -	\$ 449,688
Medical compensation	347,845	-	347,845
Ancillary and other medical services	2,184,645	-	2,184,645
Institutional	222,245	-	222,245
Home and community-based services	245,017	-	245,017
Premium tax expense	-	67,518	67,518
Management fees	-	289,415	289,415
Other Expenses	-	30,405	30,405
Total Expenses	\$ 3,449,440	\$ 387,338	\$ 3,836,778

The following table summarizes the functional expenses at June 30, 2019 (in thousands):

	Program Services	Management & General	Total Expenses
Hospitalization	\$ 451,370	\$ -	\$ 451,370
Medical compensation	371,831	-	371,831
Ancillary and other medical services	2,202,077	-	2,202,077
Institutional	222,816	-	222,816
Home and community-based services	221,048	-	221,048
Premium tax expense	-	64,096	64,096
Management fees	-	276,555	276,555
Other Expenses	-	17,410	17,410
Total Expenses	\$ 3,469,142	\$ 358,061	\$ 3,827,203

(11) 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, 2020, 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	\$ 136,873
Receivables	197,669
Investments	411,742
Financial assets available to meet cash needs for general expenditure within one year	\$ 746,284

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



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

MERCY CARE

Report on Supplemental Information

We have audited the accompanying supplemental statement of activities and supplemental statement of activities - schedule A as defined in the Regional Behavioral Health Authority contract between **Mercy Care** and AHCCCS, for the year ended June 30, 2020, and the sub-capitated expenses report as defined in the Complete Care contract and Regional Behavioral Health Authority contract between **Mercy Care** and AHCCCS for the contract year ended September 30, 2019 (collectively, the "Supplemental Information").

Management's Responsibility for the Supplemental Information

Management is responsible for the preparation and fair presentation of the supplemental information in accordance with the AHCCCS contract; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of supplemental information that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the supplemental information based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the supplemental information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the supplemental information. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the supplemental information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the supplemental information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the supplemental information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the supplemental information including the supplemental statement of activities and supplemental statement of activities - schedule A for the year ended June 30, 2020 and the sub-capitated expenses report for the contract year ended September 30, 2019, referred to above present fairly, in all material respects, the activities of **Mercy Care** for the year ended June 30, 2020 and contract year ended September 30, 2019, as defined in the AHCCCS contracts referred to in the first paragraph.

This report is intended solely for the information and use of the Board of Directors, management of **Mercy Care**, others within the entity and AHCCCS, and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

November 20, 2020

MERCY CARE
SUPPLEMENTAL INFORMATION
SUB-CAPITATED EXPENSES REPORT
Contract Year Ended September 30, 2019

Account	Account Description	ACC								ALTCS			DDD		
		Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	ACC Total	Duals	Non-Duals	ALTCS Total	Duals	SSI w/o Med	DDD Total
<i>Sub-Capitated Behavioral Health Expenses:</i>															
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Behavioral Health Expenses:</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Sub-Capitated Hospitalization Expenses:</i>															
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 719,541	\$ 175,721	\$ 895,262	\$ -	\$ -
50110-01	Behavioral Health Hospital Inpatient	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Hospitalization Expenses:</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 719,541	\$ 175,721	\$ 895,262	\$ -	\$ -
<i>Sub-Capitated Medical Compensation Expenses:</i>															
50205-01	Primary Care Physician Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Medical Compensation Expenses:</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Sub-Capitated Other Medical Expenses:</i>															
50305-01	Emergency Facility Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	450,493	5,165,889	1,919,659	311,806	363,570	1,694,161	448,886	10,354,464	168,681	78,174	246,855	51,640	345,846	397,486
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	14,992	178,130	66,181	20,946	11,156	57,979	15,491	364,875	459,924	112,351	572,275	853,551	3,106,799	3,960,350
50330-01	Dental	1,893,357	22,410,435	-	2,416,991	1,410,127	7,253,566	1,937,057	37,321,533	711,511	174,024	885,535	249,058	905,435	1,154,493
50335-01	Transportation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-	-	-	-	-	3,120	3,120
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	309,511	3,542,233	-	276	51,699	117,658	24,142	4,045,519	796,972	201,393	998,365	735	164,617	165,352
	<i>Total Sub-Capitated Other Medical Expenses:</i>	\$ 2,668,353	\$ 31,296,687	\$ 1,985,840	\$ 2,750,019	\$ 1,836,552	\$ 9,123,364	\$ 2,425,576	\$ 52,086,391	\$ 2,137,088	\$ 565,942	\$ 2,703,030	\$ 1,154,984	\$ 4,525,817	\$ 5,680,801
	<i>Total Sub-Capitated Expenses:</i>	\$ 2,668,353	\$ 31,296,687	\$ 1,985,840	\$ 2,750,019	\$ 1,836,552	\$ 9,123,364	\$ 2,425,576	\$ 52,086,391	\$ 2,856,629	\$ 741,663	\$ 3,598,292	\$ 1,154,984	\$ 4,525,817	\$ 5,680,801

MERCY CARE
SUPPLEMENTAL INFORMATION
SUB-CAPITATED EXPENSES REPORT
Contract Year Ended September 30, 2019

		RBHA									MCA	TOTAL
Account	Account Description	TXIX/XXI CMDP Child	TXIX/XXI DD Child	TXIX/XXI DD Adult	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	Title XIX Total	Non-Title XIX/XXI Total	RBHA Total	MCA Total	Mercy Care Total
<i>Sub-Capitated Behavioral Health Expenses:</i>												
60199-01	Total Treatment Services	\$ 10,798,040	\$ 2,817,051	\$ 1,215,344	\$ 21,719,239	\$ -	\$ -	\$ 36,549,674	\$ 15,783,992	\$ 52,333,666	\$ -	\$ 52,333,666
60299-01	Total Rehabilitation Services	10,010,721	5,690,723	534,906	44,610,291	-	-	60,846,641	7,065,841	67,912,482	-	67,912,482
60399-01	Total Medical Services	1,031,275	588,804	943,415	21,651,292	-	-	24,214,786	6,484,863	30,699,649	-	30,699,649
60499-01	Total Support Services	19,278,273	5,768,206	757,413	81,624,081	-	-	107,427,973	39,445,635	146,873,608	-	146,873,608
60599-01	Total Crisis Intervention Services	7,246,132	1,294,167	4,258,643	33,558,230	5,193,139	37,397,796	88,948,107	15,262,494	104,210,601	-	104,210,601
60699-01	Total Inpatient Services	39,194	4,911	102,991	7,898,458	-	-	8,045,554	431,378	8,476,932	-	8,476,932
60799-01	Total Residential Services	394,198	-	-	1,217,823	-	-	1,612,021	2,950,284	4,562,305	-	4,562,305
60899-01	Total Behavioral Health Day Program	9,849	4,057	20,541	2,851,192	-	-	2,885,639	503,193	3,388,832	-	3,388,832
60999-01	Total Prevention Services	-	-	-	-	-	-	-	1,801,152	1,801,152	-	1,801,152
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	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Behavioral Health Expenses:</i>	\$ 48,807,682	\$ 16,167,919	\$ 7,833,253	\$ 215,130,606	\$ 5,193,139	\$ 37,397,796	\$ 330,530,395	\$ 89,728,832	\$ 420,259,227	\$ -	\$ 420,259,227
<i>Sub-Capitated Hospitalization Expenses:</i>												
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 895,262
50110-01	Behavioral Health Hospital Inpatient	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Hospitalization Expenses:</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 895,262
<i>Sub-Capitated Medical Compensation Expenses:</i>												
50205-01	Primary Care Physician Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50210-01	Behavioral Health Physician Services	-	-	-	-	-	-	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-	-	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-
50225-01	Other Professional Services	-	-	-	-	-	-	-	-	-	-	-
	<i>Total Sub-Capitated Medical Compensation Expenses:</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Sub-Capitated Other Medical Expenses:</i>												
50305-01	Emergency Facility Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
50310-01	PH Pharmacy	-	-	-	-	-	-	-	-	-	-	-
50315-01	Laboratory, Radiology and Medical Imaging	-	-	-	-	-	-	-	-	-	836,832	\$ 11,835,637
50320-01	Outpatient Facility	-	-	-	-	-	-	-	-	-	-	-
50325-01	Durable Medical Equipment	-	-	-	-	-	-	-	-	-	-	\$ 4,897,500
50330-01	Dental	-	-	-	90,758	-	-	90,758	-	90,758	3,457,290	\$ 42,909,609
50335-01	Transportation	-	-	-	-	-	-	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care	-	-	-	-	-	-	-	-	-	6,406,997	\$ 6,410,117
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	-	-	-	10,500	-	-	10,500	-	10,500	-	\$ 5,219,736
	<i>Total Sub-Capitated Other Medical Expenses:</i>	\$ -	\$ -	\$ -	\$ 101,258	\$ -	\$ -	\$ 101,258	\$ -	\$ 101,258	\$ 10,701,119	\$ 71,272,599
	<i>Total Sub-Capitated Expenses:</i>	\$ 48,807,682	\$ 16,167,919	\$ 7,833,253	\$ 215,231,864	\$ 5,193,139	\$ 37,397,796	\$ 330,631,653	\$ 89,728,832	\$ 420,360,485	\$ 10,701,119	\$ 492,427,088

Mercy Care
Statement Of Activities
Fiscal Year Ending June 30, 2020

Member Months	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	Total TXIX/XXI	NTXIX/XXI	NTXIX/XXI	NTXIX/XXI	NTXIX/XXI	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total	
	CMDP Child	SMI	Other Child (Crisis)	Other Adult (Crisis)		Crisis	SMI Services	Other	SMI Housing													
00999	Total Member Months	98,541	281,623	5,418,465	5,946,269	11,744,897																
	REVENUE																					
40105-01	Capitation	\$ 79,386,909	\$ 711,351,729	\$ 15,846,907	\$ 56,061,704	\$ 862,647,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 862,647,249
40115-01	Alternative Payment Model Initiatives Reconciliation/Settlement	-	1,825,112	-	-	1,825,112	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,825,112
40135-01	Title XIX/XXI Reconciliation Settlement	-	(5,738,801)	-	-	(5,738,801)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,738,801)
40145-01	Other Reconciliation Settlements*	-	163,172	1,332,710	-	1,495,882	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,495,882
40180-01	Health Insurance Provider Fee Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40205-01	Non-Title XIX/XXI Revenue	-	-	-	-	-	8,995,766	27,312,041	1,745,489	19,795,020	3,068,111	-	5,494,873	4,198,555	17,114,475	7,259,007	61,060,543	122,100	156,165,981	156,165,981	-	156,165,981
40210-01	Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40215-01	Non-Title XIX/XXI Profit Limit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40305-01	Investment Income	-	2,134,700	-	-	2,134,700	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,134,700
40310-01	Other Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49999	TOTAL REVENUE	\$ 79,386,909	\$ 709,735,911	\$ 17,179,618	\$ 56,061,704	\$ 862,364,141	\$ 8,995,766	\$ 27,312,041	\$ 1,745,489	\$ 19,795,020	\$ 3,068,111	\$ 5,494,873	\$ 4,198,555	\$ 17,114,475	\$ 7,259,007	\$ 61,060,543	\$ 122,100	\$ 156,165,981	\$ 1,018,530,123	\$ -	\$ 1,018,530,123	
	EXPENSES																					
	Behavioral Health (BH) Medical Expenses:																					
	Treatment Services																					
60105-01	Counseling																					
a	Counseling, Individual	3,923,513	13,434,037	300,753	74,787	17,733,090	-	-	-	-	-	911,728	1,107,146	624,893	-	1,440,774	-	4,084,541	21,817,630	-	21,817,630	
b	Counseling, Family	2,393,617	363,171	257,031	43,947	3,057,766	-	-	-	-	-	350,934	3,885	13,558	-	87,727	-	456,105	3,513,871	-	3,513,871	
c	Counseling, Group	525,637	4,022,886	27,404	6,608	4,582,535	-	-	-	-	-	218,112	125,183	888,543	-	422,594	-	1,654,432	6,236,968	-	6,236,968	
60105-05	Assessment, Evaluation and Screening	4,448,864	15,134,265	264,047	139,981	19,987,177	-	-	-	-	-	560,718	367,590	787,116	-	1,990,766	-	4,287,853	24,275,030	-	24,275,030	
60105-10	Other Professional	29,048	26,022	-	-	55,069	-	-	-	-	-	57,057	1,684	12,594	-	4,797,516	-	6,161,489	6,216,559	-	6,216,559	
60199	Total Treatment Services	11,320,699	32,980,380	849,236	265,322	45,415,638	-	1,668,839	205,469	-	-	2,098,549	1,605,478	2,326,707	-	8,739,378	-	16,644,420	62,060,058	-	62,060,058	
60205-01	Living Skills Training	10,448,171	24,490,849	1,388,818	116,982	36,444,820	-	745,133	963	-	-	458,195	195,302	150,933	-	1,962,226	-	3,512,752	39,957,572	-	39,957,572	
60205-05	Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60205-10	Health Promotion	428,991	9,508,377	34,398	11,424	9,983,191	-	-	523,850	-	-	282,850	34,733	83,753	-	1,407,606	-	2,332,793	12,315,984	-	12,315,984	
60205-15	Supported Employment Services	90,252	11,411,570	3,326	9,544	11,514,693	-	-	530,053	-	-	1,825	17,753	42,685	-	1,393,149	-	1,985,466	13,500,158	-	13,500,158	
60299	Total Rehabilitation Services	10,967,414	45,410,796	1,426,543	137,950	57,942,703	-	1,799,037	963	-	-	742,870	247,788	277,372	-	4,762,981	-	7,831,011	65,773,714	-	65,773,714	
	Medical Services																					
60305-01	Medication Services	-	1,966,710	-	-	1,966,710	-	-	-	-	-	-	-	982	-	3,633,530	-	5,600,240	5,600,240	-	5,600,240	
60305-05	Medical Management	1,055,505	31,932,495	166,619	212,188	33,366,807	-	336,181	1,276,979	-	-	240,538	177,189	1,306,482	-	882,072	-	4,219,442	37,586,248	-	37,586,248	
60305-10	Laboratory, Radiology and Medical Imaging	9,135	2,920,966	1,097	2,009	2,933,207	-	1,422	-	-	-	80	2,855	38,701	-	46,782	-	2,979,989	2,979,989	-	2,979,989	
60305-15	Electro-Convulsive Therapy	-	821,841	-	64	821,905	-	-	-	-	-	-	-	-	-	-	-	821,905	821,905	-	821,905	
60399	Total Medical Services	1,064,641	37,642,012	167,716	214,261	39,088,629	-	341,073	1,276,979	-	-	240,618	181,027	4,810,390	-	1,049,667	-	7,899,754	46,988,383	-	46,988,383	
	Support Services																					
60405-01	Case Management	15,924,474	59,824,821	1,212,445	129,932	77,091,472	-	3,325,850	68,845	-	-	1,509,502	248,741	1,422,204	-	8,903,971	-	15,379,113	92,470,586	-	92,470,586	
60405-05	Personal Care Services	7,203	15,091,561	48	132	15,098,944	-	319,260	-	-	-	-	123,889	5,143	-	840,289	-	1,288,581	16,387,526	-	16,387,526	
60405-10	Family Support	2,132,940	484,068	333,084	6,386	2,956,478	-	35,434	67	-	-	202,810	12,233	1,075	-	344,898	-	3,301,377	3,301,377	-	3,301,377	
60405-15	Peer Support	14,591	7,126,804	169	7,564	7,149,128	-	328,088	10,487	-	-	20,130	92,155	119,645	-	886,552	-	1,457,056	8,606,184	-	8,606,184	
60405-20	Home Care Training to Home Care Client	3,860,086	766,801	2,533	-	4,629,420	-	-	-	-	-	-	-	-	-	-	-	-	4,629,420	-	4,629,420	
60405-25	Unskilled Respite Care	936,818	1,804,085	54,568	-	2,795,471	-	36	-	-	-	28,694	79	-	-	96	-	28,906	2,824,377	-	2,824,377	
60405-30	Supported Housing*	-	-	-	-	-	-	-	-	18,254,500	2,832,480	-	-	-	-	-	-	21,086,979	21,086,979	-	21,086,979	
60405-35	Reserved for Future Use	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
60405-40	Transportation	1,992,347	45,277,576	122,502	56,108	47,448,534	-	917,396	19,209	-	-	14,749	24,737	144,874	-	4,878,331	-	5,999,295	53,447,828	-	53,447,828	
60499	Total Support Services	24,868,459	130,375,516	1,725,350	200,123	157,169,448	-	4,926,064	98,608	18,254,500	2,832,480	1,775,885	501,833	1,692,941	-	15,502,519	-	45,584,829	202,754,277	-	202,754,277	
	Crisis Intervention Services																					
60505-01	Crisis Intervention - Mobile	3,202,396	2,276,053	5,868,254	3,792,242	15,138,945	2,526,812	-	-	-	-	-	-	5,716	-	2,031,145	-	4,563,673	19,702,618	-	19,702,618	
60505-05	Crisis Intervention - Stabilization	337,825	24,865,318	619,050	36,007,387	61,829,580	3,738,940	96,882	-	-	-	-	-	268,054	-	2,609,992	-	6,713,868	68,543,447	-	68,543,447	
60505-10	Crisis Intervention - Telephone	-	2,801,755	-	1,856,809	4,658,564	2,039,140	55,414	-	-	-	-	-	-	-	1,430,007	-	3,524,561	8,183,125	-	8,183,125	
60599	Total Crisis Intervention Services	3,540,221	29,943,126	6,487,304	41,656,438	81,627,089	8,304,892	152,296	-	-	-	-	-	273,770	-	6,071,143	-	14,802,101	96,429,190	-	96,429,190	
	Inpatient Services																					
60605-01	Hospital																					
a	Psychiatric (Provider Types 02 & 71)	20,581,329	96,707,375	861,179	47,288	118,197,171	-	-	-	-	-	-	-	-	-	16,482,298	-	16,482,298	134,679,469	-	134,679,469	
b	Detoxification (Provider Types 02 & 71)	8,034	1,244,062	-	-	1,252,096	-	-	-	-	-	-	-	-	-	5,549	-	5,549	1,257,645	-	1,257,645	
60605-05	Sub acute Facility	-	-	-																		

Mercy Care
Statement Of Activities
Fiscal Year Ending June 30, 2020

Member Months	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	Total TXIX/XXI	NTXIX/XXI	NTXIX/XXI	NTXIX/XXI	NTXIX/XXI	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Total TXIX/XXI and NTXIX/XXI	Mgmt & Gen	Grand Total	
	CMDP Child	SMI	Other Child (Crisis)	Other Adult (Crisis)		Crisis	SMI Services	Other	SMI Housing													
00999	Total Member Months																					
	98,541	281,623	5,418,465	5,946,269	11,744,897																	
Physical Health (PH) Medical Expenses																						
Hospitalization																						
50105-01	Hospital Inpatient	\$ 129,310	\$ 31,669,556	\$ 15,302	\$ -	\$ 31,814,168	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,814,168	\$ -	\$ 31,814,168	
50110-01	Behavioral Health Hospital Inpatient	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50199	Total Hospitalization	129,310	31,669,556	15,302	-	31,814,168	-	-	-	-	-	-	-	-	-	-	-	-	31,814,168	-	31,814,168	
Medical Compensation																						
50205-01	Primary Care Physician Services	-	2,964,623	471	-	2,965,093	-	-	-	-	-	-	-	-	-	-	-	-	2,965,093	-	2,965,093	
50210-01	Behavioral Health Physician Services	916	20,364	-	-	21,280	-	-	-	-	-	-	-	-	-	-	-	-	21,280	-	21,280	
50215-01	Referral Physician Services	-	5,145,863	-	-	5,145,863	-	-	-	-	-	-	-	-	-	-	-	-	5,145,863	-	5,145,863	
50220-01	PH FQHC/RHC Services	-	1,364	-	-	1,364	-	-	-	-	-	-	-	-	-	-	-	-	1,364	-	1,364	
50225-01	Other Professional Services	86,542	8,579,325	258,089	1,909	8,925,864	-	-	-	-	-	-	-	-	-	-	-	-	8,925,864	-	8,925,864	
50299	Total Medical Compensation	87,457	16,711,339	258,559	1,909	17,059,264	-	-	-	-	-	-	-	-	-	-	-	-	17,059,264	-	17,059,264	
Other Medical Expenses																						
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50310-01	PH Pharmacy	-	42,832,572	-	-	42,832,572	-	-	-	-	-	-	-	-	-	-	-	-	42,832,572	-	42,832,572	
50310-05	PH Pharmacy Rebates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50310-10	PH Pharmacy Performance Guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50315-01	Laboratory, Radiology & Medical Imaging	-	3,048,079	-	-	3,048,079	-	-	-	-	-	-	-	-	-	-	-	-	3,048,079	-	3,048,079	
50320-01	Outpatient Facility	-	18,177,751	-	-	18,177,751	-	-	-	-	-	-	-	-	-	-	-	-	18,177,751	-	18,177,751	
50325-01	Durable Medical Equipment	-	92,555	-	-	92,555	-	-	-	-	-	-	-	-	-	-	-	-	92,555	-	92,555	
50330-01	Dental	-	482,113	-	-	482,113	-	-	-	-	-	-	-	-	-	-	-	-	482,113	-	482,113	
50335-01	Transportation	-	51,836	-	-	51,836	-	-	-	-	-	-	-	-	-	-	-	-	51,836	-	51,836	
50340-00	Nursing Facility, Home Health Care	-	524,822	-	-	524,822	-	-	-	-	-	-	-	-	-	-	-	-	524,822	-	524,822	
50345-01	Therapies	-	72,007	-	-	72,007	-	-	-	-	-	-	-	-	-	-	-	-	72,007	-	72,007	
50350-01	Alternative Payment Model Performance Based Payments to Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50370-01	Other Medical Expenses	-	6,850,807	-	-	6,850,807	-	-	-	-	-	-	-	-	-	-	-	-	6,850,807	-	6,850,807	
50399	Total Other Medical Expenses	-	72,132,542	-	-	72,132,542	-	-	-	-	-	-	-	-	-	-	-	-	72,132,542	-	72,132,542	
59999	Total Physical Health Expense	\$ 216,767	\$ 120,513,437	\$ 273,861	\$ 1,909	\$ 121,005,974	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,005,974	\$ -	\$ 121,005,974	
Administrative Expenses:																						
80105-01	Compensation	1,320,731	11,889,903	286,257	932,671	14,429,562	152,712	459,171	29,631	340,520	52,084	-	94,851	71,275	293,550	123,229	1,036,566	-	2,653,591	17,083,153	-	17,083,153
80205-01	Occupancy	139,518	1,265,871	30,239	98,525	1,534,154	16,132	48,506	3,130	35,972	5,502	-	10,020	7,529	31,010	13,018	109,500	-	280,318	1,814,472	-	1,814,472
80305-01	Depreciation	5	41	1	3	50	1	2	0	1	0	-	0	0	1	0	4	-	9	59	-	59
80405-01	Care Management/Care Coordination	789,848	7,166,407	171,193	557,773	8,685,222	91,328	274,602	17,721	203,644	31,148	-	56,725	42,625	175,554	73,696	619,907	-	1,586,950	10,272,172	-	10,272,172
80505-01	Professional and Outside Services	2,487,853	22,616,898	539,221	1,756,866	27,400,837	287,663	864,938	55,817	641,435	98,111	-	178,670	134,260	552,958	232,126	4,998,552	-	1,952,573	32,399,389	-	32,399,389
80605-01	Office Supplies and Equipment	201,427	1,827,575	43,658	142,243	2,214,903	23,290	70,029	4,519	51,933	7,943	-	14,466	10,870	44,770	18,794	158,088	-	404,704	2,619,607	-	2,619,607
80705-01	Travel	14,405	130,695	3,122	10,172	158,394	1,666	5,008	323	3,714	568	-	1,034	777	3,202	1,344	11,305	-	28,942	187,336	-	187,336
80805-01	Repair and Maintenance	405	3,675	88	286	4,454	47	141	9	16	-	-	29	22	90	38	318	-	814	5,268	-	5,268
80905-01	Bank Service Charge	-	492,653	-	-	492,653	-	-	-	-	-	-	-	-	-	-	-	-	-	492,653	-	492,653
81005-01	Insurance	5,546	232,652	1,202	3,916	243,315	641	1,928	124	1,430	219	-	398	299	1,233	517	4,352	-	11,142	254,457	-	254,457
81105-01	Marketing	65,406	824,727	14,176	46,188	950,498	7,563	22,739	1,467	16,863	2,579	-	4,697	3,530	14,537	6,103	51,334	-	131,413	1,081,911	-	1,081,911
81205-01	Interest	-	197,906	-	-	197,906	-	-	-	-	-	-	-	-	-	-	-	-	-	197,906	-	197,906
81305-01	Pharmacy Benefit Manager Expenses	4,430	2,594,125	3,650	5,984	2,608,189	-	21,677	-	-	-	-	-	-	-	-	-	-	21,677	2,629,866	-	2,629,866
81405-01	Fraud Reduction Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81505-01	Third Party Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81605-01	Sub-Capitation Block Administration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
81705-01	Health Care Quality Improvement	333,245	3,023,581	72,228	235,330	3,664,385	38,532	115,858	7,477	85,920	13,142	-	23,933	17,984	74,068	31,093	261,545	-	669,551	4,333,935	-	4,333,935
83005-01	Other Administrative Expenses*	616,631	6,239,191	133,650	435,451	7,424,923	71,299	214,381	13,835	158,984	24,317	-	44,285	33,277	137,054	57,534	483,958	-	1,238,925	8,663,847	-	8,663,847
83999	Subtotal Administrative Expenses	5,979,449	58,505,902	1,298,685	4,225,409	70,009,446	690,875	2,098,979	134,054	1,540,520	235,631	-	429,109	322,449	1,328,027	557,492	4,689,451	-	12,026,586	82,036,032	-	82,036,032
83105-01	Non-Title XIX/XXI Encounter Valuation Sanctions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
83205-01	Admin Expenses from Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
84999	Total Administrative Expense	\$ 5,979,449	\$ 58,505,902	\$ 1,298,685	\$ 4,225,409	\$ 70,009,446	\$ 690,875	\$ 2,098,979	\$ 134,054	\$ 1,540,520	\$ 235,631	\$ -	\$ 429,109	\$ 322,449	\$ 1,328,027	\$ 557,492	\$ 4,689,451	\$ -	\$ 12,026,586	\$ 82,036,032	\$ -	\$ 82,036,032
86999	Total Expenses	\$ 86,277,501	\$ 692,088,090	\$ 13,745,327	\$ 47,680,201	\$ 839,791,119	\$ 8,995,766	\$ 27,312,041	\$ 1,751,708	\$ 19,795,020	\$ 3,068,111	\$ -	\$ 5,286,400	\$ 3,695,460	\$ 16,443,828	\$ 7,668,673	\$ 57,701,533	\$ 122,100	\$ 151,840,640	\$ 991,631,759	\$ -	\$ 991,631,759
87999	Profit (Loss) from Operations	(6,890,593)	17,647,821	3,434,291	8,381,503	22,573,023	-	(0)	(6,219)	0	-	-	208,473	503,095	670,647	(409,666)	3,359,010	-	4,325,341	26,898,363	-	26,898,363
88999	Profit (Loss) from Non-Operating*	-	1,358,032	-	-	1,358,032	-	-	-	-	-	-	-	-	-	-	-	-	-	1,358,032	205,000	1,563,032
89999	Profit/(Loss) Before Taxes	\$ (6,890,593)	\$ 19,005,853	\$ 3,434,291	\$ 8,381,503	\$ 23,931,054	\$ -	\$ (0)	\$ (6,219)	\$ 0	\$ -	\$ -	\$ 208,473	\$ 503,095	\$ 670,647	\$ (409,666)	\$ 3,359,010	\$ -	\$ 4,325,341	\$ 28,256,395	\$ 205,000	\$ 28,461,395
90105-01	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
90205-01	Premium Taxes	1,587,254	14,278,187	317,232	1,121,314	17,303,987	-	-	-	-	-	-	-	-	-	-	-	-	-	17,303,987	-	17,303,987
90305-01	Health Insurance Provider Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
99999	Net Profit/(Loss)	\$ (8,477,847)	\$ 4,727,666	\$ 3,117,059	\$ 7,260,189	\$ 6,627,067	\$ -	\$ (0)	\$ (6,219)	\$ 0	\$ -	\$ -	\$ 208,473	\$ 503,095	\$ 670,647	\$ (409,666)	\$ 3,359,010	\$ -	\$ 4,325,341	\$ 10,952,408	\$ 205,000	\$ 11,157,408
990105-0																						

Mercy Care
Statement of Activities
Schedule A Disclosure
Fiscal Year Ending June 30, 2020

	TXIX/XXI CMDP Child	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Sub-Total	Mgmt & Gen	Total
DISCLOSURE OF NTXIX/XXI OTHER and OTHER FEDERAL AHCCCS REVENUE on line 40205-01							\$ 1,745,489							\$ -			\$ 1,745,489		\$ 1,745,489
SUDS							-							4,445,272			4,445,272		4,445,272
State Opioid Response (SOR)							-							1,146,260			1,146,260		1,146,260
Opioid STR							-							343,098			343,098		343,098
MAT-PDOA Criminal Justice Grant							-							1,324,377			1,324,377		1,324,377
State Opioid Response (SOR) Supp							-							-			-		-
Total - NTXIX/XXI Other and OTHER FEDERAL Column	-	-	-	-	-	-	1,745,489	-	-	-	-	-	-	7,259,007	-	-	9,004,497	-	9,004,497
DISCLOSURE OF OTHER RECONCILIATION SETTLEMENTS ON LINE 40145-01																			
APSI - CYE19	-	163,172	-	-	-	-	-	-	-	-	-	-	-	-	-	-	163,172	-	163,172
BH PPC - CYE19	-	-	169,621	-	-	-	-	-	-	-	-	-	-	-	-	-	169,621	-	169,621
BH PPC - CYE20	-	-	1,163,090	-	-	-	-	-	-	-	-	-	-	-	-	-	1,163,090	-	1,163,090
Total - Other Reconciliations	-	163,172	1,332,710	-	-	-	-	-	-	-	-	-	-	-	-	-	1,495,882	-	1,495,882
DISCLOSURE OF SPECIALTY AND OTHER GRANTS REPORTED ON LINE 40210-01																			
Total Specialty and Other Grants Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF SUPPORTED HOUSING ON REPORTED ON LINE 60405-30																			
Rent Subsidy	-	-	-	-	-	-	-	11,854,947	1,839,486	-	-	-	-	-	-	-	13,694,433	-	13,694,433
Management Fees	-	-	-	-	-	-	-	4,110,876	637,869	-	-	-	-	-	-	-	4,748,744	-	4,748,744
Utility Payments	-	-	-	-	-	-	-	626,818	97,261	-	-	-	-	-	-	-	724,078	-	724,078
Other/Repairs & Maintenance	-	-	-	-	-	-	-	549,987	85,339	-	-	-	-	-	-	-	635,326	-	635,326
Damages	-	-	-	-	-	-	-	401,851	62,354	-	-	-	-	-	-	-	464,204	-	464,204
Deposits	-	-	-	-	-	-	-	561,391	87,109	-	-	-	-	-	-	-	648,500	-	648,500
Start Up	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Eviction Prevention	-	-	-	-	-	-	-	148,631	23,063	-	-	-	-	-	-	-	171,694	-	171,694
Housing Trust Fund - Construction/Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Supported Housing	-	-	-	-	-	-	-	18,254,500	2,832,480	-	-	-	-	-	-	-	21,086,979	-	21,086,979
DISCLOSURE OF OTHER SERVICES ON LINE 61105-01																			
Alternative Payment Model - Behavioral Health	43,125	1,545,585	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,588,710	-	1,588,710
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	122,100	122,100	-	122,100
FEP Grant Expense	-	-	-	-	-	-	-	-	-	-	-	630,518	-	-	-	-	630,518	-	630,518
MAT-PDOA Criminal Justice Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	311,574	-	-	311,574	-	311,574
Opioid STR	-	-	-	-	-	-	-	-	-	-	-	-	-	1,060,555	-	-	1,060,555	-	1,060,555
State Opioid Response (SOR)	-	-	-	-	-	-	-	-	-	-	-	-	-	4,467,226	-	-	4,467,226	-	4,467,226
State Opioid Response (SOR) Supplemental	-	-	-	-	-	-	-	-	-	-	-	-	-	1,271,827	-	-	1,271,827	-	1,271,827
NT SMI - Non Encounterable Gym Membership	-	-	-	-	-	34,880	-	-	-	-	-	-	-	-	-	-	34,880	-	34,880
NT SMI - Non Encounterable Coordinated Entry Position	-	-	-	-	-	75,000	-	-	-	-	-	-	-	-	-	-	75,000	-	75,000
NT SMI - Non Encounterable 2019 Connections Conference	-	-	-	-	-	1,453	-	-	-	-	-	-	-	-	-	-	1,453	-	1,453
NT SMI - Non Encounterable 2020 Connections Conference	-	-	-	-	-	5,000	-	-	-	-	-	-	-	-	-	-	5,000	-	5,000
NT SMI - Non Encounterable HMIS	-	-	-	-	-	4,097	-	-	-	-	-	-	-	-	-	-	4,097	-	4,097
NT SMI - Non Encounterable WICHE	-	-	-	-	-	74,291	-	-	-	-	-	-	-	-	-	-	74,291	-	74,291
NT SMI - Non Encounterable Startup Box	-	-	-	-	-	100,000	-	-	-	-	-	-	-	-	-	-	100,000	-	100,000
NT SMI - Non Encounterable ASU Conference	-	-	-	-	-	(48,926)	-	-	-	-	-	-	-	-	-	-	(48,926)	-	(48,926)
NT SMI - COVID	-	-	-	-	-	167,375	-	-	-	-	-	-	-	-	-	-	167,375	-	167,375
Oxford House	-	-	-	-	-	-	-	-	-	-	-	-	410,792	-	-	-	410,792	-	410,792
MHBG SED 1X Funding	-	-	-	-	-	-	-	-	-	-	(630)	-	-	-	-	-	(630)	-	(630)
Total Other Services	\$ 43,125.00	\$ 1,545,584.51	\$ -	\$ -	\$ -	\$ 413,170.56	\$ -	\$ -	\$ -	\$ -	\$ (630.00)	\$ 630,518.33	\$ 410,792.00	\$ 7,111,181.69	\$ -	\$ 122,100.00	\$ 10,275,842.09	\$ -	\$ 10,275,842.09

Mercy Care
Statement of Activities
Schedule A Disclosure
Fiscal Year Ending June 30, 2020

	TXIX/XXI CMDP Child	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	NTXIX/XXI SMI Housing	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Sub-Total	Mgmt & Gen	Total
DISCLOSURE OF SPECIALTY AND OTHER GRANTS ON LINE 61305-01																			
Total Specialty and Other Grants Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF OTHER ADMIN EXPENSES ON LINE 83005-01																			
Meeting Expense	-	5,616	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,616	-	5,616
Dues and Filing Fees	-	545,516	-	-	-	-	-	-	-	-	-	-	-	-	-	-	545,516	-	545,516
Interpretative Services	616,631	5,594,781	133,650	435,451	71,299	214,381	13,835	158,984	24,317	-	44,285	33,277	137,054	57,534	483,958	-	8,019,437	-	8,019,437
Sanction - AHCCCS	-	93,278	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93,278	-	93,278
Total Other Admin Expenses	616,631	6,239,191	133,650	435,451	71,299	214,381	13,835	158,984	24,317	-	44,285	33,277	137,054	57,534	483,958	-	8,663,847	-	8,663,847
DISCLOSURE OF NON-TITLE XIX/XXI ENCOUNTER VALUATION SANCTIONS ON LINE 83105-01																			
Total Non-Title XIX/XXI Encounter Valuation Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 83205-01																			
Total Adm Expenses from Specialty and Other Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF NON-OPERATING LINE 88999-01																			
Sanctions - Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	205,000	205,000
Investment Income	-	1,358,032	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,358,032	-	1,358,032
Total Non-Operating	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,358,031.71	\$ 205,000.00	\$ 1,563,031.71

ADDITIONAL INFORMATION



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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, 2020, and our report thereon dated November 20, 2020, 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 33 and 34 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 is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

November 20, 2020

MERCY CARE

ADDITIONAL INFORMATION

STATEMENT OF FINANCIAL POSITION

June 30, 2020
(In thousands)

ASSETS

	ACC	DES/DDD	ALTCS	Medicare	RBHA	Total
CURRENT ASSETS						
Cash and cash equivalents	\$ 86,042	\$ 3,208	\$ 20,109	\$ 7,768	\$ 19,746	\$ 136,873
Short-term investments	21,667	1,619	9,209	5,345	13,548	51,388
Receivables:	-	-	-	-	-	-
Reinsurance receivables, net	31,994	3,852	10,460	-	10,239	56,545
Reconciliation receivables	37,063	209	14,591	-	24,152	76,015
Capitation and supplemental receivables	1,641	-	127	(727)	104	1,145
Pharmacy rebate receivable	6,344	427	805	23,539	617	31,732
Third-party liability receivable	3,610	-	627	994	286	5,517
Interest receivable	427	32	181	105	266	1,011
Provider advances, net	4,122	520	468	1,110	506	6,726
Other receivables	553	41	1	13	4,949	5,557
Risk share settlement, current portion	-	-	-	10,342	-	10,342
Grant receivable	-	-	-	-	3,079	3,079
Prepaid assets	215	18	94	60	1,175	1,562
TOTAL CURRENT ASSETS	193,678	9,926	56,672	48,549	78,667	387,492
RECONCILIATION RECEIVABLES, LT	3,662	323	1,236	2,133	4,046	11,400
LONG-TERM INVESTMENTS	151,942	11,351	64,581	37,476	95,004	360,354
TOTAL ASSETS	\$ 349,282	\$ 21,600	\$ 122,489	\$ 88,158	\$ 177,717	\$ 759,246

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES						
Claims payable	\$ 115,067	\$ 11,134	\$ 61,315	\$ 31,059	\$ 53,054	\$ 271,629
Payable to providers	-	-	-	-	222	222
Reconciliation payable	9,704	-	-	-	28	9,732
Grant payable	-	-	-	-	1,171	1,171
Due to Aetna	5,954	463	2,587	807	(138)	9,673
Deferred revenue	-	-	-	-	84	84
Other current liabilities	18,031	435	3,230	9,034	5,575	36,305
TOTAL CURRENT LIABILITIES	148,756	12,032	67,132	40,900	59,996	328,816
RECONCILIATION PAYABLE, LT	46,249	5,133	1,111	-	12,205	64,698
TOTAL LIABILITIES	195,005	17,165	68,243	40,900	72,201	393,514
NET ASSETS WITHOUT DONOR RESTRICTIONS	154,277	4,435	54,246	47,258	105,516	365,732
TOTAL LIABILITIES AND NET ASSETS	\$ 349,282	\$ 21,600	\$ 122,489	\$ 88,158	\$ 177,717	\$ 759,246

MERCY CARE
ADDITIONAL INFORMATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2020
(In thousands)

	<u>ACC</u>	<u>DES/DDD</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>RBHA</u>	<u>Total</u>
OPERATING REVENUES						
Capitation premiums	\$ 1,572,402	\$ 120,357	\$ 670,032	\$ 399,565	\$ 862,647	\$ 3,625,003
Delivery supplement	46,242	-	-	-	-	46,242
Grants	506	-	-	-	156,044	156,550
Other	(36,291)	(4,675)	(2,776)	-	(1,916)	(45,658)
TOTAL OPERATING REVENUES	<u>1,582,859</u>	<u>115,682</u>	<u>667,256</u>	<u>399,565</u>	<u>1,016,775</u>	<u>3,782,137</u>
HEALTH CARE EXPENSES						
Hospitalization	256,850	25,842	30,773	105,588	30,635	449,688
Medical compensation	257,786	8,821	16,025	39,450	25,763	347,845
Ancillary and other medical services	926,530	80,922	111,766	199,540	865,887	2,184,645
Institutional	-	-	222,245	-	-	222,245
Home and community based services	-	-	245,017	-	-	245,017
Less: net third party liability recoveries	(5,679)	(73)	(489)	(503)	(273)	(7,017)
Less: net reinsurance recoveries	(62,918)	(6,908)	(19,731)	(39)	(11,982)	(101,578)
TOTAL HEALTH CARE EXPENSES	<u>1,372,569</u>	<u>108,604</u>	<u>605,606</u>	<u>344,036</u>	<u>910,030</u>	<u>3,340,845</u>
GENERAL AND ADMINISTRATIVE EXPENSES						
	148,109	9,837	42,071	38,026	81,777	319,820
PREMIUM TAX EXPENSE						
	35,202	-	15,012	-	17,304	67,518
TOTAL EXPENSES	<u>1,555,880</u>	<u>118,441</u>	<u>662,689</u>	<u>382,062</u>	<u>1,009,111</u>	<u>3,728,183</u>
OPERATING INCOME (LOSS)	<u>26,979</u>	<u>(2,759)</u>	<u>4,567</u>	<u>17,503</u>	<u>7,664</u>	<u>53,954</u>
NONOPERATING INCOME (EXPENSE)						
Investment income	6,188	462	2,630	1,526	3,869	14,675
Investment fees	(602)	(45)	(256)	(149)	(376)	(1,428)
Community reinvestment	(1,681)	-	(202)	-	(293)	(2,176)
TOTAL NONOPERATING INCOME (EXPENSE)	<u>3,905</u>	<u>417</u>	<u>2,172</u>	<u>1,377</u>	<u>3,200</u>	<u>11,071</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS						
	30,884	(2,342)	6,739	18,880	10,864	65,025
UNREALIZED GAINS (LOSSES) ON INVESTMENTS						
	7,070	754	3,143	1,541	3,864	16,372
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTION TO SPONSOR ORGANIZATIONS						
	37,954	(1,588)	9,882	20,421	14,728	81,397
DISTRIBUTION TO SPONSORS						
SALE OF 0.5% INTEREST IN THE PLAN	(29,850)	-	(14,925)	(14,925)	-	(59,700)
NOTE RECEIVABLE FOR 0.5% INTEREST IN THE PLAN	-	-	-	-	-	-
REPAYMENT OF NOTE RECEIVABLE FROM MEMBER	214	-	-	-	-	214
NET ASSETS, BEGINNING OF YEAR	<u>145,959</u>	<u>6,023</u>	<u>59,289</u>	<u>41,762</u>	<u>90,788</u>	<u>343,821</u>
NET ASSETS END OF YEAR	<u>\$ 154,277</u>	<u>\$ 4,435</u>	<u>\$ 54,246</u>	<u>\$ 47,258</u>	<u>\$ 105,516</u>	<u>\$ 365,732</u>

See Independent Auditors' Report on Additional Information

**UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS**

MERCY CARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

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:				
Substance Abuse Block Grant	93.959	11356415170214	\$ 15,115,802	\$ 16,443,828
Mental Health Block Grant				
SMI - Non-Title XIX	93.958	11356415170214	3,673,548	4,010,321
Children - Non-Title XIX	93.958	11356415170214	4,583,430	5,012,538
First Episode of Psychosis	93.958	11356415170214	630,518	673,341
Subtotal Mental Health Block Grant (93.958)			<u>8,887,496</u>	<u>9,696,200</u>
Substance Abuse and Mental Health Services, Projects of Regional and National Significance				
Medication Assisted Treatment - Prescription Drug and Opioid Addiction	93.243	11356415170214	317,711	343,127
Arizona Opioid State Targeted Response Grant	93.788	11356415170214	1,080,823	1,167,289
Arizona State Opioid Response Grant	93.788	11356415170214	4,372,616	4,722,425
Arizona State Opioid Response Supplemental Grant	93.788	11356415170214	1,416,672	1,530,006
Subtotal Substance Abuse and Mental Health Services			<u>7,187,822</u>	<u>7,762,847</u>
Total Passed-Through Arizona Health Care Cost Containment System			<u>31,191,120</u>	<u>33,902,875</u>
Centers for Medicare and Medicaid Services (CMS) and Arizona Health-e Connection:				
ACA - Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNS)	93.638	68660047917631	307,943	337,760
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 31,499,063	\$ 34,240,635

MERCY CARE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2020

(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, 2020. 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) **Catalog of Federal Domestic Assistance (CFDA) numbers**

The program titles and CFDA numbers were obtained from the 2020 Catalog of Federal Domestic Assistance.



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**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** (the "Organization"), which comprise the statement of financial position as of June 30, 2020, 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 November 20, 2020.

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) as a basis for designing 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 financial statements. 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.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive, professional style.

November 20, 2020



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**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

We have audited **Mercy Care's** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on **Mercy Care's** major federal programs for the year ended June 30, 2020. **Mercy Care's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for **Mercy Care's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Mercy Care's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of **Mercy Care's** compliance.

Opinion on Major Federal Programs

In our opinion, **Mercy Care** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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



November 20, 2020

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

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:

CFDA 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

- | | |
|---|-------------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$1,027,219 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2020

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

Section IV – Prior Audit Findings

None