

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

Years Ended June 30, 2023 and 2022

MERCY CARE

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

Years Ended June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MERCY CARE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Mercy Care, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mercy Care as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Mercy Care's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mercy Care's ability to continue as a going concern for a reasonable period of time.

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

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2023, on our consideration of Mercy Care's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mercy Care's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Care's internal control over financial reporting and compliance.



December 13, 2023

MERCY CARE

STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022
(In thousands)

	2023	2022
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 620,505	\$ 470,232
Short-term investments	82,070	95,619
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of \$11,104 and \$12,759 at June 30, 2023 and 2022, respectively	22,369	20,866
Reconciliation receivables	49,735	53,883
Capitation and supplemental receivables	39,631	19,392
Pharmacy rebate receivable	25,427	19,151
Third party liability receivable, net of allowance for doubtful accounts of \$1,560 and \$1,963 at June 30, 2023 and 2022, respectively	4,753	4,723
Interest receivable	2,739	1,259
Provider advances, net of allowance for doubtful accounts of \$829 and \$704 at June 30, 2023 and 2022, respectively	7,809	8,047
Other receivables	22,692	17,314
Risk share settlement, current portion	-	13,395
Grant receivable	6,296	5,588
Due from Aetna receivable	1,664	-
Prepaid assets	829	781
TOTAL CURRENT ASSETS	886,519	730,250
RECONCILIATION RECEIVABLES, net of current portion	39,300	29,339
LONG-TERM INVESTMENTS	489,328	437,090
TOTAL ASSETS	1,415,147	1,196,679
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Claims payable	362,972	368,527
Payable to providers	28,601	12,103
Reconciliation payables	328,420	257,083
Grant payables	1,999	2,870
Due to Aetna	84,348	21,053
Deferred revenue	45,702	5,920
Other current liabilities	27,905	20,770
TOTAL CURRENT LIABILITIES	879,947	688,326
RECONCILIATION PAYABLE, net of current portion	57,193	96,116
TOTAL LIABILITIES	937,140	784,442
NET ASSETS WITHOUT DONOR RESTRICTIONS	478,007	412,237
TOTAL LIABILITIES AND NET ASSETS	\$ 1,415,147	\$ 1,196,679

See Notes to Financial Statements

MERCY CARE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2023 and 2022
(In thousands)

	2023	2022
OPERATING REVENUES		
Capitation premiums	\$ 4,703,559	\$ 4,454,116
Delivery supplement	52,298	47,425
Grants	167,547	149,627
Reconciliations	(98,623)	(166,509)
Other, net	67	85
TOTAL OPERATING REVENUES	4,824,848	4,484,744
HEALTH CARE EXPENSES		
Hospitalization	487,045	486,508
Medical compensation	501,293	480,974
Ancillary and other medical services	2,779,967	2,566,781
Institutional	239,899	213,030
Home and community based services	278,610	256,058
Less: net third part liability recoveries	(4,527)	(2,493)
Less: net reinsurance recoveries	(94,477)	(83,782)
TOTAL HEALTH CARE EXPENSES	4,187,810	3,917,076
GENERAL AND ADMINISTRATIVE EXPENSES	405,147	373,196
PREMIUM TAX EXPENSE	91,126	86,893
TOTAL EXPENSES	4,684,083	4,377,166
OPERATING INCOME	140,765	107,579
NONOPERATING INCOME (EXPENSE)		
Investment income	28,191	27,206
Investment fees	(1,925)	(2,099)
Community reinvestment	(10,822)	(7,252)
TOTAL NONOPERATING INCOME	15,444	17,854
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS	156,209	125,433
UNREALIZED GAINS ON INVESTMENTS	29,561	(69,979)
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS	185,770	55,454
DISTRIBUTION TO SPONSOR ORGANIZATIONS	(120,000)	(60,000)
REPAYMENT OF NOTE RECEIVABLE FROM MEMBER	-	271
NET ASSETS, BEGINNING OF YEAR	412,237	416,512
NET ASSETS, END OF YEAR	\$ 478,007	\$ 412,237

See Notes to Financial Statements

MERCY CARE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022
(In thousands)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 185,770	\$ 55,454
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	(1,934)	(1,095)
Net unrealized gains on investments	(29,561)	69,979
Net realized gains on investments	12,605	(18,360)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	(9,809)	20,105
Reconciliation receivables	4,148	28,316
Capitation and supplemental receivables	(20,239)	(18,172)
Pharmacy rebate receivable	(6,276)	1,499
Third-party liability receivable	373	610
Interest receivable	(1,480)	8
Provider advances	114	674
Other receivables	(5,378)	(9,262)
Due from Aetna	(1,664)	-
Grant receivable	12,687	(3,494)
Prepaid assets	(48)	855
Increase (decrease) in:		
Claims payable	(5,555)	1,452
Grant payable	(871)	1,445
Payable to providers	16,498	(10,515)
Reconciliation payable	32,414	164,232
Due to Aetna	63,295	13,054
Deferred revenue	39,782	5,085
Other current liabilities	7,135	7,326
Net cash provided by operating activities	<u>292,006</u>	<u>309,166</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(302,370)	(225,538)
Proceeds from sale of investments	<u>280,637</u>	<u>219,355</u>
Net cash used in investing activities	<u>(21,733)</u>	<u>(6,183)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to Sponsor Organizations	(120,000)	(60,000)
Repayment received on note receivable from member	-	271
Net cash used in financing activities	<u>(120,000)</u>	<u>(59,729)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	150,273	243,254
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>470,232</u>	<u>226,978</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 620,505</u>	<u>\$ 470,232</u>

See Notes to Financial Statements

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(1) Plan operations and significant accounting policies

Company operations - Mercy Care (the Plan) is a nonprofit corporation, whose primary 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 healthcare 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 Agreement (RBHA) - behavioral healthcare services to Medicaid eligible adults with serious mental illness
- Department of Child Services (DCS), Comprehensive Health Plan (CHP) (effective April 1, 2021) – integrated physical and behavioral health for children in foster care eligible under Title XIX Medicaid and Title XXI program requirements

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

In March 2018, Mercy Care was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central and South regions of Arizona. The AHCCCS Complete Care program integrates physical and behavioral healthcare contracts under managed care plans for the majority of the AHCCCS members. The integrated delivery model offers a more cohesive healthcare system for members incentivizing quality healthcare 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 healthcare initiatives forward. The Plan operates the Complete Care contract effective October 1, 2018 as well as the remainder of the RBHA contract with AHCCCS to provide physical and behavioral health services to the seriously mentally ill and other defined populations within Maricopa County through September 30, 2022.

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

In connection with the commencement of the Complete Care contract, Mercy Care sold a 0.5% nonvoting interest in the Plan to Equality Health Foundation in return for a \$1.5 million promissory note. The promissory note dated January 1, 2021 is payable in seven annual installments of \$214,286 plus interest at 3% per year, maturing January 2026. As of June 30, 2023, the promissory note balance is \$0 and has been fully settled with Equality Health Foundation.

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

Mercy Care has had a plan management services agreement with Aetna since 2007, which is a continuation of the agreement held with Schaller Anderson, L.L.C. since 2001. The new contract became effective August 15, 2016 and effective November 17, 2020 the first amendment to the contract continues through the expiration or termination of the ACC contract with AHCCCS or through September 30, 2022. Mercy Maricopa Integrated Care ("MMIC") entered into a five-year management agreement with Aetna effective May 1, 2013, which was assumed by Mercy Care upon the merger of MMIC into Mercy Care on July 1, 2018. The RBHA management agreement automatically renews for a second five-year term and thereafter for successive one-year periods. A new agreement became effective July 1, 2022 and includes RBHA and DCS contracts and is in effect for an initial period of six years through June 30, 2028. The contract will automatically renew for successive three-year terms. The new contract replaced the MMIC prior management agreement with Aetna effective May 1, 2013, which was assumed by Mercy Care upon the merger of MMIC into Mercy Care on July 1, 2018. New Service Lines will require a written amendment that includes Base Monthly Management Fee and any other amendment to the agreement reasonably necessary to contemplate the New Service Lines, including, without limitation, appropriate Performance Metrics. Under the terms of the agreements, Mercy Care pays a monthly fee to Aetna, as defined in the agreements, to cover the employee salary and benefit costs and general and administrative expenses incurred to operate the organization. Mercy Care incurred management fees per the management agreements of approximately \$291,101,000 and \$322,347,000 for the years ended June 30, 2023 and June 30, 2022, respectively. This amount is included in general and administrative expenses in the accompanying statements of activities and changes in net assets. At June 30, 2023 and 2022, respectively, net management fees due to Aetna from Mercy Care total approximately \$1,836,000 and \$719,000, 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, 2023 and 2022, the amount Due to Aetna includes \$80,356,000 and \$18,626,000, respectively, for the share of risk related to the Plan's performance. The Risk Share (as defined in the 2016 Agreement) and Supplemental Bonus Payments (as defined in the 2016 Agreement) for the Plan Year beginning July 1, 2021 and concluding June 30, 2022 shall be paid pursuant to the terms and conditions of the 2016 Agreement. At June 30, 2023 and 2022, Due to Aetna included accruals of \$0 and \$1,338,000 respectively, of supplemental compensation measured based on the performance metrics achieved for that fiscal year. Aetna received a total final payment of \$1,880,000 of achieved supplemental compensation for fiscal year ending June 30, 2022 in December 2022.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

Basis of presentation - The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954-205, *Health Care Entities - Presentation of Financial Statements*. The Plan's financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Plan is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of June 30, 2023 and 2022, there were no net assets with donor restrictions.

Management's use of estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates potentially susceptible to change in the near term include the claims payable liability and reconciliation receivables and payables.

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

Capitation premiums - The Plan receives from AHCCCS, DES/DDD, DCS/CHP and CMS fixed capitation payments, generally in advance, based on certain rates for each member enrolled with the Plan. The Plan is required to provide all covered healthcare 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 healthcare services. Certain provisions of the AHCCCS ACC-RBHA, ALTCS, DES/DDD, and DCS/CHP contracts include a risk band whereby Mercy Care and the programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). Mercy Care has recorded an estimate of the reconciliation revenue, or contra-revenue, within other revenue in the accompanying statements of activities and changes in net assets, based on the operational performance of the AHCCCS ACC-RBHA, ALTCS, DES/DDD and DCS/CHP lines of business from year to year. The Plan may also recover certain losses for those cases eligible for reinsurance payments.

Capitation is paid prospectively as well as for prior period coverage (PPC) under the AHCCCS ACC-RBHA 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, 2023 and 2022. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year as part of the Tiered Reconciliation of each contract.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

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

Profits in excess of the percentages set forth by the contract will be recouped by AHCCCS, DDD and DCS. Losses in excess of the percentages set forth by the contract will be paid to the Plan. As of June 30, 2023, the Plan has recorded for all contracts an estimated total receivable of approximately \$76,773,000 and an estimated payable of approximately \$379,830,000 which is included in reconciliation receivables and reconciliation payables, respectively, in the accompanying statements of financial position. As of June 30, 2022, the Plan has recorded for all contracts an estimated receivable of approximately \$81,089,000 and an estimated payable of approximately \$353,199,000 which is included in reconciliation receivables and reconciliation payables, respectively. Reconciliation receivable and payable amounts pertaining to separate contracts cannot be offset against reconciliation receivable and payable balances of a different contract, and as such, amounts have been presented separately as a payable and receivable balances in the accompanying statements of financial position. The reconciliation receivables and payables are classified as current and noncurrent based on the expected timing of settlement of the estimate with AHCCCS. As of June 30, 2023, as a result of claim experience and membership volume due to the COVID-19 pandemic the estimated reconciliation payable is higher than prior fiscal year.

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, 2023, and 2022, 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, 2023 and 2022 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Care receives a majority of its revenue from its contracts with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, Mercy Care is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Capitation, grant and other revenues including reinsurance recoveries and third-party liability recoveries totaled approximately \$4,924,000,000 and \$4,571,000,000 for the years ended June 30, 2023 and 2022, respectively.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

Mercy Care's contracts contain certain variable consideration components, including risk sharing, or profit corridor, with AHCCCS for each contract, along with the 1% of capitation at risk based on performance measures. Both components are directly related to the performance of each contract and the estimated variable consideration is determined monthly based on historical trends, contract performance, claims activity and other operating data available to date. Management records the variable consideration in the period when the estimate is determined, as long as a significant reversal of the estimate is not considered probable. Management has recorded estimated receivables and payables for the AHCCCS and CMS risk share, or profit corridor, reconciliations as of June 30, 2023 and 2022 as a significant reversal of the estimate is not considered probable.

Grant revenue - The RBHA contract is partially funded by state, county and block grants (non-title revenue), which represent annual appropriations. Mercy Care recognizes revenue under the RBHA contract from this funding ratably over the period to which the funding applies. The Plan adopted FASB Accounting Standards Update (ASU) No. 2018-08, Not-For-Profit Entities (Topic 958) effective July 1, 2019. ASU 2018-08 clarifies the characterization of grants and similar contracts with governmental agencies as either reciprocal transactions (exchanges) or nonreciprocal transactions (contributions). In accordance with ASU 2018-08, Mercy Care has determined that all of the grant funding received from AHCCCS represents nonreciprocal transactions and is appropriately classified as contributions. ASU 2018-08 also provided additional guidance to distinguish between conditional and unconditional contributions. The Plan evaluates the contributions for criteria indicating the existence of measurable barriers to entitlement for the Plan or the right of return to AHCCCS. Revenue related to grant funds determined to have conditions require Mercy Care to recognize revenue when the barriers are overcome. Revenue related to grant funds determined not to have conditions are recognized ratably over the period which the funding applies. Non-Title revenues, including block grants, totaled approximately \$162,596,000 and \$149,693,000 for the years ended June 30, 2023 and 2022, respectively. Based on the requirements of Mercy Care in its contracts with AHCCCS, grant revenue subject to conditions for the year ended June 30, 2023 and 2022 totaled \$15,142,000 and \$11,484,000, respectively. Mercy Care has determined that the conditions for the revenue recorded have been met as of June 30, 2023 and 2022.

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 \$4,718,000 and \$5,920,000 at June 30, 2023 and 2022, respectively. The remaining balance of deferred revenue, of approximately \$41,000,000 as of June 30, 2023, is comprised primarily of the Medicare July 2023 capitation payment from CMS received in June 2023, that will be recognized as revenue in July 2023.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

Delivery supplement - As part of the AHCCCS ACC-RBHA contract, AHCCCS supplements capitation premiums with lump-sum payments for births by women eligible under the Medicaid program for ACC members only. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Effective October 1, 2022, the AHCCCS rate increased from \$6,600 to \$7,200 per each birth. Delivery revenue of approximately \$52,298,000 and \$47,425,000 was recognized for the years ended June 30, 2023 and 2022, respectively. As of June 30, 2023, and 2022, approximately \$2,487,000 and \$599,200, 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 XIX/XXI payments, which are remitted directly to the Arizona Department of Insurance (ADOI).

Reinsurance – AHCCCS, DES/DDD and DCS/CHP 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, DES/DDD and DCS/CHP 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 ACC-RBHA and ALTCS, DES/DDD, DCS/CHP and Medicare Advantage Plan contracts. Reinsurance recoveries have been offset against healthcare expenses in the accompanying statements of activities and changes in net assets.

Below are the reinsurance thresholds by line of business:

<u>Line of Business</u>	<u>Annual Deductible Effective October 1, 2022</u>	<u>Annual Deductible Effective October 1, 2021</u>	<u>Coinsurance</u>
ACC – Prospective Only	\$ 0	\$ 50,000	75%
RBHA SMI Membership	0	50,000	75%
ACC-RBHA	75,000		75%
DES/DDD	75,000	50,000	75%
DCS/CHP	75,000	50,000	75%
ALTCS w/Medicare	75,000	20,000	75%
ALTCS w/o Medicare	75,000	30,000	75%

<u>Line of Business</u>	<u>Annual Deductible Effective January 1, 2023</u>	<u>Annual Deductible Effective January 1, 2022</u>	<u>Coinsurance</u>
Mercy Care Medicare Advantage	\$ 700,000	\$ 700,000	90%

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, DCS/CHP and the Medicare Advantage Plan's commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by Mercy Care were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. At June 30, 2023 and 2022, gross reinsurance receivables totaled approximately \$33,473,000 and \$33,626,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately \$11,104,000 and \$12,759,000 at June 30, 2023 and 2022, respectively.

Pharmacy rebate receivable - The Plan receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Plan records a receivable and a reduction of healthcare expenses for estimated rebates due based on purchase information. During the years ended June 30, 2023 and 2022, healthcare expenses were reduced by approximately \$47,938,000 and \$42,203,000 for rebates, respectively. Pharmacy rebates receivable totaled approximately \$25,427,000 and \$19,151,000 at June 30, 2023 and 2022, respectively. Management believes the pharmacy rebate receivable at June 30, 2023 and 2022 is fully collectible and accordingly, an allowance has not been established.

Third-party liability receivable - In cases such as motor vehicle accidents and worker's compensation claims, a third-party insurer may be liable for a claim. When Mercy Care pays claims on behalf of its members and determines a third-party insurance company is ultimately responsible for that claim, it estimates a receivable and recoups the claim cost from the third-party insurer. Mercy Care has hired an asset recovery company to manage the third-party receivable collections. Third-party liability receivables are stated at the amount management expects to collect and is compared to the annual recoveries received. Recovery rates are updated periodically and confirmed by the vendor. At June 30, 2023 and 2022, gross third-party liability receivables totaled approximately \$6,313,000 and \$6,686,000, respectively. Mercy Care also had an allowance for doubtful accounts of approximately \$1,560,000 and \$1,963,000 at June 30, 2023 and 2022, 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, 2023 and 2022, Mercy Care gross provider advances receivable totaled approximately \$8,638,000 and \$8,752,000, respectively. Mercy Care had an allowance for doubtful provider advances of approximately \$829,000 and \$704,000 at June 30, 2023 and 2022, respectively.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

Risk share settlement - The risk share settlement receivable represents the CMS risk adjustment for the Medicare Advantage, Medicare Part C, enrollees. CMS performs a risk adjustment each year using health status indicators to correlate payment to the health acuity of the member and consequently establishes incentives for plans to enroll and treat less healthy Medicare beneficiaries. Management estimates the expected impact from the CMS rate risk adjustment on the Plan's enrolled population for each contract year. As of June 30, 2023, and 2022, the Plan has recorded an estimated current receivable from CMS of approximately \$12,722,000 and \$12,876,000, respectively, which are included in capitation and supplement receivables in the accompanying statements of financial position. Risk share settlement receivables at June 30, 2023 and 2022 are considered by management to be fully collectible and 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 \$1,895,000 and \$5,522,000 for the years ended June 30, 2023 and 2022, respectively, which are included as capitation premiums in the accompanying statements of activities and changes in net assets. As of June 30, 2023, the Plan recorded a receivable of \$10,181,000 for Medicare Part D settlements relating to contract year 2022, and \$5,385,000 relating to contract year 2023, which is included in capitation receivable in the accompanying statement of financial position. As of June 30, 2023 the Plan had recorded an estimated receivable from CMS of approximately \$15,566,000 which is included in the capitation receivable in the accompanying statement of financial position. The settlement for contract year 2021 was completed in January 2023 with CMS paying Mercy Care approximately \$13,885,000. As of June 30, 2023, \$2,133,000 of the Medicare Part D estimated settlements related to contract year 2018 were presented as a long-term reconciliation receivable based on the expected timing of final settlement. The settlements for calendar years 2023 and 2022 are expected to be finalized in fiscal 2024.

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, 2023 and 2022, the Plan has not recorded any estimates related to risk adjustment.

Premium deficiency reserve - Mercy Care evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within claims payable on the statements of financial position. Mercy Care recorded for the years ended June 30, 2023 and 2022, respectively, \$0 and \$5,899,000 for expected losses within its Medicare contract for the contract years ended December 31, 2023 and 2022, respectively.

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

Mercy Care contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mental Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms. 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 healthcare 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 \$42,408,000 and \$8,151,000 for the years ended June 30, 2023 and 2022, respectively, and is included within healthcare expenses in the accompanying statements of activities and changes in net assets. Mercy Care accrued approximately \$26,573,000 and \$6,151,000 as of June 30, 2023 and 2022, respectively, which is included in payable to providers in the accompanying statements of financial position.

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

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

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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, 2023 and 2022. The Plan has a policy to review and identify investments with declines in value that would be considered to be other-than-temporary. Such other-than-temporary declines, if significant, are accounted for as realized losses in the statements of activities and changes in net assets (See Note 3).

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

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty in income taxes which requires the application of a "more likely than not" threshold recognition and de-recognition of uncertain tax positions in operations in the year of such change. The Plan evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2023 and 2022, the Plan did not have any uncertain tax positions.

Mercy Care Returns of Organization Exempt from Income Tax (Form 990) for 2020, 2021 and 2022 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 2023 tax return for Mercy Care had not yet been filed.

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

Subsequent events - The Company has evaluated subsequent events through December 13, 2023, which is the date the financial statements were available to be issued.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(2) Reconciliation

The Plan's AHCCCS, DES/DDD and DCS/CHP 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 each contract 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 the contract. 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):

	2023		2022	
	<u>Reconciliation Receivable</u>	<u>Reconciliation Payable</u>	<u>Reconciliation Receivable</u>	<u>Reconciliation Payable</u>
ACC-RBHA	\$ 49,834	\$ 302,252	\$ -	\$ -
ACC	-	-	30,625	155,061
ALTCS	15,391	22,332	26,461	17,258
DDD	9,810	4,943	1,521	10,127
DCS	1,738	50,303	46	43,495
RBHA	-	-	22,436	127,258
Total	76,773	379,830	81,089	353,199
Less current portion	(49,735)	(328,420)	(53,883)	(257,083)
Non-current portion	<u>\$ 27,038</u>	<u>\$ 51,410</u>	<u>\$ 27,206</u>	<u>\$ 96,116</u>

As of June 30, 2023, \$2,133,000 of the Medicare Part D estimated settlements related to contract year 2018 were presented as a long-term reconciliation receivable based on the expected timing of final settlement. The settlements for calendar years 2023 and 2022 are expected to be finalized in fiscal 2024. As of June 30, 2023, Mercy Care has recorded a receivable for expected under-encounters for the contract year 2022 of approximately \$10,130,000 and is included within long term receivable in the accompanying statement of financial position and a long-term liability for provider over-encounters of approximately \$5,783,000 to be disbursed at a future date dependent on provider receivables received for contract year 2022.

(3) Investments

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

	2023		2022	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term:				
Marketable equity securities	\$ 72,888	\$ 72,888	\$ 70,126	\$ 70,126
Money Market Instruments	-	-	6,987	6,992
Corporate bonds	9,812	9,182	19,136	18,501
	<u>82,700</u>	<u>82,070</u>	<u>96,249</u>	<u>95,619</u>
Long-term:				
Marketable equity securities	165,686	216,810	167,804	189,598
U.S. Government securities	171,628	162,353	143,991	135,835
Corporate bonds	68,737	63,847	79,606	73,301
Mortgage-backed securities	48,156	46,318	40,127	38,356
	<u>454,207</u>	<u>489,328</u>	<u>431,528</u>	<u>437,090</u>
	<u>\$ 536,907</u>	<u>\$ 571,398</u>	<u>\$ 527,777</u>	<u>\$ 532,709</u>

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(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, 2023 and 2022, 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, 2023 (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	\$ -	\$ -	\$ 155,591	\$ 9,413	\$ 155,591	\$ 9,413
Marketable equity securities	-	-	30,980	4,473	30,980	4,473
Corporate bonds	12,757	1,344	56,926	4,202	69,683	5,546
Mortgage-backed securities	-	-	41,666	1,862	41,666	1,862
Total	<u>\$ 12,757</u>	<u>\$ 1,344</u>	<u>\$ 285,163</u>	<u>\$ 19,950</u>	<u>\$ 297,920</u>	<u>\$ 21,294</u>

The following table summarizes the unrealized losses on investments held at June 30, 2022 (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	\$ -	\$ -	\$ 123,190	\$ 8,332	\$ 123,190	\$ 8,332
Marketable equity securities	-	-	62,297	12,456	62,297	12,456
Corporate bonds	17,796	643	72,674	6,308	90,470	6,952
Mortgage-backed securities	-	-	38,355	1,772	38,355	1,771
Total	<u>\$ 17,796</u>	<u>\$ 643</u>	<u>\$ 296,516</u>	<u>\$ 28,868</u>	<u>\$ 314,312</u>	<u>\$ 29,511</u>

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, 2023 and 2022

(4) Fair value measurement

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2023 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 162,353	\$ -	\$ 162,353
Marketable equity securities				
U.S. large cap	216,809	-	-	216,809
Money market mutual funds	59,367	-	-	59,367
Other	<u>13,520</u>	<u>-</u>	<u>-</u>	<u>13,520</u>
Total marketable equity securities	<u>289,696</u>	<u>-</u>	<u>-</u>	<u>289,696</u>
Corporate bonds	-	73,030	-	73,030
Mortgage-backed securities	-	46,319	-	46,319
Total Investments	<u>\$ 289,696</u>	<u>\$ 281,702</u>	<u>\$ -</u>	<u>\$ 571,398</u>

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 135,835	\$ -	\$ 135,835
Marketable equity securities				
U.S. large cap	189,598	-	-	189,598
Money market mutual funds	57,098	-	-	57,098
Other	<u>20,020</u>	<u>-</u>	<u>-</u>	<u>20,020</u>
Total marketable equity securities	<u>266,716</u>	<u>-</u>	<u>-</u>	<u>266,716</u>
Corporate bonds	-	91,802	-	91,802
Mortgage-backed securities	-	38,356	-	38,356
Total Investments	<u>\$ 266,716</u>	<u>\$ 265,993</u>	<u>\$ -</u>	<u>\$ 532,709</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, 2023 and 2022

(5) Claims payable

At June 30, 2023 and 2022, claims outstanding to third parties for healthcare services provided to members, including estimates for incurred but not reported claims, were approximately \$363 million and \$369 million, respectively. The balances were certified by an actuary. Activity in the liability for claims payable and healthcare expense for the years ended June 30, 2023 and 2022 is as follows (in thousands):

	2023	2022
Claims unpaid at beginning of year prior to reinsurance recoverable	\$ 389,392	\$ 414,190
Reinsurance recoverable, beginning of year	(20,865)	(47,115)
Claims unpaid, beginning of year	368,527	367,075
Incurred related to:		
Current year	3,904,945	3,660,930
Prior years	(84,059)	(88,028)
Total incurred	3,820,886	3,572,902
Paid related to:		
Current year	(3,518,820)	(3,270,725)
Prior years	(285,250)	(279,860)
Total paid	(3,804,070)	(3,550,585)
Claims unpaid at end of year prior to reinsurance recoverable	385,343	389,392
Reinsurance recoverable, end of year	(22,371)	(20,865)
Claims unpaid, end of year	\$ 362,972	\$ 368,527

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, 2022 was more than the actual claims incurred related to fiscal year 2022 and prior by approximately \$784,000 or 0.21% of Mercy Care claims unpaid. The primary drivers for the claim development variations include member mix changes, changes in anticipated member utilization, a shift in costs due to the public health emergency (PHE), speed of claims processing, and initiative levels to recoup provider overpayments.

Estimated third-party subrogation, net of allowances included as a reduction to medical and hospital expenses in the accompanying statements of activities and changes in net assets at June 30, 2023 and 2022 totaled approximately \$4,527,000 and \$2,493,000 respectively.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(6) Related party transactions

In September 2015, Tenet Healthcare Corporation, Dignity Health and Ascension Health finalized a joint venture to own and operate Carondelet Health Network in Tucson, Arizona. Tenet Healthcare Corporation is the majority partner at 60% ownership share and Dignity Health and Ascension Health each having a 20% ownership share. In July 2022, Dignity Health and Ascension Health sold all their ownership shares in Carondelet Health Network to Tenet Healthcare Corporation. Mercy Care paid approximately \$290,859,000 in 2023 and \$292,375,000 in 2022 to Dignity Health, Ascension, Equality Health and its affiliates for services provided to members. These balances include net prospective provider advance payments made to Dignity. Provider advances to Dignity amounted to approximately \$59,858,000 and \$71,148,000 for years ending June 30, 2023 and 2022. During the year ended June 30, 2023 Mercy Care made distributions to Dignity and Ascension Health of \$59,700,000 each and \$600,000 to Equality Health. During the year ended June 30, 2022 Mercy Care made distributions to Dignity and Ascension Health of \$29,850,000 each and \$300,000 to Equality Health.

(7) Commitments and contingencies

Performance bonds - Mercy Care obtains unsecured surety bonds to satisfy the AHCCCS ACC-RBHA, ALTCS, DES/DDD DCS/CHP and Medicare performance bond requirements. Effective October 1, 2022, AHCCCS ACC and RBHA lines of business were combined into one performance bond. The following table sets forth the Mercy Care contract requirement and the Performance Bond amounts at June 30, 2023:

Line of Business	AHCCCS Minimum Requirement	Performance Bond Amount	Effective Date
ACC-RBHA	90% of Capitation Revenue	\$ 275,000,000	10/1/2022
ALTCS	90% of Capitation Revenue	\$ 65,000,000	10/1/2022
DDD	90% of Capitation Revenue	\$ 18,000,000	10/1/2022
Medicare	\$1,050 PMPM	\$ 18,200,000	1/1/2023
DCS	90% of Capitation Revenue	\$ 18,500,000	10/1/2022

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

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

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(7) Commitments and contingencies (continued)

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

Community reinvestment program - In accordance with the AHCCCS contract, Mercy Care has approved a Community Reinvestment program. Under the program, Mercy Care will demonstrate a commitment to the local communities in which it operates through community reinvestment activities including contributing 6% of its annual profits for ACC-RBHA, ALTCS, DES/DDD, and DCS/CHP to community reinvestment. The CCE contract effective October 1, 2022, combines ACC and RBHA into one program contributing 6% of its combined annual profits. 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, 2023 and 2022, Mercy Care approved amounts of approximately \$10,822,000 and \$7,252,000, respectively, to be spent on various healthcare community projects. These amounts are included in nonoperating expenses in the accompanying statements of activities and changes in net assets. At June 30, 2023 and 2022, respectively, Mercy Care has recorded a liability for unspent Community Reinvestment program funds of approximately \$17,103,000 and \$10,084,000, which is included in other current liabilities in the accompanying statements of financial position.

Contract compliance - Under the terms of the AHCCCS, DES/DDD, DCS/CHP 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 all contracts, 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, 2023, the DCS/CHP was the only line of business not in compliance with the administrative cost percentage requirement as a result of Aetna Risk Share estimates. Mercy Care remedied this in the subsequent quarter such that Mercy Care was in compliance with the administrative cost percentage requirement as of the September 30, 2023 contract year end. As of June 30, 2023, all lines of business were in compliance with the remaining contract 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

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(7) Commitments and contingencies (continued)

Mercy Care is required to meet quarterly and contract year end minimum encounter submission percentages or be subject to sanction by AHCCCS. Typically, Mercy Care has up to eight months after the contract period end to meet the minimum number of encounters. Through the date of this report, AHCCCS has not yet completed its encounter evaluation assessment for the contract years ended September 30, 2023 and 2022. As of June 30, 2023, Mercy Care anticipates meeting the required encounter threshold for the contract year ending September 30, 2023. Accordingly, as of June 30, 2023, Mercy Care has not recorded a liability associated with an encounter sanction. As of June 30, 2022, Mercy Care anticipated meeting the required encounter threshold for the contract year ending September 30, 2022 for non-title block funding. For title block funding for the contract year ended June 30, 2022, Mercy Care expected any under-encounter for title block funding to not be payable back to AHCCCS and accordingly, as of June 30, 2022, Mercy Care had not recorded a liability associated with an encounter sanction. In January 2022, AHCCCS communicated to Mercy Care the intention to collect under encountered title block funding for contract years ending June 30, 2020 and 2021. Mercy Care has recorded a liability for expected under-encounters for the contract years ended September, 2021 and 2020 as of June 30, 2023 of approximately \$20,899,000, which Mercy Care expects to recoup from providers. As of June 30, 2023, Mercy Care has recorded net receivables for under encounters from providers for the contract year ended June 30, 2020 and 2021, respectively, of approximately \$12,207,000 and \$15,668,000 which Mercy Care expects to collect from providers. Receivables from providers for contract years 2020 and 2021 are included within other accounts receivable. As of June 30, 2023, Mercy Care has recorded a receivable for expected under-encounters for the contract year 2022 of approximately \$10,130,000 and is included within long term receivable in the accompanying statement of financial position and a long-term liability for provider over-encounters of approximately \$5,783,000 to be disbursed at a future date dependent on provider receivables received for contract year 2022.

AHCCCS has a right to sanction Mercy Care for other matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. Mercy Care received total sanctions for the years ended June 30, 2023 and 2022 of \$6,000 and \$50,000, respectively.

COVID-19 Pandemic - On March 11, 2020 the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. Mercy Care's operations for the year's ended June 30, 2023 and 2022 have not been significantly impacted; however, Mercy Care continues to monitor the situation. No impairments were recorded for the year's ended June 30, 2023 and 2022 as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgment regarding this could change in the future. The COVID-19 outbreak has triggered volatility in financial markets and a negative impact on the global economy. The extent of the impact of COVID-19 on Mercy Care's operational and financial performance will depend on certain developments and the financial markets volatility may have an adverse impact on Mercy Care's investment portfolio depending on the duration and severity of the pandemic.

(8) Concentration of credit risk

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(8) Concentration of credit risk (continued)

Mercy Care was awarded a new ALTCS contract effective October 1, 2018, for an initial period of three years with three renewal periods: one renewal of two years, and two renewals of one year each. Mercy Care is currently in the first renewal period of two years through September 30, 2023. The ALTCS contract was renewed through September 30, 2024. In December 2023, AHCCCS elected not to renew Mercy Care's ALTCS contract for the year ended September 30, 2025. Mercy Care is currently appealing the decision.

The DES/DDD contract was renewed through September 30, 2023 and then further renewed through September 30, 2024. Mercy Care's Medicare Advantage contract is renewed annually by CMS. Mercy Care's RBHA contract with AHCCCS has been renewed through September 30, 2027 in the form of a new contract structure under AHCCCS (see Note 1).

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

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

(9) Functional expenses

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

The following table summarizes the functional expenses at June 30, 2023 (in thousands):

	<u>Program Services</u>	<u>Management & General</u>	<u>Total Expenses</u>
Hospitalization	\$ 487,045	\$ -	\$ 487,045
Medical compensation	501,293	-	501,293
Ancillary and other medical services	2,779,967	-	2,779,967
Institutional	239,899	-	239,899
Home and community-based services	278,610	-	278,610
Premium tax expense	-	91,126	91,126
Management fees	-	371,456	371,456
Other Expenses	-	33,691	33,691
Total Expenses	<u>\$ 4,286,814</u>	<u>\$ 496,273</u>	<u>\$ 4,783,087</u>

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(9) Functional expenses (continued)

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

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

(10) Liquidity and Availability of Resources

Mercy Care monitors its cash position on a monthly basis to ensure the fulfillment of all obligations. As part of the Mercy Care's liquidity plan, excess cash is invested according to Mercy Care's investment policy. As of June 30, 2023, 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	\$ 620,502
Receivables	183,115
Investments	<u>571,398</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,375,015</u>

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



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

MERCY CARE

We have audited the financial statements of **Mercy Care** as of and for the year ended June 30, 2023, and our report thereon dated December 13, 2023, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. We previously audited the financial statements of Mercy Care as of and for the year ended June 30, 2022, and our report thereon dated December 1, 2022, contained an unmodified opinion. Our audits were performed for the purpose of forming opinions on the June 30, 2023 and 2022 financial statements as a whole. The accompanying supplemental statement of activities for the year ended June 30, 2023, supplemental schedule of activities – schedule A disclosure for the year ended June 30, 2023 and supplemental sub-capitated and block expenses report for the contract year ended September 30, 2022 (collectively, the “supplemental information”) on pages 26 through 30 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements for the years ended June 30, 2023 and 2022. The information has been subjected to the auditing procedures applied in the audits of the 2023 and 2022 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2023 and 2022 financial statements or to the 2023 and 2022 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 2023 and 2022 financial statements as a whole.

Mayer Hoffman McCann P.C.

December 13, 2023

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Paragraph 3.05: NTXIX/XXI: State Fiscal Year Income Statement

Contractor Name: Mercy Care
as of June 30, 2023

Member Months	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Mgmt & Gen	Grand Total
00999 Total Member Months														
REVENUE														
40205-01 Non-Title XIX/XXI Revenue*	8,918,387	29,051,917	2,116,288	-	7,989,303	4,202,754	1,028,623	20,439,497	15,234,180	73,455,645	46,800	162,483,396	-	162,483,396
40210-01 Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40215-01 Non-Title XIX/XXI Profit Limit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40305-01 Investment Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
40310-01 Other Income*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
49999 TOTAL REVENUE	8,918,387	29,051,917	2,116,288	-	7,989,303	4,202,754	1,028,623	20,439,497	15,234,180	73,455,645	46,800	162,483,396	-	162,483,396
EXPENSES														
Behavioral Health (BH) Medical Expenses:														
Treatment Services														
60105-01 Counseling	-	227,517	-	-	2,451,190	2,057,061	-	1,509,052	-	1,671,593	-	7,916,414	-	7,916,414
60105-05 Assessment, Evaluation and Screening	-	633,893	-	-	745,832	509,894	-	735,009	-	3,995,183	-	6,619,610	-	6,619,610
60105-10 Other Professional	-	42,258	1,159,088	-	27,510	-	-	188,446	-	1,350,615	-	2,767,917	-	2,767,917
60199 Total Treatment Services	-	903,468	1,159,088	-	3,224,532	2,566,955	-	2,432,507	-	7,017,390	-	17,303,940	-	17,303,940
Rehabilitation Services														
60205-01 Living Skills Training	-	575,888	145,226	-	735,075	44,807	-	13,630	-	1,802,299	-	3,316,926	-	3,316,926
60205-05 Cognitive Rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60205-10 Health Promotion	-	303,928	-	-	75,904	363,825	-	22,626	-	821,297	-	1,587,579	-	1,587,579
60205-15 Supported Employment Services	-	299,891	-	-	44,682	44,682	-	42,113	-	759,891	-	1,146,577	-	1,146,577
60299 Total Rehabilitation Services	-	1,179,707	145,226	-	810,978	453,314	-	78,368	-	3,383,488	-	6,051,082	-	6,051,082
Medical Services														
60305-01 Medication Services	-	26,026	-	-	-	-	-	3,760,646	-	244,886	-	4,031,558	-	4,031,558
60305-05 Medical Management	-	258,043	183,175	-	1,057	24,986	-	366,366	-	726,465	-	1,560,093	-	1,560,093
60305-10 Laboratory, Radiology and Medical Imaging	-	23,807	-	-	16	-	-	573,231	-	284,865	-	881,919	-	881,919
60305-15 Electro-Convulsive Therapy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60399 Total Medical Services	-	307,875	183,175	-	1,073	24,986	-	4,700,244	-	1,256,216	-	6,473,570	-	6,473,570
Support Services														
60405-01 Case Management	-	2,741,556	435,686	-	1,673,893	403,226	-	840,813	-	8,958,601	-	15,053,777	-	15,053,777
60405-05 Personal Care Services	-	193,571	-	-	73	29,525	-	42	-	490,013	-	713,224	-	713,224
60405-10 Family Support	-	11,051	27,346	-	276,823	14,239	-	-	-	64,989	-	394,448	-	394,448
60405-15 Peer Support	-	402,571	3,876	-	14,030	26,931	-	733,433	-	1,066,352	-	2,247,194	-	2,247,194
60405-20 Therapeutic Foster Care	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60405-21 Adult Behavioral Health Therapeutic Home	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60405-25 Unskilled Respite Care	-	6,076	-	-	26,028	-	-	-	-	15,380	-	47,484	-	47,484
60405-30 Supported Housing*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60405-40 Transportation	-	688,122	-	-	12,679	11,959	-	86,837	-	2,832,454	-	3,632,051	-	3,632,051
60499 Total Support Services	-	4,042,947	466,909	-	2,003,527	485,880	-	1,661,126	-	13,427,789	-	22,088,177	-	22,088,177
Crisis Intervention Services														
60505-01 Crisis Intervention - Mobile	2,421,627	35,568	-	-	-	-	-	6,528	-	10,210,792	-	12,674,515	-	12,674,515
60505-05 Crisis Intervention - Stabilization	4,441,805	687,019	-	-	-	-	-	93,896	-	5,498,119	-	10,720,839	-	10,720,839
60505-10 Crisis Intervention - Telephone	1,392,318	94,432	-	-	-	-	-	-	-	2,378,602	-	3,865,353	-	3,865,353
60599 Total Crisis Intervention Services	8,255,751	817,019	-	-	-	-	-	100,424	-	18,087,513	-	27,260,706	-	27,260,706
Inpatient Services														
60605-01 Hospital	-	-	-	-	-	-	-	-	-	18,152,646	-	18,152,646	-	18,152,646
60605-05 Sub acute Facility	-	1,109,029	-	-	-	-	-	-	-	2,807,438	-	3,916,467	-	3,916,467
60605-10 Residential Treatment Center (RTC)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60605-15 Inpatient Services, Professional	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60699 Total Inpatient Services	-	1,109,029	-	-	-	-	-	-	-	20,960,084	-	22,069,113	-	22,069,113
Residential Services														
60705-01 Behavioral Health Residential Facilities	-	218,875	-	-	-	145,891	-	4,824,379	-	554,070	-	5,743,215	-	5,743,215
60705-10 Room and Board	-	3,176,539	-	-	288,673	17,358	-	2,518,700	-	-	-	6,001,270	-	6,001,270
60799 Total Residential Services	-	3,395,414	-	-	288,673	163,249	-	7,343,079	-	554,070	-	11,744,485	-	11,744,485
Behavioral Health Day Program														
60805-01 Supervised Day Program	-	64,122	4,162	-	-	-	-	-	-	163,405	-	231,689	-	231,689
60805-05 Therapeutic Day Program	-	9,570	-	-	-	554	-	32,783	-	26,972	-	69,879	-	69,879
60805-10 Medical Day Program	-	-	-	-	-	-	-	-	-	-	-	-	-	-
60899 Total Behavioral Health Day Program	-	73,691	4,162	-	-	554	-	32,783	-	190,377	-	301,568	-	301,568
HIV Services														
60905-05 HIV	-	-	-	-	-	-	-	907,262	-	-	-	907,262	-	907,262
60999 Total HIV Services	-	-	-	-	-	-	-	907,262	-	-	-	907,262	-	907,262
BH Pharmacy Expenses														
61005-01 BH Pharmacy Expense	-	13,080,789	490	-	-	-	-	-	-	-	-	13,081,279	-	13,081,279
61099 Total Pharmacy Expense	-	13,080,789	490	-	-	-	-	-	-	-	-	13,081,279	-	13,081,279
61100-01 PPC BH Title XIX	-	-	-	-	-	-	-	-	-	-	-	-	-	-
61105-01 Other BH Service Expenses Not Reported Above*	-	2,074,274	-	-	918,803	411,290	951,429	908,501	14,063,379	-	46,800	19,374,476	-	19,374,476
61205-01 BH FQHC/RHC Services	-	0	-	-	-	-	-	-	-	-	-	0	-	0
61299 Subtotal BH Medical Expenses	8,255,751	26,984,213	1,959,051	-	7,247,585	4,106,228	951,429	18,164,294	14,063,379	64,876,927	46,800	146,655,658	-	146,655,658
61305-01 Specialty and Other Grant Expenses*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
69998 Total BH Medical Expenses	8,255,751	26,984,213	1,959,051	-	7,247,585	4,106,228	951,429	18,164,294	14,063,379	64,876,927	46,800	146,655,658	-	146,655,658
Less:														
70105-01 Reinsurance Recoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70205-02 Third Party Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70305-01 Claims Overpayment Recoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
70310-05 Pharmacy Rebates	-	(90,854)	-	-	-	-	-	-	-	-	-	(90,854)	-	(90,854)
70310-10 Pharmacy Performance Guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-

85999	Total Net Medical Expense	8,255,751	26,893,359	1,959,051	-	7,247,585	4,106,228	951,429	18,164,294	14,063,379	64,876,927	46,800	146,564,804	-	146,564,804
	Administrative Expenses:														
80105-01	Compensation	143,699	468,102	34,099	-	116,216	72,324	11,968	329,334	245,463	1,184,317	-	2,605,520	-	2,605,520
80205-01	Occupancy	10,202	33,234	2,421	-	9,321	5,135	850	23,382	17,427	84,083	-	186,054	-	186,054
80305-01	Depreciation	4	13	1	-	4	2	0	9	7	34	-	75	-	75
80405-01	Care Management/Care Coordination	92,769	302,198	22,014	-	84,761	46,691	7,726	212,612	158,466	764,572	-	1,691,808	-	1,691,808
80505-01	Professional and Outside Services	370,090	1,205,581	87,821	-	338,142	186,267	30,822	848,187	632,180	3,050,165	-	6,749,255	-	6,749,255
80605-01	Office Supplies and Equipment	14,973	48,776	3,553	-	13,681	7,536	1,247	34,316	25,577	123,405	-	273,064	-	273,064
80705-01	Travel	2,259	7,359	536	-	2,064	1,137	188	5,178	3,859	18,619	-	41,199	-	41,199
80805-01	Repair and Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
80905-01	Bank Service Charge	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81005-01	Insurance	50	161	12	-	45	25	4	114	85	408	-	903	-	903
81105-01	Marketing	(686)	(2,235)	(163)	-	(627)	(345)	(57)	(1,573)	(1,172)	(5,656)	-	(12,515)	-	(12,515)
81205-01	Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81305-01	Pharmacy Benefit Manager Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81405-01	Fraud Reduction Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81505-01	Third Party Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81605-01	Sub Capitation Block Administration	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81705-01	Health Care Quality Improvement	29,276	95,368	6,947	-	26,749	14,735	2,438	67,096	50,009	241,284	-	533,902	-	533,902
81810-01	Program Integrity Fraud, Waste and Abuse Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-
82505-01	Interpretation/Translation Services	11,901	38,769	2,824	-	10,874	5,990	991	27,276	20,330	98,087	-	217,043	-	217,043
83005-01	Other Administrative Expenses*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83999	Subtotal Administrative Expenses	674,538	2,197,326	160,064	-	601,229	339,495	56,177	1,545,931	1,152,229	5,559,319	-	12,286,309	-	12,286,309
83105-01	Non-Title XIX/XXI Encounter Valuation Sanctions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83205-01	Admin Expenses from Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
84999	Total Administrative Expense	674,538	2,197,326	160,064	-	601,229	339,495	56,177	1,545,931	1,152,229	5,559,319	-	12,286,309	-	12,286,309
86999	Total Expenses	8,930,288	29,090,686	2,119,115	-	7,848,814	4,445,724	1,007,607	19,710,225	15,215,608	70,436,246	46,800	158,851,113	-	158,851,113
87999	Profit (Loss) from Operations	(11,901)	(38,769)	(2,827)	-	140,489	(242,970)	21,017	729,273	18,572	3,019,400	-	3,632,283	-	3,632,283
88999-01	Non-Operations - Investment Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
88999-02	Non-Operations - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
88999	Profit (Loss) from Non-Operations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
89999	Profit/(Loss) Before Taxes	(11,901)	(38,769)	(2,827)	-	140,489	(242,970)	21,017	729,273	18,572	3,019,400	-	3,632,283	-	3,632,283
90105-01	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90205-01	Premium Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-
99999	Net Profit/(Loss)	(11,901)	(38,769)	(2,827)	-	140,489	(242,970)	21,017	729,273	18,572	3,019,400	-	3,632,283	-	3,632,283
990105-01	Community Reinvestment													-	-
990205-01	Non-Covered Services													-	-
990305-01	Unreimbursed Performance Based Payments													-	-
990405-01	Value-Added Services													-	-
999999	Net Profit/(Loss) After 990xxx-xx Accounts													-	3,632,283

*Disclose on Schedule A

Paragraph 3.05: NTXIX/XXI: State Fiscal Year Income Statement - Schedule A Disclosure

Contractor Name Mercy Care
as of June 30, 2023

	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP	SABG	Other Federal	County	PASRR	Total NTXIX/XXI	Mgmt & Gen	Grand Total
Disclosure of NTXIX/XXI Other, Other Federal and Mgmt & Gen AHCCCS Revenue reported on line 40205-01														
SUDS			227,970									\$227,970		\$227,970
Childrens Behavioral Health			1,888,318									\$1,888,318		\$1,888,318
ER-COVID Supplement									448,997			\$448,997		\$448,997
CRRSAA-MHBG FEP									362,902			\$362,902		\$362,902
CRRSAA-MHBG SED									1,577,431			\$1,577,431		\$1,577,431
CRRSAA-MHBG SMI									2,154,057			\$2,154,057		\$2,154,057
CRRSAA-SABG GS									3,143,960			\$3,143,960		\$3,143,960
CRRSAA-SABG PPW									1,156,410			\$1,156,410		\$1,156,410
State Opioid Response SOR II									2,046,386			\$2,046,386		\$2,046,386
State Opioid Response SOR III									4,288,776			\$4,288,776		\$4,288,776
ER-COVID									55,263			\$55,263		\$55,263
									\$0			\$0		\$0
									\$0			\$0		\$0
Total NTXIX/XXI Other and Other Federal Column	\$0	\$0	\$2,116,288	\$0	\$0	\$0	\$0	\$0	\$15,234,180	\$0	\$0	\$17,350,469	\$0	\$17,350,469
Disclosure of Specialty and Other Grants Reported on line 40210-01														
												\$0		\$0
												\$0		\$0
												\$0		\$0
Total Specialty and Other Grants	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disclosure of Other Income Reported on line 40310-01														
												\$0		\$0
												\$0		\$0
												\$0		\$0
Total Other Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disclosure of Supported Housing Reported on line 60405-30														
Rental Subsidy												\$0		\$0
Management Fees												\$0		\$0
Utility Payments												\$0		\$0
Repair & Maintenance												\$0		\$0
Damages												\$0		\$0
Deposits												\$0		\$0
Start UP												\$0		\$0
Eviction Prevention												\$0		\$0
												\$0		\$0
Housing Trust Fund - Construction/Improvements												\$0		\$0
												\$0		\$0
Total Supported Housing	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Disclosure of Non-Title XIX/XXI Other Services Reported on line 61105-01														
PASRR											46,800	\$46,800		\$46,800
FEP Grant Expense							951,429					\$951,429		\$951,429
CRRSAA-MHBG FEP									336,020			\$336,020		\$336,020
CRRSAA-MHBG SED									1,460,584			\$1,460,584		\$1,460,584
CRRSAA-MHBG SMI									1,994,497			\$1,994,497		\$1,994,497
CRRSAA-SABG GS									2,911,074			\$2,911,074		\$2,911,074
CRRSAA-SABG PPW									1,091,269			\$1,091,269		\$1,091,269
ER-COVID									(25,024)			-\$25,024		-\$25,024
ER-COVID SUPP									446,076			\$446,076		\$446,076
SOR II									1,877,795			\$1,877,795		\$1,877,795
SOR III									3,971,088			\$3,971,088		\$3,971,088
MHBG CJET						411,290						\$411,290		\$411,290
NT SMI - Non Encounterable Behavioral Health Coordinators		150,000										\$150,000		\$150,000
NT SMI - Non Encounterable Connections Conference		75,400										\$75,400		\$75,400
NT SMI - Non Encounterable HMIS		6,059										\$6,059		\$6,059
NT SMI - Non Encounterable WICHE		20,000										\$20,000		\$20,000
NT SMI - Non Encounterable Tobacco Treatment Specialist Training Accreditation		1,000										\$1,000		\$1,000
NT SMI - Non Encounterable TLP		1,523,914										\$1,523,914		\$1,523,914
NT SMI - Non Encounterable Applied Suicide Intervention Skills Training		0										\$0		\$0
NT SMI - Non Encounterable Dental Kits		9,743										\$9,743		\$9,743
NT SMI - Non Encounterable Hotel Assistance		8,158										\$8,158		\$8,158
NT SMI - Non Encounterable Peer Based Doula Support Program		20,000										\$20,000		\$20,000
NT SMI - Non Encounterable Start-Up Boxes		250,000										\$250,000		\$250,000
NT SMI - Non Encounterable Tablets		10,000										\$10,000		\$10,000
									\$0			\$0		\$0
SABG Outreach								233,323				\$233,323		\$233,323
Oxford House								300,245				\$300,245		\$300,245
Barbell Saves								374,933				\$374,933		\$374,933
MHBG SED Non Encounterable Outreach Positions					680,743							\$680,743		\$680,743
MHBG SED 5% Crisis Set-Aside					158,476							\$158,476		\$158,476
MHBG SED Out of Home Placement (OOH)					79,583							\$79,583		\$79,583
									\$0			\$0		\$0
Total Other Services	\$0	\$2,074,274	\$0	\$0	\$918,803	\$411,290	\$951,429	\$908,501	\$14,063,379	\$0	\$46,800	\$19,374,476	\$0	\$19,374,476

ADDITIONAL INFORMATION



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, 2023, and our report thereon dated December 13, 2023, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The additional information on pages 32 and 33 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information on pages 32 and 33 is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

December 13, 2023

MERCY CARE

ADDITIONAL INFORMATION

STATEMENT OF FINANCIAL POSITION

June 30, 2023
(In thousands)

ASSETS

	<u>ACC-RBHA</u>	<u>DES/DDD</u>	<u>DCS/CHP</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>City of Phx</u>	<u>Total</u>
CURRENT ASSETS							
Cash and cash equivalents	\$ 402,048	\$ 2,120	\$ 69,586	\$ 103,833	\$ 43,724	\$ (806)	\$ 620,505
Short-term investments	55,906	3,798	2,830	12,738	6,798	-	82,070
Receivables:	-	-	-	-	-	-	-
Reinsurance receivables, net	14,019	2,165	2,988	3,197	-	-	22,369
Reconciliation receivables	34,425	2,387	932	11,991	-	-	49,735
Capitation and supplemental receivables	7,936	-	-	498	31,197	-	39,631
Pharmacy rebate receivable	6,185	116	30	322	18,774	-	25,427
Third-party liability receivable	4,013	53	-	431	256	-	4,753
Interest receivable	1,866	127	94	425	227	-	2,739
Provider advances, net	5,715	785	118	291	900	-	7,809
Other receivables	22,632	13	-	3	44	-	22,692
Risk share settlement, current portion	-	-	-	-	-	-	-
Grant receivable	5,470	-	-	-	-	826	6,296
Due From Aetna	1,333	110	60	2	156	3	1,664
Prepaid assets	559	38	33	127	72	-	829
TOTAL CURRENT ASSETS	562,107	11,712	76,671	133,858	102,148	23	886,519
RECONCILIATION RECEIVABLES, LT	25,538	7,423	806	3,400	2,133	-	39,300
LONG-TERM INVESTMENTS	333,326	22,646	16,873	75,949	40,534	-	489,328
TOTAL ASSETS	\$ 920,971	\$ 41,781	\$ 94,350	\$ 213,207	\$ 144,815	\$ 23	\$ 1,415,147

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES							
Claims payable	\$ 225,711	\$ 21,021	\$ 14,308	\$ 69,339	\$ 32,593	\$ -	\$ 362,972
Payable to providers	16,269	1,625	1,406	6,715	2,586	-	28,601
Reconciliation payable	258,370	4,943	50,303	14,804	-	-	328,420
Grant payable	1,943	-	-	-	-	56	1,999
Deferred revenue	4,718	-	-	-	40,984	-	45,702
Due to Aetna	60,600	137	3,058	13,391	7,141	21	84,348
Other current liabilities	23,559	87	870	3,187	202	-	27,905
TOTAL CURRENT LIABILITIES	591,170	27,813	69,945	107,436	83,506	77	879,947
RECONCILIATION PAYABLE, LT	49,665	-	-	7,528	-	-	57,193
TOTAL LIABILITIES	640,835	27,813	69,945	114,964	83,506	77	937,140
NET ASSETS WITHOUT DONOR RESTRICTIONS	280,136	13,968	24,405	98,243	61,309	(54)	478,007
TOTAL LIABILITIES AND NET ASSETS	\$ 920,971	\$ 41,781	\$ 94,350	\$ 213,207	\$ 144,815	\$ 23	\$ 1,415,147

MERCY CARE
ADDITIONAL INFORMATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2023
(In thousands)

	<u>ACC-RBHA</u>	<u>DES/DDD</u>	<u>DCS/CHP</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>City of Phx</u>	<u>Total</u>
OPERATING REVENUES							
Capitation premiums	\$ 3,177,604	\$ 199,420	\$ 173,457	\$ 745,273	\$ 407,805	\$ -	\$ 4,703,559
Delivery supplement	52,298	-	-	-	-	-	52,298
Grants	162,596	-	-	-	-	4,951	167,547
Reconciliation	(107,062)	13,473	(7,062)	2,028	-	-	(98,623)
Other	67	-	-	-	-	-	67
TOTAL OPERATING REVENUES	<u>3,285,503</u>	<u>212,893</u>	<u>166,395</u>	<u>747,301</u>	<u>407,805</u>	<u>4,951</u>	<u>4,824,848</u>
HEALTH CARE EXPENSES							
Hospitalization	319,246	36,951	10,386	25,062	95,400	-	487,045
Medical compensation	410,513	14,207	14,486	18,138	43,949	-	501,293
Ancillary and other medical services	2,150,190	166,405	125,554	108,689	224,628	4,501	2,779,967
Institutional	-	-	-	239,899	-	-	239,899
Home and community based services	-	-	-	278,610	-	-	278,610
Less: net third party liability recoveries	(4,712)	(78)	(4)	(75)	342	-	(4,527)
Less: net reinsurance recoveries	(60,494)	(14,674)	(3,217)	(16,092)	-	-	(94,477)
TOTAL HEALTH CARE EXPENSES	<u>2,814,743</u>	<u>202,811</u>	<u>147,205</u>	<u>654,231</u>	<u>364,319</u>	<u>4,501</u>	<u>4,187,810</u>
GENERAL AND ADMINISTRATIVE EXPENSES							
	282,634	15,929	14,316	57,058	34,706	504	405,147
PREMIUM TAX EXPENSE							
	73,668	-	-	17,458	-	-	91,126
TOTAL EXPENSES	<u>3,171,045</u>	<u>218,740</u>	<u>161,521</u>	<u>728,747</u>	<u>399,025</u>	<u>5,005</u>	<u>4,684,083</u>
OPERATING INCOME (LOSS)	<u>114,458</u>	<u>(5,847)</u>	<u>4,874</u>	<u>18,554</u>	<u>8,780</u>	<u>(54)</u>	<u>140,765</u>
NONOPERATING INCOME (EXPENSE)							
Investment income	19,203	1,305	972	4,376	2,335	-	28,191
Investment fees	(1,312)	(89)	(66)	(299)	(159)	-	(1,925)
Community reinvestment	(8,929)	-	(379)	(1,514)	-	-	(10,822)
TOTAL NONOPERATING INCOME (EXPENSE)	<u>8,962</u>	<u>1,216</u>	<u>527</u>	<u>2,563</u>	<u>2,176</u>	<u>-</u>	<u>15,444</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS							
	123,420	(4,631)	5,401	21,117	10,956	(54)	156,209
UNREALIZED GAINS (LOSSES) ON INVESTMENTS							
	20,133	1,394	1,007	4,604	2,423	-	29,561
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTION TO SPONSOR ORGANIZATIONS							
	143,553	(3,237)	6,408	25,721	13,379	(54)	185,770
DISTRIBUTION TO SPONSORS							
EQUITY TRANSFERS	(120,000)	-	-	-	-	-	(120,000)
NET ASSETS, BEGINNING OF YEAR	<u>268,583</u>	<u>5,205</u>	<u>17,997</u>	<u>72,522</u>	<u>47,930</u>	<u>-</u>	<u>412,237</u>
NET ASSETS END OF YEAR	<u>\$ 280,136</u>	<u>\$ 13,968</u>	<u>\$ 24,405</u>	<u>\$ 98,243</u>	<u>\$ 61,309</u>	<u>\$ (54)</u>	<u>\$ 478,007</u>

**UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS**

MERCY CARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

<u>Federal Grantor / Pass-Through Agency / Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services				
Arizona Health Care Cost Containment System:				
Substance Abuse Block Grant	93.959	11356415170214	\$ 18,164,294	\$ 19,682,949
Coronavirus Response and Relief Supplemental Appropriations Act Grant	93.959	11356415170214	<u>3,981,824</u>	<u>4,300,370</u>
Subtotal Abuse Block Grant (93.959)			<u>22,146,118</u>	<u>23,983,319</u>
Mental Health Block Grant				
SMI - Non-Title XIX	93.958	11356415170214	4,106,228	4,415,921
Children - Non-Title XIX	93.958	11356415170214	7,089,109	7,678,042
First Episode of Psychosis	93.958	11356415170214	952,429	1,028,623
Crisis 5% Set-Aside	93.958	11356415170214	158,476	171,155
Coronavirus Response and Relief Supplemental Appropriations Act Grant	93.958	11356415170214	<u>3,697,664</u>	<u>3,993,477</u>
Subtotal Mental Health Block Grant (93.958)			<u>16,003,906</u>	<u>17,287,218</u>
Substance Abuse and Mental Health Services, Projects of Regional and National Significance				
Arizona State Opioid Response II Grant	93.788	11356415170214	1,894,803	2,046,387
Arizona State Opioid Response III Grant	93.788	11356415170214	3,971,088	4,288,776
Emergency COVID-19 Grant	93.665	11356415170214	51,170	55,263
Emergency COVID-19 Supplement Grant	93.665	11356415170214	<u>424,071</u>	<u>457,997</u>
Subtotal Substance Abuse and Mental Health Services			<u>6,341,132</u>	<u>6,848,423</u>
Total Passed-Through Arizona Health Care Cost Containment System			<u>44,491,156</u>	<u>48,118,960</u>
City of Phoenix	21.027	11356415170214	<u>4,500,855</u>	<u>4,950,941</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 48,992,011</u>	<u>\$ 53,069,901</u>

MERCY CARE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

(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, 2023. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of **Mercy Care**, it is not intended to and does not present the financial position, changes in net assets or cash flows of **Mercy Care**.

(2) **Summary of significant accounting policies**

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

(3) **Assistance listing numbers**

The program titles and assistance listing numbers were obtained from the 2023 Catalog of Federal Domestic Assistance.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of

MERCY CARE

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Mercy Care**, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Mercy Care's** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Mercy Care's** internal control. Accordingly, we do not express an opinion on the effectiveness of **Mercy Care's** internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

December 13, 2023



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

To the Board of Directors of

MERCY CARE

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited **Mercy Care's** compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Mercy Care's major federal programs for the year ended June 30, 2023. **Mercy Care's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Mercy Care** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of **Mercy Care** and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of **Mercy Care's** compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding ***Mercy Care's*** compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of ***Mercy Care's*** internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of ***Mercy Care's*** internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Mayer Hoffman McCann P.C.

December 13, 2023

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

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:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse
21.027	Coronavirus State and Local Fiscal Recovery Funds

- | | |
|---|-------------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$1,592,097 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2023

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

Section IV – Prior Audit Findings

None