

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

Year Ended June 30, 2019

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

Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

MERCY CARE

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Supplemental Information

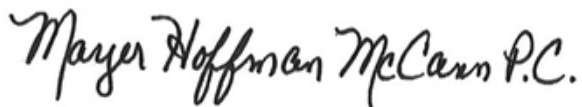
Our audit was conducted for the purpose of forming an opinion on the financial statements of **Mercy Care** as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principals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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2019, on our consideration of **Mercy Care's** internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Mercy Care's** internal control over financial reporting and compliance.

Emphasis of Matter

As discussed in Note 1 to the financial statements, **Mercy Care** adopted Financial Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in the year ended June 30, 2019. Our opinion is not modified with respect to this matter.



November 11, 2019

MERCY CARE

STATEMENT OF FINANCIAL POSITION

June 30, 2019
(In thousands)

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	180,356
Short-term investments		49,233
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of \$17,926		25,948
Reconciliation receivables		80,599
Capitation and supplemental receivables		2,450
Pharmacy rebate receivable		19,452
Third-party liability receivable		5,003
Interest receivable		960
Provider advances, net of allowance for doubtful accounts of \$698		7,119
Other receivables		8,608
Risk share settlement, current portion		8,282
Grant receivable		2,848
Prepaid assets		1,670

TOTAL CURRENT ASSETS 392,528

LONG-TERM INVESTMENTS

283,828

TOTAL ASSETS \$ 676,356

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Claims payable	\$	271,974
Payable to providers		2,132
Reconciliation payables		16,371
Due to Aetna		3,286
Deferred revenue		221
Other current liabilities		38,551

TOTAL CURRENT LIABILITIES 332,535

NET ASSETS WITHOUT DONOR RESTRICTIONS 343,821

TOTAL LIABILITIES AND NET ASSETS \$ 676,356

MERCY CARE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019

(In thousands)

OPERATING REVENUES	
Capitation premiums	\$ 3,648,143
Delivery supplement	51,128
Other	39,151
TOTAL OPERATING REVENUES	<u>3,738,422</u>
HEALTH CARE EXPENSES	
Hospitalization	451,370
Medical compensation	371,831
Ancillary and other medical services	2,202,077
Institutional	222,816
Home and community based services	221,048
Less: reinsurance recoveries	<u>(100,027)</u>
TOTAL HEALTH CARE EXPENSES	3,369,115
GENERAL AND ADMINISTRATIVE EXPENSES	293,965
PREMIUM TAX EXPENSE	<u>64,096</u>
TOTAL EXPENSES	<u>3,727,176</u>
OPERATING INCOME	<u>11,246</u>
NONOPERATING INCOME (EXPENSE)	
Investment income	11,409
Investment fees	(1,259)
Community reinvestment	<u>(1,354)</u>
TOTAL NONOPERATING INCOME	<u>8,796</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS	20,042
UNREALIZED GAINS ON INVESTMENTS	<u>8,706</u>
CHANGE IN NET ASSETS	28,748
DISTRIBUTION TO DISTRICT	(10,000)
SALE OF 0.5% INTEREST IN THE PLAN	1,500
NOTE RECEIVABLE FOR 0.5% INTEREST IN THE PLAN	(1,500)
NET ASSETS, BEGINNING OF YEAR	<u>325,073</u>
NET ASSETS, END OF YEAR	<u>\$ 343,821</u>

See Notes to Consolidated Financial Statements

MERCY CARE

STATEMENT OF CASH FLOWS

June 30, 2019

(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 28,748
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Bad debt expense	(7,904)
Amortization expense	577
Net unrealized gains on investments	(8,706)
Net realized gains on investments	(2,633)
Change in operating assets and liabilities:	
Decrease (increase) in:	
Reinsurance receivables	(3,320)
Reconciliation receivables	(34,252)
Capitation and supplemental receivables	(633)
Pharmacy rebate receivable	7,026
Third-party liability receivable	(179)
Interest receivable	(264)
Provider advances	740
Other receivables	(5,287)
Risk share settlement, net	(19,550)
Due from AHCCCS	26,179
Due from Aetna	9,777
Prepaid assets	32
Increase (decrease) in:	
Claims payable	34
Grant payable	(2,848)
Payable to providers	(25,902)
Reconciliation payable	1,326
Due to AHCCCS	(2)
Due to Aetna	2,965
Deferred revenue	(36,369)
Other current liabilities	34,146
Net cash used in operating activities	<u>(36,299)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Capitalized software costs	437
Purchases of investments	(186,642)
Proceeds from sale of investments	153,915
Net cash used in investing activities	<u>(32,290)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Distribution to MIHS	<u>(10,000)</u>
Net cash used in financing activities	<u>(10,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(78,589)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>258,945</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 180,356</u>

See Notes to Consolidated Financial Statements

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(1) Company operations and significant accounting policies

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

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

In March 2018, Mercy Care was selected to provide physical and behavioral healthcare services through the AHCCCS Complete Care program in the Central and South regions of Arizona. The AHCCCS Complete Care program integrates physical and behavioral health care contracts under managed care plans for the majority of the AHCCCS members. The integrated delivery model offers a more cohesive health care system for members incentivizing quality health care outcomes with value based purchasing, and leveraged health information technology for improved care coordination. Additionally, integrating physical health and behavioral healthcare contracts will drive strategic, innovative health care initiatives forward. Mercy Care began administering the Complete Care contract on October 1, 2018. The contract is a three-year agreement, with the possibility of two two-year extensions.

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

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

In conjunction with SCHN's acquisition of District's noncontrolling interest (see Note 6), MMIC merged into SCHN effective July 1, 2018 to form the combined organization operating as Mercy Care. The Plan operates the Complete Care contract effective October 1, 2018 as well as the remainder of the RBHA contract with AHCCCS to provide physical and behavioral health services to the seriously mentally ill and other defined populations within Maricopa County through September 30, 2021. Additionally, in connection with the Complete Care contract, Mercy Care sold a 0.5% nonvoting interest in the Plan to Equality Health Foundation in return for a \$1.5 million promissory note. The promissory note dated January 1, 2019 is payable in seven annual installments of \$214,286 plus interest at 3% per year, maturing January 2026.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

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

Mercy Care has had a management agreement with Aetna since 2007, which is a continuation of the agreement held with Schaller Anderson, L.L.C. since 2001. The new contract became effective August 15, 2016 and continues through the expiration or termination of the October 1, 2018 Acute contract with AHCCCS and will automatically renew for a five-year term. MMIC entered into a five-year management agreement with Aetna effective May 1, 2013, which has been assumed by Mercy Care. The RBHA management agreement automatically renews for a second five-year term and thereafter for successive one-year periods. Under the terms of the agreements, Mercy Care pays a monthly fee to Aetna, as defined in the agreement, to cover the employee salary and benefit costs and general and administrative expenses incurred to operate the organization. Mercy Care incurred management fees per the management agreements of approximately \$273,138,000 for the year ended June 30, 2019. This amount is included in general and administrative expenses in the accompanying statement of activities and changes in net assets. At June 30, 2019, net management fees paid in advance and due from Aetna for Mercy Care totaled approximately \$208,000, and are included in the net Due to Aetna in the accompanying statement 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, 2019, the amount Due to Aetna includes \$1,658,000 for the share of risk related to the Plan's performance. At June 30, 2019, Due to Aetna included \$1,760,000 of supplemental compensation measured based on the performance of the Plan. The RBHA management agreement does not provide for a share of the risk of the results from operations.

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

Basis of presentation - The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 954-205, Health Care Entities - Presentation of Financial Statements*. The Company's financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Company is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of June 30, 2019 there were no net assets with donor restrictions.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

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

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

Capitation premiums - The Plan receives from AHCCCS, DES/DDD and CMS fixed capitation payments, generally in advance, based on certain rates for each member enrolled with the Plan. The Plan is required to provide all covered health care services to their members, regardless of the cost of care. If there are funds remaining, the Plan retains the funds as profit; if the costs are higher than the amount of capitation payments, the Plan absorbs the loss. Capitation premiums are recognized in the month that enrollees are entitled to health care services. Certain provisions of the AHCCCS Acute/ACC, DES/DDD and ALTCS contracts include a risk band whereby Mercy Care and the AHCCCS programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). Mercy Care has recorded an estimate of the reconciliation revenue, within capitation premiums in the accompanying statement of activities and changes in net assets, based on the operational performance of the AHCCCS Acute/ACC, RBHA and ALTCS lines of business. The Plan may 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 Acute/ACC and ALTCS contracts. The PPC period is the period of time prior to the member's enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a contractor. The risk under PPC is shared by both the Plan and AHCCCS for the contract year ended September 30, 2018. Effective October 1, 2018 the ACC contract consists of the prior Acute and PPC populations. The risk under ACC is shared by both the Plan and AHCCCS for the contract year ended September 30, 2019.

The Plan shares risk with AHCCCS for specific populations as follows:

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

Profits in excess of the percentages set forth by the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth by the contract will be paid to Mercy Care. As of June 30, 2019, the Company has recorded an estimated receivable from AHCCCS of approximately \$80,599,000 and an estimated payable to AHCCCS of approximately \$16,371,000 which is included in reconciliation receivables and reconciliation payables, respectively, in the accompanying statement of financial position. 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 balance on the accompanying statement of financial position.

AHCCCS subjects 1% of gross prospective capitation of Acute/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, 2019, the Plan anticipates achieving the required targets and accordingly, has not recorded a liability for the performance measures.

Capitation and supplemental and reconciliation receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation and supplemental and reconciliation receivables. Capitation and supplemental and reconciliation receivables at June 30, 2019 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Care receives substantially all of its revenue from its contracts with AHCCCS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, Mercy Care is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Capitation and other revenues and reinsurance recoveries from AHCCCS totaled approximately \$3,830,214,000 for the year ended June 30, 2019.

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. Non-Title revenues, including block grants, totaled approximately \$148,398,000 for the year ended June 30, 2019.

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 \$221,000 at June 30, 2019.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

Delivery supplement - As part of the AHCCCS Acute/ACC contract, AHCCCS supplements capitation premiums with lump-sum payments for births by women eligible under the Medicaid program. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Delivery revenue of approximately \$51,128,000 was recognized for the year ended June 30, 2019. As of June 30, 2019, approximately \$630,000 was due from AHCCCS related to delivery supplement which is included in capitation and supplemental receivables in the accompanying statement of financial position.

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

Reinsurance - AHCCCS and DES/DDD provide a stop-loss reinsurance program for the Plan for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on the Plan's enrollment and the eligibility category of the members. AHCCCS and DES/DDD reimburse the Plan based on a coinsurance amount for reinsurable covered services incurred above the deductible. Mercy Care contracts with commercial reinsurers to provide reinsurance for the Medicare Advantage Plan. Reinsurance recoveries are stated at the actual and estimated amounts due to Mercy Care pursuant to the AHCCCS Acute/ACC, DES/DDD, ALTCS and Medicare Advantage Plan contracts. Reinsurance recoveries have been offset against health care expenses in the accompanying statement 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, 2018</u>	<u>Coinsurance</u>
AHCCCS Acute/ACC – Prospective Only	\$ 35,000	75%
DES/DDD	50,000	75%
ALTCS w/Medicare	20,000	75%
ALTCS w/o Medicare	30,000	75%

<u>Line of Business</u>	<u>Annual Deductible Effective January 1, 2019</u>	<u>Coinsurance</u>
Mercy Care Medicare Advantage	\$ 700,000	90%

<u>Line of Business</u>	<u>Annual Deductible Effective October 1, 2018</u>	<u>Coinsurance</u>
RBHA SMI membership	\$ 35,000	75%

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(1) Company 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, and the Medicare Advantage Plan's commercial reinsurer, and as a result, there is at least a reasonable possibility that recorded reinsurance will change by a material amount in the near future.

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, and the Medicare Advantage Plan's commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by Mercy Care were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. At June 30, 2019, gross reinsurance receivables totaled approximately \$43,874,000. Mercy Care also had an allowance for doubtful accounts of approximately \$17,926,000 at June 30, 2019.

Pharmacy rebate receivable - The Company receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Company records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the year ended June 30, 2019, health care expenses were reduced by approximately \$36,882,000 for rebates. At June 30, 2019, pharmacy rebates receivable totaled approximately \$19,452,000. Pharmacy rebate receivables at June 30, 2019 are considered by management to be 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, 2019, gross third-party liability receivables totaled approximately \$5,003,000. Third-party liability receivables at June 30, 2019 are considered by management to be fully collectible and accordingly, an allowance for doubtful accounts has not been provided.

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, 2019 Mercy Care gross provider advances receivable totaled approximately \$7,817,000. Mercy Care had an allowance for doubtful provider advances of approximately \$698,000 at June 30, 2019.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(1) Company 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 establish incentives for plans to enroll and treat less healthy Medicare beneficiaries. Management estimates the expected impact from the CMS rate risk adjustment on the Plan's enrolled population for each contract year. As of June 30, 2019, the Plan has recorded an estimated current receivable from CMS of approximately \$8,282,000. Risk share settlement receivables at June 30, 2019 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 statement of activities and changes in net assets. Amounts recorded under this program totaled approximately \$5,803,000 for the year ended June 30, 2019, which are included as capitation premiums in the accompanying statement of activities and changes in net assets. As of June 30, 2019, the Plan recorded \$17,974,000 for Medicare Part D settlements relating to contract years 2018 and 2019, which is included in other current liabilities in the accompanying statement of financial position. The settlements for calendar years 2019 and 2018 are expected to be finalized in fiscal 2020.

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. In September 2018, AHCCCS recouped approximately \$11,206,000 for risk adjustment related to contract year 2018.

Premium deficiency reserve - The Company evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within claims payable on the statements of financial position. For the year ended June 30, 2019, Mercy Care recorded no premium deficiency reserve for probable losses within its contracts.

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

Mercy Care contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mental Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms. From time to time, Mercy Care amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

Mercy Care's estimates for unreported claims payable is developed using actuarial methods based on historical experience and are continually reviewed by management and adjusted as necessary based on current claims data, and medical cost completion factors. Such adjustments are included in health care expenses in the statement 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 \$10,832,000 for the year ended June 30, 2019 and is included within health care expenses in the accompanying statement of activities and changes in net assets. Mercy Care accrued approximately \$13,276,000 as of June 30, 2019, which is included in other current liabilities in the accompanying statement 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 and Equity Securities*. Under FASB ASC 958-320, the Company reports investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value based on quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets. The Company's investment portfolio is managed by professional investment managers within guidelines established by the Company's Board of Directors which, as a matter of policy, limits the amounts which may be invested in any one issuer or type of investment.

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Investment income - Investment income consists of interest, dividends, and realized gains and losses on investments. Interest is recognized on the accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Accrual of income has not been suspended for any bonds or mortgage loans during the year ended June 30, 2019. Mercy Care 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 (See Note 3).

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

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty in income taxes which requires the application of a "more likely than not" threshold recognition and de-recognition of uncertain tax positions in operations in the year of such change. The Company evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2019, the Company did not have any uncertain tax positions.

Mercy Care and MMIC's Federal Exempt Organization Business Income Tax Returns (Form 990) for 2016, 2017, and 2018 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 2019 tax returns for either organization had not yet been filed. MMIC's 2019 tax return will be its final individual tax return.

Performance indicator - The statement 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.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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

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

In August 2015, the FASB issued FASB ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which changed the effective date of the provisions of FASB ASU No. 2014-09. As a result, the new effective dates for public business entities, certain not-for-profit entities, and certain employee benefit plans to apply the guidance in FASB ASU No. 2014-09 is for annual reporting periods beginning after December 15, 2017. All other entities should apply the guidance in FASB ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016. Transition to the new guidance may be done using either a full or modified retrospective method. Mercy Care is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

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

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early adoption is permitted. The amendments of this ASU are to be applied on a retrospective basis in the year that the ASU is first applied. Mercy Care adopted ASU 2016-14 for the year ended June 30, 2019.

Subsequent events - The Company has evaluated subsequent events through November 11, 2019, which is the date the financial statements were available to be issued.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(2) Reconciliation

The Plan's AHCCCS contract revenue is limited by the terms of the individual line of business contract to a maximum profit/loss percentage. Profits and losses related to capitation payments from AHCCCS have a maximum percentage able to be recognized under the contract, and as a result any profits or losses greater than this limit will result in a receivable or payable to/from AHCCCS. Reconciliation balances are recorded as a net receivable or payable on the statement of financial position by line of business. A summary of the balances by line of business at June 30, 2019 is as follows (in thousands):

	<u>Reconciliation Receivable</u>	<u>Reconciliation Payable</u>
Acute	\$ 30,385	\$ 13,055
ALTCS	28,430	738
DDD	74	-
RBHA	<u>21,710</u>	<u>2,578</u>
Total	80,599	16,371
Less current portion	<u>(80,599)</u>	<u>(16,371)</u>
Non-current portion	<u>\$ -</u>	<u>\$ -</u>

(3) Investments

The cost and fair value of the Company's investments by type at June 30, 2019 are as follows (in thousands):

	<u>Cost</u>	<u>Fair Value</u>
Short-term:		
Marketable equity securities	\$ 42,434	\$ 42,435
Corporate bonds	<u>6,814</u>	<u>6,798</u>
	49,248	49,233
Long-term:		
Marketable equity securities	105,100	122,282
U.S. Government securities	98,970	100,624
Corporate bonds	48,469	49,193
Mortgage-backed securities	<u>11,680</u>	<u>11,729</u>
	<u>264,219</u>	<u>283,828</u>
	<u>\$ 313,467</u>	<u>\$ 333,061</u>
Restricted securities	<u>\$ -</u>	<u>\$ -</u>

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(3) Investments (continued)

Management continually reviews their investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the year ended June 30, 2019, the Company 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, 2019 (in thousands):

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

(4) Fair value measurements

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

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(4) Fair value measurements (continued)

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

(5) Claims payable

At June 30, 2019, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, were approximately \$272 million. The balance at June 30, 2019 was certified by an actuary. Activity in the liability for claims payable and health care expense for the year ended June 30, 2019 is as follows (in thousands):

Claims unpaid at beginning of year prior to reinsurance recoverable	\$	286,332
Reinsurance recoverable, beginning of year		<u>(14,392)</u>
Claims unpaid, beginning of year		271,940
Incurred related to:		
Current year		2,956,285
Prior years		<u>(16,830)</u>
Total incurred		<u>2,939,455</u>
Paid related to:		
Current year		(2,693,357)
Prior years		<u>(246,064)</u>
Total paid		<u>(2,939,421)</u>
Claims unpaid at end of year prior to reinsurance recoverable		297,922
Reinsurance recoverable, end of year		<u>(25,948)</u>
Claims unpaid, end of year	\$	<u>271,974</u>

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

The liability for Mercy Care claims unpaid at June 30, 2018 was more than the actual claims incurred related to fiscal year 2018 and prior by approximately \$17.5 million or 6.7% of Mercy Care claims unpaid. The primary drivers for the claim development variations include member mix and acuity changes, active cost and encounter management, changes in anticipated member utilization, an increase in inpatient costs, increase in catastrophic inpatient cases, speed of claims processing, and trends in Long Term Services and Support (LTSS) expenses greater than expected.

Estimated third-party subrogation included as a reduction to medical and hospital expenses in the accompanying statement of activities and changes in net assets at June 30, 2019 totaled approximately \$6,781,000.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(6) District noncontrolling interest

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

(7) Related party transactions

In September 2015, Tenet Healthcare Corporation, Dignity Health and Ascension Health finalized a joint venture to own and operate Carondelet Health Network in Tucson, Arizona. Tenet Healthcare Corporation is the majority partner at 60% ownership share and Dignity Health and Ascension Health each having a 20% ownership share. Mercy Care paid approximately \$244,760,000 in 2019 to Dignity Health and its affiliates. These balances include net prospective provider advance payments made to Dignity. Provider advances to Dignity amounted to approximately \$5,316,000 at June 30, 2019. During the year ended June 30, 2019, Mercy Care made no asset distributions to either Dignity or Ascension Health.

(8) Commitments and contingencies

Performance bonds - Mercy Care obtains unsecured surety bonds to satisfy the AHCCCS ACC, ALTCS, DES/DDD, RBHA and Medicare performance bond requirements. The following table sets forth the Mercy Care contract requirement and the Performance Bond amounts at June 30, 2019:

Line of Business	AHCCCS Minimum Requirement	Performance Bond Amount	Effective Date
ACC	90% of Capitation Revenue	\$ 135,000,000	10/1/2018
ALTCS	90% of Capitation Revenue	\$ 50,000,000	10/1/2018
DDD	70% of Capitation Revenue	\$ 4,500,000	10/1/2018
Medicare	\$1,050 PMPM	\$ 20,500,000	1/1/2019
RBHA	90% of Capitation Revenue	\$ 82,000,000	10/1/2018

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 \$15 million per claim and in the aggregate under each of its errors and omissions and cyber liability policies. Claims reported endorsement (tail) coverage is available if the policy is not renewed to cover claims incurred but not reported. Mercy Care anticipates that renewal coverage will be available at expiration of the current policy. Aetna maintains the general liability coverage for Mercy Care, and is insured for losses up to \$1 million per claim and \$2 million in the aggregate under its general liability policy.

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(8) Commitments and contingencies (continued)

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.

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

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

For the year ended June 30, 2019, Mercy Care approved amounts that resulted in grants to providers of approximately \$1,354,000, to be spent on various healthcare community projects. These amounts are included in non-operating expenses in the accompanying statement of activities and changes in net assets. At June 30, 2019 Mercy Care had not yet spent all of the funds appropriated for prior years' in accordance with the RBHA contract requirements of \$74,000. Accordingly, at June 30, 2019 Mercy Care has recorded a liability for unspent Community Reinvestment program funds of approximately \$1,429,000, which is included in other current liabilities in the accompanying statement of financial position.

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

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

Mercy Care's contract contains various quarterly financial performance requirements, including a required minimum liquidity ratio, an administrative cost percentage, and service expense percentages. As of June 30, 2019 Mercy Care was in compliance with these requirements.

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(8) 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 year ended September 30, 2018. However, management continues to anticipate meeting the required encounter threshold. As of June 30, 2019, Mercy Care anticipates meeting the required encounter threshold for the contract year from October 1, 2018 through September 30, 2019. Accordingly, as of June 30, 2019, Mercy Care has not recorded a liability associated with an encounter sanction.

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 year ended June 30, 2019 of \$406,000.

(9) Concentration of credit risk

Mercy Care's future contract awards are contingent upon the continuation of the AHCCCS ACC, DES/DDD, ALTCS and RBHA programs by the State of Arizona and Mercy Care's ability and desire to retain its status as a Contractor under these programs. The AHCCCS ACC contract is effective through September 30, 2021 with two (2) two-year options to extend, not to exceed a total contracting period of seven years.

Mercy Care was awarded a new ALTCS contract effective October 1, 2018, for an initial period of three years with three renewal periods: one renewal of two years, and two renewals of one year each. The DES/DDD contract was renewed through September 30, 2019. Mercy Care's Medicare Advantage contract is renewed annually by CMS. Mercy Care's RBHA contract with AHCCCS has been renewed through September 30, 2020.

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

(10) Functional expenses

The costs of providing Mercy Care's various programs and other activities have been reported on a functional basis in the accompanying statement of activities and changes in net assets. The statement of functional expenses present 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.

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

MERCY CARE

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

(11) Liquidity and Availability of Resources

Mercy Care monitors its cash position on a monthly basis to ensure the fulfillment of all obligations. As part of the Mercy Care's liquidity plan, excess cash is invested according to Mercy Care's investment policy. As of June 30, 2019, 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	\$	180,356
Receivables		161,269
Investments		<u>333,061</u>
Financial assets available to meet cash needs for general expenditure within one year	\$	<u>674,686</u>

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

SUPPLEMENTAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

MERCY CARE

Report on Supplemental Information

We have audited the accompanying sub-capitated expenses report, supplemental statement of activities, and supplemental statement of activities - schedule A as defined in the Complete Care contract and Regional Behavioral Health Authority contract between **Mercy Care** and AHCCCS, for the year ended June 30, 2019, and the sub-capitated expenses report as defined in the Regional Behavioral Health Authority contract between **Mercy Care** and AHCCCS for the contract year ended September 30, 2018 (collectively, the "Supplemental Information").

Management's Responsibility for the Supplemental Information

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the supplemental information including the sub-capitated expenses report, supplemental statement of activities, and supplemental statement of activities - schedule A for the year ended June 30, 2019 and the sub-capitated expenses report for the contract year ended September 30, 2018, referred to above present fairly, in all material respects, the activities of **Mercy Care** for the year ended June 30, 2019 and contract year ended September 30, 2018, as defined in the AHCCCS contracts referred to in the first paragraph.

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

Mayer Hoffman McCann P.C.

November 11, 2019

MERCY CARE
SUPPLEMENTAL INFORMATION
SUB-CAPITATED EXPENSES REPORT

Year Ended June 30, 2019

Account	Account Description	YTD ACC	YTD MCA	YTD DDD	YTD ALTCS	YTD RBHA
<i>Sub-Capitated Hospitalization Expenses:</i>						
50105-01	Hospital Inpatient	\$ -	\$ -	\$ -	\$ 1,220,914	\$ -
50110-01	Hospital Inpatient -Behavioral Health Services	-	-	-	-	-
	<i>Total Sub-Capitated Hospitalization Expense:</i>	-	-	-	1,220,914	-
<i>Sub-Capitated Medical Compensation Expenses:</i>						
50205-01	Primary Care Physician Services	-	-	-	-	-
50210-01	Behavioral Health Physician Services	-	-	-	-	-
50215-01	Referral Physician Services	-	-	-	-	-
50220-01	PH FQHC/RHC Services	-	-	-	-	-
50225-01	Other Professional Services	-	-	-	-	-
	<i>Total Sub-Capitated Medical Compensation Expenses:</i>	-	-	-	-	-
<i>Sub-Capitated Other Medical Expenses:</i>						
50305-01	Emergency Facility Services	-	-	-	-	-
50310-01	PH Pharmacy	-	-	-	-	-
50310-05	less: PH Pharmacy Rebates	-	-	-	-	-
50315-01	Laboratory, Radiology & Medical Imaging	10,629,105	862,778	391,241	244,524	-
50320-01	Outpatient Facility	-	-	-	-	-
50320-05	Outpatient Behavioral Health Facility	-	-	-	-	-
50325-01	Durable Med Equipment	367,878	-	3,904,427	569,963	89,726
50330-01	Dental	37,838,146	4,161,861	1,190,546	1,432,795	-
50335-01	Transportation	-	-	-	-	-
50340-00	Nursing Facility, Home Health Care	-	7,160,776	3,120	-	-
50345-01	Therapies	-	-	-	-	-
50350-01	APM Performance Based Payments to Providers	-	-	-	-	-
50355-01	Behavioral Health Day Program	-	-	-	-	-
50355-05	Behavioral Health Case Management Services	-	-	-	-	-
50355-10	Behavioral Health Crisis Intervention Services	-	-	-	-	-
50355-15	Behavioral Health Rehabilitation Services	-	-	-	-	-
50355-20	Behavioral Health Residential Services	-	-	-	-	-
50355-25	All Other Behavioral Health Services	-	-	-	-	-
50360-01	RESERVED	-	-	-	-	-
50370-01	Other Medical Expenses	4,131,075	-	162,734	1,132,050	10,143
	<i>Total Sub-Capitated Other Medical Expenses:</i>	52,966,204	12,185,415	5,652,068	3,379,332	99,869
<i>Sub-Capitated Behavioral Health Expenses:</i>						
60199-01	Total Treatment Services	-	-	-	-	55,674,291
60299-01	Total Rehabilitation Services	-	-	-	-	69,481,937
60399-01	Total Medical Services	-	-	-	-	30,503,592
60499-01	Total Support Services	-	-	-	-	124,556,155
60599-01	Total Crisis Intervention Services	-	-	-	-	92,401,044
60699-01	Total Inpatient Services	-	-	-	-	8,741,211
60799-01	Total Residential Services	-	-	-	-	3,780,732
60899-01	Total Behavioral Health Day Program	-	-	-	-	3,095,972
60999-01	Total Prevention Services	-	-	-	-	-
61099-01	Total Pharmacy Expense	-	-	-	-	-
61100-01	PPC BH Title XIX	-	-	-	-	-
61105-01	Other Service Expenses Not Rpt'd Above	-	-	-	-	-
61205-01	BH FQHC/RHC Services	-	-	-	-	-
	<i>Total Sub-Capitated Behavioral Health Expenses:</i>	-	-	-	-	388,234,934
	<i>Total Sub-Capitated Expenses:</i>	<u>\$ 52,966,204</u>	<u>\$ 12,185,415</u>	<u>\$ 5,652,068</u>	<u>\$ 4,600,246</u>	<u>\$ 388,334,803</u>

MERCY CARE
SUPPLEMENTAL INFORMATION
SUB-CAPITATED EXPENSES REPORT

Contract Year Ended September 30, 2018

Account	Account Description	CY18
<i>Sub-Capitated Behavioral Health Expenses:</i>		
60199	Total Treatment Services	\$ 129,944,307
60299	Total Rehabilitation Services	105,090,747
60399	Total Medical Services	54,763,755
60499	Total Support Services	222,032,288
60599	Total Crisis Intervention Services	118,628,930
60699	Total Inpatient Services	11,655,514
60799	Total Residential Services	12,904,697
60899	Total Behavioral Health Day Program	4,488,165
60999	Total Prevention Services	1,870,315
61099	Total Pharmacy Expense	-
61105	Other Service Expenses not Reported Above	-
61205	BH FQHC/RHC Services	-
	<i>Total Sub-Capitated Behavioral Health Expenses:</i>	<u>661,378,718</u>
<i>Sub-Capitated Other Medical Expenses:</i>		
50305	Emergency Facility Services	-
50310-1	PH Pharmacy	-
50310-5	less: PH Pharmacy Rebates	-
50315	Laboratory, Radiology & Medical Imaging	-
50320	Outpatient Facility	-
50325	Durable Med Equipment	86,029
50330	Dental	-
50335	Transportation	-
50340-00	Nursing Facility, Home Health Care	-
50345	Therapies	-
50350	Alternative Payment Model Performance Based Payments to Providers	-
50360	PPC, Other Medical Expenses	-
50370	Other Medical Expenses	8,816
	<i>Total Sub-Capitated Other Medical Expenses:</i>	<u>94,845</u>
	<i>Total Sub-Capitated Expenses:</i>	<u>\$ 661,473,563</u>

See Independent Auditors' Report on Supplemental Information

Mercy Care - RBHA

Statement Of Activities

Fiscal Year Ended 06/30/2019

Member Months	TXIX/XXI		TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI	TXIX/XXI
	Non CDP	CMDP																							
00105-01	Prospective Member Months																								
00205-01	PPC Member Months																								
00999	Total Member Months																								
40105-01	REVENUE																								
40135-01	Capitation																								
40145-01	Title XIX/XXI Reconciliation Settlement																								
40160-01	Other Reconciliation Settlements*																								
40205-01	Health Insurance Provider Fee Revenue																								
40210-01	Non-Title XIX/XXI Revenue																								
40215-01	Specialty and Other Grants*																								
40305-01	Non-Title XIX/XXI Profit Limit																								
40310-01	Investment Income																								
49999	Other Income																								
60105-01	TOTAL REVENUE																								
60105-01	EXPENSES																								
60105-01	Behavioral Health (BH) Medical Expenses:																								
60105-01	Treatment Services																								
60105-01	Counseling																								
60105-01	a Counseling, Individual																								
60105-01	b Counseling, Family																								
60105-01	c Counseling, Group																								
60105-01	Assessment, Evaluation and Screening																								
60105-10	Other Professional																								
60199	Total Treatment Services																								
60205-01	Rehabilitation Services																								
60205-01	Living Skills Training																								
60205-05	Cognitive Rehabilitation																								
60205-10	Health Promotion																								
60205-15	Supported Employment Services																								
60299	Total Rehabilitation Services																								
60305-01	Medical Services																								
60305-05	Medication Services																								
60305-10	Medical Management																								
60305-15	Laboratory, Radiology and Medical Imaging																								
60399	Electro-Convulsive Therapy																								
60405-01	Total Medical Services																								
60405-01	Support Services																								
60405-05	Case Management																								
60405-10	Personal Care Services																								
60405-15	Family Support																								
60405-20	Peer Support																								
60405-25	Home Care Training to Home Care Client																								
60405-30	Unskilled Respite Care																								
60405-35	Supported Housing*																								
60405-40	Reserved for Future Use																								
60499	Transportation																								
60505-01	Total Support Services																								
60505-05	Crisis Intervention Services																								
60505-10	Crisis Intervention - Mobile																								
60505-15	Crisis Intervention - Stabilization																								
60505-20	Crisis Intervention - Telephone																								
60599	Total Crisis Intervention Services																								
60605-01	Inpatient Services																								
60605-05	Hospital																								
60605-10	a Psychiatric (Provider Types O2 & 71)																								
60605-15	b Detoxification (Provider Types O2 & 71)																								
60605-20	Sub acute Facility																								
60605-25	a Psychiatric (Provider Types B5 & B6)																								
60605-30	b Detoxification (Provider Types B5 & B6)																								
60605-35	Residential Treatment Center (RTC)																								
60605-40	Psychiatric - Secure & Non-Secure Provider Types																								
60605-45	a 78.B1, B2, B3)																								
60605-50	b Types (78.B1, B2, B3)																								
60605-55	Inpatient Services, Professional																								
60699	Total Inpatient Services																								
60705-01	Residential Services																								
60705-05	Behavioral Health Residential Facilities																								
60705-10	Reserved for Future Use																								
60799	Room and Board																								
60805-01	Total Residential Services																								
60805-05	Behavioral Health Day Program																								
60805-10	Supervised Day Program																								
60899	Therapeutic Day Program																								
60905-01	Medical Day Program																								
60905-05	Total Behavioral Health Day Program																								
60905-10	Prevention Services																								
60999	Prevention HIV																								
61005-01	Total Prevention Services																								
61005-05	BH Pharmacy Expenses																								
61099	BH Pharmacy Expense																								
61100-01	BH Pharmacy Rebates																								
61105-01	Total Pharmacy Expense																								
61105-05	PPC BH Title XIX																								
61205-01	Other Service Expenses Not Reported Above*																								
61299	BH FQHC/RHC Services																								
61305-01	Subtotal BH Medical Expenses																								
61305-05	Specialty and Other Grant Expenses*																								
61399	Total BH Medical Expenses																								
61499	Total PH Medical Expenses (details below)																								
61599	Total BH and PH Medical Expenses																								
70105-01	Less: Reinsurance																								
70205-01	Less: Third Party Liability																								
70305-01	Less: Claims Overpayment Recoveries																								
85999	Total Net Medical Expense																								

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

Mercy Care - RBHA

Statement of Activities

Fiscal Year Ended 06/30/2019

Physical Health (PH) Medical Expenses																								
Hospitalization																								
50105-01	Hospital Inpatient	136,947	145,039	10,049	729,867	273,131	30,245,033	-	-	-	-	-	-	-	-	-	-	-	-	-	31,540,066	-	31,540,066	
50110-01	Behavioral Health Hospital Inpatient	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50199	Total Hospitalization	136,947	145,039	10,049	729,867	273,131	30,245,033	-	-	-	-	-	-	-	-	-	-	-	-	-	31,540,066	-	31,540,066	
Medical Compensation																								
50205-01	Primary Care Physician Services	2,383	217	2	3,050	-	2,741,226	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,746,878	
50210-01	Behavioral Health Physician Services	-	-	-	-	-	391	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	391	
50215-01	Referral Physician Services	-	-	-	(2,931)	-	5,128,801	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,125,871	
50220-01	PH FOHC/RHC Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50225-01	Other Professional Services	8,224	6,526	39,849	1,169,074	4,361	8,073,636	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9,301,670	
50299	Total Medical Compensation	10,606	6,743	39,851	1,169,194	4,361	15,944,055	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,174,811	
Other Medical Expenses																								
50305-01	Emergency Facility Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50310-01	PH Pharmacy	-	-	-	-	-	38,550,193	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,550,193	
50310-05	PH Pharmacy Rebates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50315-01	Laboratory, Radiology & Medical Imaging	-	-	-	1,477	-	2,562,508	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,563,985	
50320-01	Outpatient Facility	907	-	111	(13,627)	88	17,702,511	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	17,689,991	
50325-01	Durable Medical Equipment	-	-	-	-	-	89,726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	89,726	
50330-01	Dental	-	-	-	348	-	413,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	414,304	
50335-01	Transportation	-	-	-	221	-	29,533	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	29,754	
50340-00	Nursing Facility, Home Health Care	-	-	-	1,354	-	431,095	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	432,448	
50345-01	Therapies	-	-	-	588	-	90,681	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	91,269	
50350-01	Alternative Payment Model Performance Based	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
50370-01	Payments to Providers	-	-	1,948	9,960	-	5,575,753	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,587,661	
50399	Total Other Medical Expenses	907	-	2,059	320	88	65,445,956	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	65,449,330	
59999	Total Physical Health Expense	148,461	151,782	51,959	1,899,381	277,580	111,635,044	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	114,164,207	
Administrative Expenses:																								
80105-01	Compensation	2,022,376	3,159,532	1,416,210	3,937,119	857,556	29,105,674	257,365	1,376,310	42,132,141	405,560	2,087,291	87,498	105,118	-	252,341	150,588	794,640	178,740	2,640,483	-	6,702,257	48,834,398	48,834,398
80205-01	Occupancy	1,644	2,583	1,158	3,201	701	23,909	211	1,127	34,533	330	1,706	74	85	-	206	123	649	153	2,150	-	5,477	40,011	40,011
80305-01	Depreciation	-	-	-	-	-	576,812	-	-	576,812	-	-	-	-	-	-	-	-	-	-	-	-	576,812	576,812
80405-01	Care Management/Care Coordination	470,396	737,357	330,525	915,755	200,138	6,827,028	60,119	321,500	9,862,818	94,193	487,060	21,270	24,232	-	58,904	35,126	185,423	43,780	613,990	-	1,563,977	11,426,795	11,426,795
80505-01	Professional and Outside Services	193,432	302,907	135,778	376,569	82,216	2,855,042	24,690	132,036	4,102,670	38,696	200,092	8,738	9,955	-	24,196	14,432	76,175	17,980	252,239	-	642,504	4,745,174	4,745,174
80605-01	Office Supplies and Equipment	186,549	292,839	131,270	363,167	79,485	2,711,112	23,886	127,734	3,916,041	37,406	193,424	8,447	9,623	-	23,396	13,947	73,635	17,394	243,828	-	621,100	4,537,140	4,537,140
80705-01	Travel	25,372	39,821	17,850	49,394	10,809	368,670	3,248	17,369	532,533	5,087	26,303	1,149	1,309	-	3,181	1,897	10,013	2,365	33,157	-	84,460	616,993	616,993
80805-01	Repair and Maintenance	524	832	373	1,020	226	7,702	68	364	111,109	106	550	24	27	-	67	40	209	50	693	-	1,765	12,874	12,874
80905-01	Bank Service Charge	(12)	-	-	-	-	529,883	-	-	529,871	-	-	-	-	-	-	-	-	-	-	-	-	529,871	529,871
81005-01	Insurance	6,668	10,446	4,682	12,981	2,835	601,942	852	4,554	644,960	1,334	6,900	301	343	-	834	498	2,627	620	8,699	-	22,157	667,117	667,117
81105-01	Marketing	32,630	51,551	23,111	64,029	13,993	814,800	4,212	22,527	1,026,852	6,583	34,042	1,486	1,694	-	4,120	2,453	12,959	3,068	42,911	-	109,316	1,136,168	1,136,168
81205-01	Interest	-	-	-	17,645	-	113,584	-	-	131,229	-	6,381	-	-	-	-	-	-	-	-	-	-	6,381	137,610
81305-01	Pharmacy Benefit Manager Expenses	28,533	17,667	17,918	161,862	25,606	1,052,970	-	-	1,304,556	-	125,532	-	-	-	-	-	-	-	-	-	-	125,532	1,430,087
81405-01	Fraud Reduction Expenses	6,958	20,974	9,468	13,534	5,714	188,984	1,941	10,381	257,954	2,624	13,601	589	684	-	1,731	927	5,166	1,414	17,080	-	43,817	301,771	301,771
81505-01	Third Party Activities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81605-01	Sub Capitation/Block Administrative	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
81705-01	Health Care Quality Improvement	5,344	78,587	35,693	10,329	21,478	691,310	8,020	42,888	893,649	9,654	50,148	2,152	2,549	-	6,667	3,241	19,010	5,840	62,757	-	162,019	1,055,668	1,055,668
83005-01	Other Administrative Expenses*	420,383	668,966	299,935	1,177,587	181,596	6,657,430	54,773	292,910	9,753,580	85,401	447,347	19,281	21,980	-	53,496	31,796	168,117	39,887	556,660	-	1,423,964	11,177,544	11,177,544
83999	Subtotal Administrative Expenses	3,400,797	5,384,061	2,423,971	7,104,192	1,482,353	53,126,851	439,385	2,349,698	75,711,308	686,974	3,680,376	151,010	177,600	-	429,140	255,067	1,348,624	311,290	4,474,646	-	11,514,727	87,226,035	87,226,035
83105-01	Encounter/ Evaluation Sanctions*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
83205-01	Admin Expenses from Specialty and Other Grants*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
84999	Total Administrative Expense	3,400,797	5,384,061	2,423,971	7,104,192	1,482,353	53,126,851	439,385	2,349,698	75,711,308	686,974	3,680,376	151,010	177,600	-	429,140	255,067	1,348,624	311,290	4,474,646	-	11,514,727	87,226,035	
86999	Total Expenses	44,744,346	87,072,003	23,218,165	83,192,481	14,351,343	656,973,391	4,334,239	30,398,045	944,284,012	8,920,336	45,476,789	2,013,945	2,295,828	-	5,395,215	3,215,931	16,859,887	4,291,151	65,259,518	134,100	153,862,700	1,098,146,713	1,098,146,713
87999	Profit (Loss) from Operations	64,499	(16,679,266)	8,749,647	4,028,970	5,003,723	(2,851,791)	1,471,914	821,376	609,072	-	652,775	-	-	-	192,540	105,253	700,327	-	(7,115,245)	-	(5,464,350)	(4,855,277)	(4,855,277)
88999	Profit (Loss) from Non-Operating*	-	-	-	-	-	1,121,566	-	-	1,121,566	-	-	-	-	-	-	-	-	-	-	-	-	1,121,566	1,135,000
89999	Profit/(Loss) Before Taxes	64,499	(16,679,266)	8,749,647	4,028,970	5,003,723	(1,730,225)	1,471,914	821,376	1,730,638	-	652,775	-	-	-	192,540	105,253	700,327	-	(7,115,245)	-	(5,464,350)	(3,733,712)	1,135,000
90105-01	Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
90205-01	Premium Taxes	896,491	1,407,797	639,136	1,744,903	387,069	12,638,547	84,992	624,389	18,423,323	-	-	-	-	-	-	-	-	-	-	-	-	18,423,323	18,423,323
90305-01	Health Insurance Provider Fee	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
99999	Net Profit/(Loss)	\$ (831,991)	\$ (18,087,063)	\$ 8,110,511	\$ 2																			

Mercy Care - RBHA
Statement of Activities
Schedule A Disclosure
Fiscal Year Ended 06/30/2019

	TXIX/XXI Non CDMF Child	TXIX/XXI CDMF Child	TXIX/XXI DD Child	TXIX/XXI GMH/SA Non Dual	TXIX/XXI DD Adult	TXIX/XXI SMI	TXIX/XXI Other Child (Crisis)	TXIX/XXI Other Adult (Crisis)	NTXIX/XXI Crisis	NTXIX/XXI SMI	NTXIX/XXI Other	Supported Housing	Housing Trust Fund	MHBG SED	MHBG SMI	SABG	Other Federal	County	PASRR	Sub-Total	Mgmt & Gen	Total	
DISCLOSURE OF NTXIX/XXI OTHER and OTHER FEDERAL AHCCCS REVENUE on line 40205-01																							
SUDS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,705,358	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,705,358	\$ -	\$ 1,705,358
State Opioid Response (SOR)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,545,641	-	-	-	1,545,641	-	1,545,641
CABHI States Enhancement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(61)	-	-	-	(61)	-	(61)
Opioid STR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,447,437	-	-	-	2,447,437	-	2,447,437
MAT-PDOA Criminal Justice Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	298,134	-	-	-	298,134	-	298,134
1X Housing - Deferred Revenue	-	-	-	-	-	-	-	-	-	-	308,587.00	-	-	-	-	-	-	-	-	-	308,587.00	-	308,587.00
Total - NTXIX/XXI Other and OTHER FEDERAL Column	-	-	-	-	-	-	-	-	-	-	2,013,945	-	-	-	-	-	4,291,151	-	-	-	6,305,096	-	6,305,096
DISCLOSURE OF OTHER RECONCILIATION SETTLEMENTS ON LINE 40145-01																							
APM - CYE17	-	-	-	-	-	519,144	-	-	-	-	-	-	-	-	-	-	-	-	-	-	519,144	-	519,144
APM - CYE18	-	-	-	-	-	(9,428,962)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,428,962)	-	(9,428,962)
APM - CYE19	-	-	-	-	-	4,052,573	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,052,573	-	4,052,573
APSI - CYE19	-	-	-	-	-	(190,944)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(190,944)	-	(190,944)
BH PPC - CYE19	-	-	-	-	-	-	1,556,552	-	-	-	-	-	-	-	-	-	-	-	-	-	1,556,552	-	1,556,552
Total - Other Reconciliations	-	-	-	-	-	(5,048,189)	1,556,552	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,491,637)	-	(3,491,637)
DISCLOSURE OF SPECIALTY AND OTHER GRANTS REPORTED ON LINE 40210-01																							
Total Specialty and Other Grants Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF SUPPORTED HOUSING ON REPORTED ON LINE 60405-30																							
Rent Subsidy	-	-	-	-	-	-	-	-	-	11,763,214	-	1,363,585	-	-	-	-	-	-	-	-	13,126,799	-	13,126,799
Management Fees	-	-	-	-	-	-	-	-	-	4,219,320	-	477,575	-	-	-	-	-	-	-	-	4,696,895	-	4,696,895
Utility Payments	-	-	-	-	-	-	-	-	-	648,190	-	73,367	-	-	-	-	-	-	-	-	721,557	-	721,557
Other/Repairs & Maintenance	-	-	-	-	-	-	-	-	-	628,084	-	71,091	-	-	-	-	-	-	-	-	699,175	-	699,175
Damages	-	-	-	-	-	-	-	-	-	333,126	-	37,706	-	-	-	-	-	-	-	-	370,832	-	370,832
Deposits	-	-	-	-	-	-	-	-	-	541,727	-	61,317	-	-	-	-	-	-	-	-	603,044	-	603,044
Start Up	-	-	-	-	-	-	-	-	-	296,737	-	33,587	-	-	-	-	-	-	-	-	330,324	-	330,324
Eviction Prevention	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1X Housing	-	-	-	-	-	-	-	-	-	283,900	-	-	-	-	-	-	-	-	-	-	283,900	-	283,900
Total Supported Housing	-	-	-	-	-	-	-	-	-	18,430,397	-	2,118,228	-	-	-	-	-	-	-	-	20,832,526	-	20,832,526
DISCLOSURE OF OTHER SERVICES ON LINE 61105-01																							
Alternative Payment Model - Behavioral Health	(703,488)	(703,488)	-	(2,234,647)	-	(1,452,334)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,093,956)	-	(5,093,956)
PASRR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	134,100	-	134,100	-	134,100
FEP Grant Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	598,012	-	-	-	-	-	598,012	-	598,012
MAT-PDOA Criminal Justice Grant	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	284,484	-	-	-	284,484	-	284,484
Opioid STR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,264,228	-	-	-	2,264,228	-	2,264,228
State Opioid Response (SOR)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,431,149	-	-	-	1,431,149	-	1,431,149
NT SMI - Non Encounterable Gym Membership	-	-	-	-	-	-	-	-	-	52,712	-	-	-	-	-	-	-	-	-	-	52,712	-	52,712
NT SMI - Non Encounterable ASU Integrated Healthcare	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conf	-	-	-	-	-	-	-	-	-	25,000	-	-	-	-	-	-	-	-	-	-	25,000	-	25,000
NT SMI - Non Encounterable CHEEERS GED Testing	-	-	-	-	-	-	-	-	-	15,000	-	-	-	-	-	-	-	-	-	-	15,000	-	15,000
NT SMI - Non Encounterable SWBH - Arnold Expansion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Jail Admin functions	-	-	-	-	-	-	-	-	-	85,000	-	-	-	-	-	-	-	-	-	-	85,000	-	85,000
NT SMI - Non Encounterable SHOW Workforce	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Development	-	-	-	-	-	-	-	-	-	100,000	-	-	-	-	-	-	-	-	-	-	100,000	-	100,000
NT SMI - Non Encounterable 2019 Connections	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conference	-	-	-	-	-	-	-	-	-	55,695	-	-	-	-	-	-	-	-	-	-	55,695	-	55,695
NT SMI - Non Encounterable HMIS	-	-	-	-	-	-	-	-	-	3,150	-	-	-	-	-	-	-	-	-	-	3,150	-	3,150
NT SMI - Non Encounterable WICHE	-	-	-	-	-	-	-	-	-	130,075	-	-	-	-	-	-	-	-	-	-	130,075	-	130,075
MHBG-SEU 1X spend	-	-	-	-	-	-	-	-	-	-	-	-	-	1,168,016	-	-	-	-	-	-	1,168,016	-	1,168,016
Total Other Services	(703,488)	(703,488)	-	(2,234,647)	-	(1,452,334)	-	-	-	466,632	-	-	-	1,168,016	598,012	-	3,979,861	-	134,100	-	1,252,665	-	1,252,665
DISCLOSURE OF SPECIALTY AND OTHER GRANTS ON LINE 61305-01																							
Total Specialty and Other Grants Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF OTHER ADMIN EXPENSES ON LINE 83005-01																							
Reinsurance Premium	-	-	-	-	-	42,237	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,237	-	42,237
Meeting Expense	-	-	-	-	-	2,750	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,750	-	2,750
Dues and Filing Fees	-	-	-	359,208	-	270,448	-	-	-	5,713	-	-	-	-	-	-	-	-	-	-	635,369	-	635,369
Interpretative Services	420,383	54,773	668,966	299,935	818,379	293,034	181,596	6,135,444	53,196	85,401	441,634	19,281	21,980	-	53,496	31,796	168,117	39,887	556,660	10,343,958	-	10,343,958	
Sanction - AHCCCS	-	-	-	-	-	153,230	-	-	-	-	-	-	-	-	-	-	-	-	-	-	153,230	-	153,230
Total Other Admin Expenses	420,383	54,773	668,966	659,143	818,379	761,699	181,596	6,135,444	53,196	91,114	441,634	19,281	21,980	-	53,496	31,796	168,117	39,887	556,660	11,177,544	-	11,177,544	
DISCLOSURE OF ENCOUNTER EVALUTION SANCTIONS ON LINE 83105-01																							
Total Encounter Evaluation Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF ADMINISTRATIVE EXPENSES FROM SPECIALTY AND OTHER GRANTS ON LINE 83205-01																							
Total Adm Expenses from Specialty and Other Grants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DISCLOSURE OF NON-OPERATING LINE 88999-01																							
Sanctions - Providers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,135,000	1,135,000
Investment Income	-	-	-	-	-	1,121,566	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,121,566	-	1,121,566
Total Non-Operating	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,121,566	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,121,566	\$ 1,135,000	\$ 2,256,566

ADDITIONAL INFORMATION



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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

MERCY CARE

We have audited the financial statements of **Mercy Care** as of and for the year ended June 30, 2019, and our report thereon dated November 11, 2019, 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 31 and 32 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated in all material respects in relation to the financial statements as a whole.

Mayer Hoffman McCann P.C.

November 11, 2019

MERCY CARE

ADDITIONAL INFORMATION

STATEMENT OF FINANCIAL POSITION

June 30, 2019
(In thousands)

ASSETS

	<u>ACC</u>	<u>DES/DDD</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>RBHA</u>	<u>Total</u>
CURRENT ASSETS						
Cash and cash equivalents	\$ 89,268	\$ 4,450	\$ 34,295	\$ 30,581	\$ 21,762	\$ 180,356
Short-term investments	20,339	946	8,297	5,533	14,118	49,233
Receivables:						
Reinsurance receivables, net	12,606	852	6,166	-	6,324	25,948
Reconciliation receivables	30,385	74	28,430	-	21,710	80,599
Capitation and supplemental receivables	2,555	-	247	(717)	365	2,450
Pharmacy rebate receivable	4,357	293	612	13,000	1,190	19,452
Third-party liability receivable	3,245	-	564	893	301	5,003
Interest receivable	397	18	162	108	275	960
Provider advances, net	5,643	100	351	467	558	7,119
Other receivables	422	8	3	21	8,154	8,608
Risk share settlement, current portion	-	-	-	8,282	-	8,282
Grant receivable	186	-	-	-	2,662	2,848
Prepaid assets	234	7	77	60	1,292	1,670
TOTAL CURRENT ASSETS	169,637	6,748	79,204	58,228	78,711	392,528
LONG-TERM INVESTMENTS	117,256	5,452	47,833	31,896	81,391	283,828
TOTAL ASSETS	\$ 286,893	\$ 12,200	\$ 127,037	\$ 90,124	\$ 160,102	\$ 676,356

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES						
Claims payable	\$ 117,313	\$ 6,114	\$ 65,280	\$ 28,560	\$ 54,707	\$ 271,974
Payable to providers	69	-	-	-	2,063	2,132
Reconciliation payable	13,055	-	738	-	2,578	16,371
Deferred revenue	-	-	-	-	221	221
Due to Aetna	1,971	(44)	(349)	1,095	613	3,286
Other current liabilities	8,526	107	2,079	18,707	9,132	38,551
TOTAL CURRENT LIABILITIES	140,934	6,177	67,748	48,362	69,314	332,535
TOTAL LIABILITIES	140,934	6,177	67,748	48,362	69,314	332,535
NET ASSETS WITHOUT DONOR RESTRICTIONS	145,959	6,023	59,289	41,762	90,788	343,821
TOTAL LIABILITIES AND NET ASSETS	\$ 286,893	\$ 12,200	\$ 127,037	\$ 90,124	\$ 160,102	\$ 676,356

MERCY CARE
ADDITIONAL INFORMATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2019
(In thousands)

	<u>ACC</u>	<u>DES/DDD</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>RBHA</u>	<u>Total</u>
OPERATING REVENUES						
Capitation premiums	\$ 1,469,548	\$ 68,142	\$ 599,504	\$ 429,724	\$ 1,081,225	\$ 3,648,143
Delivery supplement	51,128	-	-	-	-	51,128
Other	4,001	117	21,718	346	12,969	39,151
TOTAL OPERATING REVENUES	<u>1,524,677</u>	<u>68,259</u>	<u>621,222</u>	<u>430,070</u>	<u>1,094,194</u>	<u>3,738,422</u>
HEALTH CARE EXPENSES						
Hospitalization	260,236	15,911	30,428	105,539	39,256	451,370
Medical compensation	277,072	8,030	16,136	44,181	26,412	371,831
Ancillary and other medical services	881,363	44,899	106,386	214,016	955,413	2,202,077
Institutional	-	-	222,816	-	-	222,816
Home and community based services	-	-	221,048	-	-	221,048
Less: reinsurance recoveries	(63,619)	(5,172)	(23,772)	-	(7,464)	(100,027)
TOTAL HEALTH CARE EXPENSES	<u>1,355,052</u>	<u>63,668</u>	<u>573,042</u>	<u>363,736</u>	<u>1,013,617</u>	<u>3,369,115</u>
GENERAL AND ADMINISTRATIVE EXPENSES						
	125,520	5,240	36,413	40,705	86,087	293,965
PREMIUM TAX EXPENSE						
	32,269	-	13,404	-	18,423	64,096
TOTAL EXPENSES	<u>1,512,841</u>	<u>68,908</u>	<u>622,859</u>	<u>404,441</u>	<u>1,118,127</u>	<u>3,727,176</u>
OPERATING INCOME (LOSS)	<u>11,836</u>	<u>(649)</u>	<u>(1,637)</u>	<u>25,629</u>	<u>(23,933)</u>	<u>11,246</u>
NONOPERATING INCOME (EXPENSE)						
Investment income	4,713	219	1,923	1,282	3,272	11,409
Investment fees	(520)	(24)	(212)	(142)	(361)	(1,259)
Community reinvestment	(1,296)	-	(58)	-	-	(1,354)
TOTAL NONOPERATING INCOME (EXPENSE)	<u>2,897</u>	<u>195</u>	<u>1,653</u>	<u>1,140</u>	<u>2,911</u>	<u>8,796</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS						
	14,733	(454)	16	26,769	(21,022)	20,042
UNREALIZED GAINS (LOSSES) ON INVESTMENTS RECLASSIFICATION OF INVESTMENT IN MMIC						
	2,300	(338)	(614)	1,737	5,621	8,706
	<u>5,082</u>	<u>(15,306)</u>	<u>(54,362)</u>	<u>(34,726)</u>	<u>99,312</u>	<u>-</u>
CHANGE IN NET ASSETS	22,115	(16,098)	(54,960)	(6,220)	83,911	28,748
DISTRIBUTION TO DISTRICT SALE OF MEMBERSHIP INTEREST						
	-	-	-	-	(10,000)	(10,000)
NOTE RECEIVABLE FROM MEMBER						
	1,500	-	-	-	-	1,500
	(1,500)	-	-	-	-	(1,500)
NET ASSETS, BEGINNING OF YEAR	<u>123,844</u>	<u>22,121</u>	<u>114,249</u>	<u>47,982</u>	<u>16,877</u>	<u>325,073</u>
NET ASSETS END OF YEAR	<u>\$ 145,959</u>	<u>\$ 6,023</u>	<u>\$ 59,289</u>	<u>\$ 41,762</u>	<u>\$ 90,788</u>	<u>\$ 343,821</u>

See Independent Auditors' Report on Additional Information

**UNIFORM GUIDANCE
SUPPLEMENTAL REPORTS**

MERCY CARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

<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	\$ 15,511,262	\$ 16,859,887
Mental Health Block Grant				
SMI - Non-Title XIX	93.958	11356415170214	2,636,714	2,842,179
Children - Non-Title XIX	93.958	11356415170214	4,692,213	5,121,353
First Episode of Psychosis	93.958	11356415170214	598,012	647,614
Subtotal Mental Health Block Grant (93.958)			<u>7,926,939</u>	<u>8,611,146</u>
Substance Abuse and Mental Health Services, Projects of Regional and National Significance				
Medication Assisted Treatment - Prescription Drug and Opioid Addiction	93.243	11356415170214	278,609	300,898
Arizona Opioid State Targeted Response Grant	93.788	11356415170214	2,259,039	2,439,762
Arizona State Opioid Response Grant	93.788	11356415170214	1,431,149	1,545,641
Subtotal Substance Abuse and Mental Health Services			<u>3,968,797</u>	<u>4,286,301</u>
Total Passed-Through Arizona Health Care Cost Containment System			\$ 27,406,998	\$ 29,757,334
Centers for Medicare and Medicaid Services (CMS) and Arizona Health-e Connection:				
ACA - Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNS)	93.638	68660047917631	1,857,294	2,034,120
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 29,264,292</u>	<u>\$ 31,791,454</u>

MERCY CARE

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

(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, 2019. The information in the Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of **Mercy Care**, it is not intended to and does not present the financial position, changes in net assets or cash flows of **Mercy Care**.

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

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

(3) **Catalog of Federal Domestic Assistance (CFDA) numbers**

The program titles and CFDA numbers were obtained from the 2019 Catalog of Federal Domestic Assistance.



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

To the Board of Directors of

MERCY CARE

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Mercy Care** (the "Organization"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2019.

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.

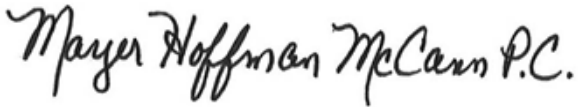
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

November 11, 2019



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

To the Board of Directors of

MERCY CARE

Report on Compliance for Each Major Federal Program

We have audited **Mercy Care's** compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Compliance Supplement that could have a direct and material effect on **Mercy Care's** major federal programs for the year ended June 30, 2019. **Mercy Care's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for **Mercy Care's** major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Mercy Care's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Major Federal Programs

In our opinion, **Mercy Care** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ended June 30, 2019.

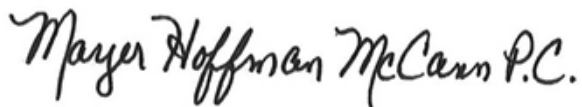
Report on Internal Control Over Compliance

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

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

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

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



November 11, 2019

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

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>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.788	Arizona Opioid State Targeted Response Grant
93.958	Block Grants for Community Mental Health Services
93.959	Block Grants for Prevention and Treatment of Substance Abuse

- | | |
|---|-----------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$953,744 |
| 6. Auditee qualified as a low-risk auditee? | Yes |

MERCY CARE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

Section II – Financial Statement Findings

None noted

Section III – Federal Award Findings

None noted

Section IV – Prior Audit Findings

None