SOUTHWEST CATHOLIC
HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION

Years Ended June 30, 2013 and 2012

SOUTHWEST CATHOLIC
HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Years Ended June 30, 2013 and 2012

CONTENTS

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

We have audited the accompanying consolidated financial statements of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate***, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate*** as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 28, 2013

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012
(In thousands)

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	$ 108,172	$ 109,048
Short-term investments	5,260	38,270
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of $4,483 for 2013 and $6,496 for 2012	32,556	31,698
Reconciliation receivables, net of allowance for doubtful accounts of $6,014 for 2013 and $3,197 for 2012	16,491	9,737
Capitation and supplemental receivables	7,767	7,843
Pharmacy receivable	4,665	4,659
Third party liability receivable, net of allowance for doubtful accounts of $1,717 for 2013 and $1,601 for 2012	5,443	6,000
Interest receivable	893	910
Provider advances, net of allowance for doubtful accounts of $2,323 for 2013 and $1,797 for 2012	7,949	13,441
Other receivables	759	-
Due from Aetna	-	2,976
Risk share settlement	9,047	2,735
Prepaid assets	132	378
TOTAL CURRENT ASSETS	199,134	227,695
RESTRICTED SECURITIES	500	-
CAPITALIZED SOFTWARE COSTS	762	-
RECONCILIATION RECEIVABLES, less current portion	-	1,702
RISK SHARE SETTLEMENT, less current portion	2,439	5,033
LONG-TERM INVESTMENTS	166,149	159,919
TOTAL ASSETS	$ 368,984	$ 394,349

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Medical claims payable	$ 157,277	$ 147,703
Reconciliation payable	17,110	31,705
Deferred capitation revenue	-	25,360
Due to Aetna	3,066	-
Due to District	4,751	-
Other current liabilities	9,215	8,997
TOTAL CURRENT LIABILITIES	191,419	213,765
UNRESTRICTED NET ASSETS	177,565	180,584
TOTAL LIABILITIES AND NET ASSETS	$ 368,984	$ 394,349

See Notes to Consolidated Financial Statements

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2013 and 2012
(In thousands)

	2013	2012
OPERATING REVENUES		
Capitation premiums	$ 1,610,949	$ 1,604,990
Delivery/HIV-AIDS supplement	60,227	57,317
Reinsurance	51,553	72,490
Other, primarily third party recoveries	3,486	4,594
TOTAL OPERATING REVENUES	1,726,215	1,739,391
HEALTH CARE EXPENSES		
Hospitalization	311,576	351,704
Medical compensation	272,813	295,630
Ancillary and other medical services	657,954	641,403
Institutional	163,537	147,640
Home and community based services	150,473	135,854
TOTAL HEALTH CARE EXPENSES	1,556,353	1,572,231
GENERAL AND ADMINISTRATIVE EXPENSES	124,588	119,554
PREMIUM TAX EXPENSE	26,924	27,600
TOTAL EXPENSES	1,707,865	1,719,385
OPERATING INCOME	18,350	20,006
NONOPERATING INCOME (EXPENSE)		
Investment income	11,377	9,246
Investment fees	(1,024)	(1,052)
Other income	-	139
TOTAL NONOPERATING INCOME	10,353	8,333
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS	28,703	28,339
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	8,029	(5,868)
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS AND CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	36,732	22,471
DISTRIBUTIONS TO SPONSOR ORGANIZATIONS	(40,000)	(30,000)
CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	249	-
CHANGE IN NET ASSETS	(3,019)	(7,529)
NET ASSETS, BEGINNING OF YEAR	180,584	188,113
NET ASSETS, END OF YEAR	$ 177,565	$ 180,584

See Notes to Consolidated Financial Statements

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2013 and 2012
(In thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets prior to distributions and noncontrolling interests	$ 36,732	$ 22,471
Adjustments to reconcile change in net assets prior to distributions and change attributable to District to net cash used in operating activities:		
Bad debt expense	369	(2,563)
Net unrealized (gains) losses on investments	(8,029)	5,868
Net realized gains on investments	(6,326)	(3,849)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	(4,305)	10,277
Reconciliation receivables	(1,448)	2,709
Capitation and supplemental receivables	76	9,732
Pharmacy receivable	(6)	(2,245)
Third party liability receivable	557	(34)
Interest receivable	17	47
Provider advances	4,966	(1,035)
Other receivables	(759)	-
Due from Aetna	2,976	(2,976)
Risk share settlement	(3,718)	(15,735)
Prepaid assets	246	(131)
Increase (decrease) in:		
Medical claims payable	9,574	(18,484)
Reconciliation payable	(14,595)	(19,558)
Deferred capitation revenue	(25,360)	25,360
Due to Aetna	3,066	(11,793)
Other current liabilities	218	671
Net cash used in operating activities	(5,749)	(1,268)
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in restricted securities	(500)	-
Capitalized software costs	(762)	-
Purchases of investments	(116,835)	(129,037)
Proceeds from sale of investments	157,970	124,657
Net cash provided by (used in) investing activities	39,873	(4,380)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from District for Mercy Maricopa	5,000	-
Distributions to sponsor organizations	(40,000)	(30,000)
Net cash used in financing activities	(35,000)	(30,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(876)	(35,648)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	109,048	144,696
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 108,172	$ 109,048

See Notes to Consolidated Financial Statements

(1) Company operations and significant accounting policies

Company operations - Southwest Catholic Health Network Corporation dba Mercy Care Plan (SCHN, or the Plan) is a nonprofit corporation, whose sponsor organizations are Dignity Health (Dignity), formerly known as Catholic Healthcare West, and Carondelet Health Network (Carondelet), collectively the "sponsors." SCHN 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. SCHN provides medical coverage under the AHCCCS contract for the following populations:

- AHCCCS Acute - Members eligible under Title XIX Medicaid program and Title XXI program requirements
- Arizona Long Term Care System (ALTCS) - Provide institutional care, home and community based services and behavioral health services to the long term care members
- AHCCCS Healthcare Group (HCG) - Provide coverage primarily to small businesses

SCHN also provides medical care to qualified members through a contract with the Arizona Department of Economic Security, Division of Developmental Disabilities (DES/DDD).

SCHN operates a Medicare Advantage Plan (Medicare Advantage) 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. Virtually all of the members of Medicare Advantage receive their Medicaid benefits through one of SCHN's AHCCCS contracts.

SCHN has entered into a management agreement with Aetna through June 30, 2014, which automatically renews for successive one-year periods. Under the terms of the agreement, SCHN 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 Plan. SCHN paid management fees per the management agreement of approximately $119,274,000 and $116,478,000 for the years ended June 30, 2013 and 2012, respectively.

The 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, 2013 and 2012, net amounts due from (to) Aetna were approximately ($1,106,000) and $2,976,000, respectively, relating to these provisions in the management agreement.

Effective January 22, 2013, Mercy Maricopa Integrated Care (Mercy Maricopa), was incorporated in the State of Arizona. The initial members of Mercy Maricopa are SCHN, its two sponsor organizations Dignity and Carondelet, and Maricopa County Special Health Care District (District). In addition, the by-laws provide that Mercy Maricopa shall have one class of members initially; however, the current members may decide to create additional classes of membership or to add new members with unanimous consent of existing members. Mercy Maricopa may pay distributions to its members in advance of dissolution if permitted under applicable law and the ADHS contract. A member may direct that the Mercy Maricopa pay any or all of such interim (pre-dissolution) distributions to an assignee of the member's membership interest or to a person or entity to which the member has assigned some or all of its right to distributions. The by-laws also provide that SCHN will serve as the managing member of Mercy Maricopa.

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

Mercy Maricopa 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 Regional Behavioral Health Authority (RBHA) to coordinate the delivery of health care services to eligible persons in Maricopa County, Arizona. Mercy Maricopa was initially funded through a $30 million capital contribution from SCHN and $5 million from District. For financial reporting purposes, Mercy Maricopa is consolidated with SCHN beginning in 2013 due to control through means of the membership agreement.

On March 25, 2013, Mercy Maricopa was awarded a $3 billion three year contract with the Arizona Department of Health Services (ADHS) covering the geographical service area (GSA) of Maricopa County. This new contract was to take effect October 1, 2013; however, the prior contract holder filed a legal challenge and requested and received a stay order requiring the contract to remain with the prior contract holder until the legal challenge has been decided. Management cannot predict the ultimate outcome of this uncertainty. No amounts have been accrued as of June 30, 2013 related to this matter. The Mercy Maricopa contract expires September 30, 2016 and has two optional one year extensions.

Mercy Maricopa has entered into a management agreement with Aetna effective May 1, 2013, which automatically renews for successive one-year periods for five years. Under the terms of the agreement, Mercy Maricopa 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 Mercy Maricopa. No management fees have been paid to Aetna by Mercy Maricopa as of June 30, 2013. Concurrent with the management agreement, Mercy Maricopa executed a letter of agreement that remains in effect until the one year anniversary of the earliest to occur of the date the ADHS award is rescinded or termed, the date Mercy Maricopa and Aetna amend the management agreement or the start date of the ADHS contract. Under the terms of the letter of agreement, Aetna will assume the costs incurred by Mercy Maricopa in pursuit of any protest filed in connection with the ADHS contract and any defense thereof. In addition, Aetna will pay for certain implementation costs, as defined in the letter of agreement, to cover employee salary and benefit costs and general and administrative expense incurred as start-up expenses. Upon termination of the letter of agreement, Mercy Maricopa shall reimburse Aetna an amount equal to the lesser of the implementation costs incurred or $20,000,000. Aetna will not incur implementation costs in excess of $4,000,000 increments without the prior written consent of Mercy Maricopa. At June 30, 2013, amounts due to Aetna were $1,960,071 relating to implementation costs.

The significant accounting policies followed by SCHN and Mercy Maricopa, collectively referred to in these consolidated financial statements as the "Company", are summarized below:

Consolidation policy - The consolidated financial statements include the accounts of SCHN and Mercy Maricopa. The Company reports noncontrolling interests in consolidated entities as a component of the Due to District, separate from the Company's net assets. For purposes of consolidation, all significant inter-company balances and transactions have been eliminated.

Basis of presentation - The accompanying consolidated financial statements have been prepared in accordance with FASB ASC 954-205, *Health Care Entities – Presentation of Financial Statements*. The Company's consolidated 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 its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As of June 30, 2013 and 2012, there were no temporarily restricted or permanently restricted net assets.

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

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, HCG, DDD and ALTCS contracts include a risk band whereby SCHN and the AHCCCS programs share in the profits and losses of the contract, as defined in the respective contracts (reconciliation revenue). SCHN has recorded an estimate of the reconciliation revenue, within capitation premiums, based on the operational performance of the AHCCCS Acute, HCG, DDD and ALTCS lines of business. The Plan may recover certain losses for those cases eligible for reinsurance payments. Medicare Advantage capitation premiums received in the month prior to enrollee coverage are deferred and recognized in revenue in the succeeding month. During fiscal years 2013 and 2012, the Plan received approximately $0 and $25,360,000, respectively, of Medicare Advantage capitation premiums related to future enrollee coverage. Accordingly, these funds are included in deferred capitation revenue in the accompanying consolidated statements of financial position.

Capitation is paid prospectively as well as for prior period coverage (PPC). The PPC period is from the first day of the month of member's application to the time of enrollment with a contracted health plan. The risk under PPC is shared by both the Plan and AHCCCS for the contract years ending September 30, 2013 and 2012. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year.

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

- Acute Prospective
- Title XIX Waiver Group Prospective
- Acute Prior Period Coverage
- ALTCS Prior Period Coverage
- DDD
- Health Care Group Risk Based Performance
- Home and Community Based Services
- Share of Cost

Reconciliation balances are stated at the amount management expects to collect or pay. As of June 30, 2013, the Plan recorded a reconciliation receivable of approximately $16,491,000 and a reconciliation payable of approximately $17,110,000. As of June 30, 2012, the Plan recorded a reconciliation receivable of approximately $11,439,000 and a reconciliation payable of approximately $31,705,000. Reconciliation receivable and payable amounts pertaining to separate contracting agencies cannot be offset against reconciliation receivable and payable balances of a different contracting agency, and as such, amounts have been presented separately as a payable and receivable balance on the accompanying consolidated statements of financial position. 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 reconciliation receivables. At June 30, 2013 and 2012, reconciliation receivables were net of an allowance for doubtful accounts of approximately $6,014,000 and $3,197,000, respectively.

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

Delivery supplemental revenue - Delivery supplemental revenue is reimbursement from AHCCCS intended to cover the expenses related to deliveries. Such premiums are recognized in the month that services are rendered. The Plan earned approximately $60,227,000 and $57,286,000 of this supplemental revenue in fiscal 2013 and 2012, respectively.

HIV-AIDS supplemental revenue - HIV-AIDS supplemental revenue is reimbursement DDD intended to help defray the costs of HIV/AIDS drugs. Such premiums are recognized in the month that services are rendered. Effective October 1, 2011 DDD discontinued the HIV-AIDS supplemental revenue. The Plan earned approximately $0 and $31,000 of this supplemental revenue in fiscal years 2013 and 2012, respectively.

Reinsurance revenue - 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. SCHN contracts with a commercial reinsurer to provide reinsurance for the Medicare Advantage Plan. Reinsurance revenue is stated at the actual and estimated amounts due to SCHN pursuant to the AHCCCS Acute, DES/DDD, HCG, ALTCS and Medicare Advantage Plan contracts. Below are the reinsurance thresholds by line of business:

Line of Business	Annual Deductible Effective October 1, 2012	Annual Deductible Effective October 1, 2011	Coinsurance
AHCCCS Acute – Prospective Only	$ 20,000	$ 20,000	75%
Title XIX Waiver Group – Prospective Only	20,000	20,000	75
DES/DDD	20,000	20,000	75
ALTCS w/Medicare	20,000	20,000	75
ALTCS w/o Medicare	30,000	30,000	75

Line of Business	Annual Deductible Effective July 1, 2012	Annual Deductible Effective July 1, 2011	Coinsurance
HCG – Effective July 1, 2012 and 2011	$ 225,000	$ 225,000	90%

Line of Business	Annual Deductible Effective January 1, 2012	Annual Deductible Effective January 1, 2011	Coinsurance
Medicare Advantage – effective January 1, 2013 and 2012	$ 750,000	$ 750,000	90%

(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 revenue is recorded based on actual billed reinsurance claims adjusted for medical cost completion factors and SCHN's historical collection experience. Reinsurance revenue 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 revenue 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 Plan for certain enrollees whose qualifying medical expenses paid by the Plan 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 receivable. At June 30, 2013 and 2012, reinsurance receivable was net of an allowance for doubtful accounts of approximately $4,483,000 and $6,496,000, respectively.

Cash and cash equivalents - Cash includes cash deposits in banks and cash equivalents. SCHN 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).

Pharmacy receivable - SCHN receives rebates from pharmaceutical companies based on the volume of drugs purchased. SCHN records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the years ended June 30, 2013 and 2012, health care expenses were reduced by approximately $7,768,000 and $10,907,000 of rebates, respectively. At June 30, 2013 and 2012, management believes these receivables are 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 SCHN 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. SCHN 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. 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 third party liability receivable. At June 30, 2013 and 2012, third party liability receivable was net of an allowance for doubtful accounts of approximately $1,717,000 and $1,601,000, respectively.

Restricted securities - At June 30, 2013, restricted securities consists of U.S. government securities held by a bank required to remain in trust by the State of Arizona, Department of Insurance for the duration of Mercy Maricopa's contract with ADHS. Mercy Maricopa may not make withdrawals on the account without prior approval from the State of Arizona, Department of Insurance.

U.S. government securities have readily determinable fair values which are based on quoted market prices and are classified as level 1 investments within the fair value hierarchy. The purchases and sales of restricted securities are recorded on a trade-date basis. Interest is recognized on the accrual basis.

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

Capitalized software costs - Research and development costs are charged to expense as incurred. However, the costs incurred for the development or purchases of computer software that relate to the implementation of the claims processing system are capitalized when technological feasibility has been established. These capitalized costs are subject to an ongoing assessment of recoverability based on anticipated useful lives and changes in hardware and software technologies. Costs that are capitalized include direct labor and related overhead.

Amortization of capitalized software development costs begins when the product is available for release and installation. Amortization is provided on a straight-line method over periods not exceeding five to seven years. Unamortized capitalized software development costs determined to be in excess of net realizable value of the product is expenses immediately. In 2013, a project was initiated for Mercy Maricopa. Capitalized software cost totaled $762,000 and $0 at June 30, 2013 and 2012 respectively. There was no amortization expense for the years ended June 30, 2013 or 2012 or accumulated amortization on capitalized software costs at June 30, 2013 or 2012 as the project was not available for release and installation. The total project cost is estimated at $3,100,000.

Provider advances - Upon request, SCHN 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 allowance and a credit to provider advances receivable. At June 30, 2013 and 2012, provider advance receivables were net of an allowance for doubtful accounts of approximately $2,323,000 and $1,797,000, respectively.

Investments - Investments are recorded in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities* and FASB ASC 958-325, *Not-for-Profit Entities Investments – Other.* Under FASB ASC 958-320 and FASB ASC 958-325, 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. SCHN's investment portfolio is managed by professional investment managers within guidelines established by SCHN'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 consolidated financial statements.

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- and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Accrual of income has not been suspended for any bonds or mortgage loans during the years ended June 30, 2013 and 2012. The Company has a policy to review and identify investments with declines in value that would be considered to be other-than-temporary. Such other-than-temporary declines, if significant, are accounted for as realized losses (See Note 3).

Rural Hospital Impatinet Fund

A.R.S. § 36-2905.02. Inpatient reimbursement; rural hospitals; definition
A.A.C. R9-22-712.07

Check status of hospital beds - PPS beds
Calculate according Rules

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

Risk share settlement - The risk share settlement represents expected payments to be paid to or received from CMS in connection with the pharmacy component of Medicare Advantage. 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 consolidated statements of activities and changes in net assets. The pharmacy risk share settlement for calendar year 2013 and 2012, recorded at June 30, 2013, is expected to be finalized in late 2014 and 2013, respectively.

Health Care Group - medical loss ratio reconciliation - Effective January 1, 2011, HCG issued an amendment to its contract to include a provision for application of Plan operating profits over six percent (6%) to any outstanding reconciliation receivable balance. If the annual operating profit for SCHN exceeds six percent (6%), the amount in excess shall be applied to reduce the reconciliation receivable balance. The amount used to reduce the reconciliation receivable balance for fiscal 2013 and 2012 was approximately $2,157,000 and $2,187,000, respectively. At June 30, 2013, no reconciliation receivable balance from HCG remained as the amount was repaid in full in 2013.

Premium deficiency reserve - SCHN evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within medical claims payable on the consolidated statement of financial position. As of June 30, 2013 and 2012, no premium deficiency reserve was considered necessary.

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 to SCHN.

The estimate for unreported services 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 consolidated statements of activities and changes in net assets in each period when necessary. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. There is at least a reasonable possibility that the recorded estimates will change by a material amount, in the near future.

Management's use of estimates - The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include reconciliation receivables/payables, risk share settlements, the allowances for doubtful accounts and the estimate for medical claims payable.

Premium taxes - SCHN is subject to a 2% tax on all payments received from AHCCCS for premiums, reinsurance, and reconciliations.

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

Income taxes - SCHN 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 consolidated financial statements. Mercy Maricopa intends to apply for its tax exempt status under Section 501(c)(3) of the Code prior to February 2015. There can be no assurance that Mercy Maricopa will be granted tax exempt status. The accompanying financial statements have been prepared assuming Mercy Maricopa will be granted tax exempt status. Income determined to be unrelated business taxable income (UBTI) would be taxable.

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty 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. SCHN and Mercy Maricopa evaluate their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax flings, and discussions with outside experts. At June 30, 2013 and 2012, SCHN and Mercy Maricopa did not have any uncertain tax positions.

SCHN's Federal Exempt Organization Business Income Tax Returns (Form 990) for 2010, 2011, and 2012 are subject to examination by the IRS, generally for the three years after they were filed. Mercy Maricopa will file its Form 990 and will be subject to examination by the IRS generally for three years after the return has been filed. As of the date of this report, the fiscal 2013 tax returns had not yet been filed.

Performance indicator - The consolidated statement of activities includes the performance indicator operating income. The performance indicator excludes nonoperating income (expense) and net unrealized investment gains (losses), which is consistent with industry practice.

Recent accounting pronouncement - In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") *"Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards."* ASU 2011-04 provides a consistent definition of fair value to ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 does not extend the use of fair value, but rather provides additional disclosure guidance about the application of fair value in those areas where fair value is already required or permitted, especially for Level 3 fair value measurements. ASU 2011-04 is effective for the first reporting period beginning after December 15, 2011. The Company adopted ASU 2011-04 during 2013. There was no significant impact on the consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-06 ("ASU 2013-06") *"Not-for-Profit Entities (Topic 958) Services Received from Personnel of an Affiliate."* ASU 2013-06 requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. ASU 2013-06 is effective for the first reporting period beginning after June 15, 2014. The Company is evaluating the impact adoption of ASU 2013-06 will have on its consolidated financial statements.

Subsequent events - The Company has evaluated subsequent events through October 28, 2013, which is the date the consolidated financial statements were available to be issued. See Note 9 for contract extensions.

(2) Reconciliation

Reconciliation balances are recorded as a net receivable or payable on the consolidated statement of financial position by line of business. Prior to June 30, 2013, HCG was recorded as a short term/long term receivable. During 2013, the HCG reconciliation receivable was repaid in full. A summary of the balances by line of business for the years ended June 30 are as follows (in thousands):

	2013		2012	
	Reconciliation Receivable	Reconciliation Payable	Reconciliation Receivable	Reconciliation Payable
Acute	$ 16,300	$ 14,453	$ 8,086	$ 24,592
ALTCS	6,205	75	3,535	-
DDD	-	2,582	-	7,113
HCG	-	-	3,015	-
Total	22,505	17,110	14,636	31,705
Allowance for doubtful accounts	(6,014)	-	(3,197)	-
Total, net	16,491	17,110	11,439	31,705
Less current portion	(16,491)	(17,110)	(9,737)	(31,705)
Non-current portion	$ -	$ -	$ 1,702	$ -

(3) Investments

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

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Short-term:				
Marketable equity securities	$ 3,829	$ 3,829	$ 26,353	$ 26,353
Corporate bonds	1,517	1,431	12,415	11,917
	5,346	5,260	38,768	38,270
Long-term:				
Marketable equity securities	62,298	75,066	67,296	71,366
U.S. Government securities	11,667	11,648	16,892	16,953
Corporate bonds	59,600	61,122	55,114	57,227
Mortgage-backed securities	16,021	15,887	12,387	12,563
Preferred securities	2,268	2,426	1,551	1,810
	151,854	166,149	153,240	159,919
	$ 157,200	$ 171,409	$ 192,008	$ 198,189

Investment income for the years ended June 30 is comprised of the following (in thousands):

	2013	2012
Revenue (included in nonoperating investment income):		
Interest and dividend income	$ 5,051	$ 5,397
Realized gains on investments	6,326	3,849
	$ 11,377	$ 9,246

(3) Investments (continued)

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the years ended June 30, 2013 and 2012, 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, 2013 (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	$ -	$ -	$ 4,345	$ 31	$ 4,345	$ 31
Marketable equity securities	-	-	8,832	460	8,832	460
Corporate bonds	952	90	30,897	525	31,849	615
Mortgage-backed securities	-	-	14,393	162	14,393	162
Preferred securities	-	-	1,308	56	1,308	56
Total	$ 952	$ 90	$ 59,775	$ 1,234	$ 60,727	$ 1,324

The following table summarizes the unrealized losses on investments held at June 30, 2012 (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	$ -	$ -	$ 9,085	$ 8	$ 9,085	$ 8
Marketable equity securities	-	-	21,476	3,229	21,476	3,229
Corporate bonds	11,038	504	14,827	322	25,865	826
Mortgage-backed securities	-	-	2,969	4	2,969	4
Preferred securities	-	-	-	-	-	-
Total	$ 11,038	$ 504	$ 48,357	$ 3,563	$ 59,395	$ 4,067

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

(4) Fair value measurements

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

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2013 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
U.S. government securities	$ 11,648	$ -	$ -	$ 11,648
Marketable equity securities				
U.S. large cap	75,066	-	-	75,066
Money market mutual funds	342	-	-	342
Other	3,487	-	-	3,487
Total marketable equity securities	78,895	-	-	78,895
Corporate bonds	62,553	-	-	62,553
Mortgage-backed securities	-	15,887	-	15,887
Preferred securities	2,426	-	-	2,426
Total	$ 155,522	$ 15,887	$ -	$ 171,409

(4) Fair value measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2012 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
U.S. government securities	$ 16,953	$ -	$ -	$ 16,953
Marketable equity securities				
U.S. large cap	71,366	-	-	71,366
Money market mutual funds	17,825	-	-	17,825
Other	8,528	-	-	8,528
Total marketable equity securities	97,719	-	-	97,719
Corporate bonds	69,144	-	-	69,144
Mortgage-backed securities	-	12,563	-	12,563
Preferred securities	1,810	-	-	1,810
Total	$ 185,626	$ 12,563	$ -	$ 198,189

The Company currently has no other financial instruments subject to fair value measurement.

For financial instruments not addressed previously and not reported at fair value, the carrying amounts approximate fair value because of the short maturities of the following: cash and cash equivalents, receivables, provider advances, due from Aetna, risk share settlement, medical claims payable, reconciliation payable, due to Aetna, due to District and other current liabilities.

(5) Medical claims payable

At June 30, 2013 and 2012, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, were approximately $157 million and $148 million, respectively. The balances at June 30, 2013 and 2012 were certified by an actuary. Activity in the liability for medical claims payable and health care expense for the years ended June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Balance at July 1	$ 147,703	$ 166,187
Incurred related to:		
Current year	1,462,233	1,409,642
Prior years	(10,728)	(9,553)
Total incurred	1,451,505	1,400,089
Paid related to:		
Current year	(1,306,929)	(1,267,533)
Prior years	(135,002)	(151,040)
Total paid	(1,441,931)	(1,418,573)
Balance at June 30	$ 157,277	$ 147,703

(5) Medical claims payable (continued)

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 claims unpaid at June 30, 2012 exceeded the actual claims incurred related to fiscal year 2012 and prior by approximately $11 million or 7%. The liability for claims unpaid at June 30, 2011 exceeded the actual claims incurred related to fiscal year 2011 and prior by approximately $10 million or 6%. The primary drivers for favorable claim development include member mix changes, active cost and encounter management, lower than anticipated member utilization, a shift from more costly inpatient and re-admittance utilization to physician office visits, inpatient unit cost reductions related to state-mandated outlier reform, increased speed of claims processing, and an increased initiative to recoup provider overpayments. SCHN continues to incur claims for prior periods. The medical claims payable is adjusted each period end as more information becomes available.

Estimated third-party subrogation included as a reduction to medical and hospital expenses in the accompanying consolidated statements of activities and changes in net assets at June 30, 2013 and 2012 totaled approximately $3,807,000 and $4,523,000, respectively.

(6) Due to District

Due to District consists of $5 million payable to District for initial funding of Mercy Maricopa. Under the terms of the membership agreement, any time after three years from the ADHS contract start date, provided that District has paid the promissory note in full, District may require that Mercy Maricopa purchase the membership interest of District via a put option. The purchase price of District's membership interest shall consist of the initial funding, without interest, and any remaining accrued or deferred distributions (a 15% relative interest). Due to the put option associated with the initial funding, the $5 million net of the change in net assets attainable to District for District's relative interest is classified as a current liability in the accompanying consolidated statement of financial position.

In addition to the initial $5 million, the by-laws stipulate an additional $5 million be paid by District to Mercy Maricopa in the form of a promissory note at an unspecified future point in time. The note matures one year after implementation of the ADHS contract for the GSA of Maricopa County, bears interest at 3% and is unsecured. The note was unfunded at June 30, 2013 and accordingly there is no liability recorded by the organization at that date.

(7) Related party transactions

SCHN paid approximately $48,685,000 in 2013 and $60,185,000 in 2012 to Dignity and approximately $17,479,000 in 2013 and $17,116,000 in 2012 to Carondelet for hospitalization and other medical services provided to its members. These balances include net prospective provider advance payments made to Dignity and Carondelet. At June 30, 2013, provider advances to Dignity and Carondelet amounted to approximately $4,832,000 and $49,000 respectively. At June 30, 2012, provider advances to Dignity and Carondelet amounted to approximately $7,885,000 and $423,000, respectively. During the year ended June 30, 2013 and 2012, SCHN made net asset distributions each year of $20,000,000 and $15,000,000 to both Dignity and Carondelet, respectively. The distributions were approved by AHCCCS.

(8) Commitments and contingencies

Letters of credit - At June 30, 2013 and 2012, SCHN has irrevocable standby letters of credit to satisfy the AHCCCS Acute, DES/DDD and ALTCS general performance bond requirements. Total amounts available are $61,650,000 at June 30, 2013 and 2012. No draws have been made on the letters of credit as of June 30, 2013 and 2012. The letters of credit are collateralized by long-term investments of SCHN totaling approximately $166,149,000 and $159,919,000 at June 30, 2013 and 2012, respectively. The letters of credit are subject to current ratio and days claims outstanding covenants calculated on a quarterly basis.

To meet Medicare requirements, SCHN has entered into demand note agreements dated January 1, 2006 with Dignity and Carondelet which allows SCHN to draw, upon demand, up to a combined maximum amount of $10,000,000. There were no draws on the note agreements as of June 30, 2013 and 2012.

Contract compliance - Under the terms of the AHCCCS and Medicare Advantage (MCA) contracts, SCHN is required to meet certain financial covenants for both AHCCCS and CMS products. As of June 30, 2013 and 2012, SCHN is in compliance with the AHCCCS covenants. At June 30, 2013 and 2012, SCHN meets the MCA financial covenants.

Litigation - Periodically, the Company 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, if any, will not materially affect the Company's consolidated financial position.

On March 25, 2013, Mercy Maricopa was awarded a contract with the Arizona Department of Health Services (ADHS) covering the geographical service area (GSA) of Maricopa County. This new contract is to take effect October 1, 2013; however, the prior contract holder filed a legal challenge and requested and received a stay order requiring the contract to remain with the prior contract holder until the legal challenge has been decided. Mercy Maricopa is currently defending its award at the administrative level against the prior contract holder. The stay could result in a delay to the contract start date. Management cannot predict the ultimate outcome of this uncertainty. No amounts have been accrued at June 30, 2013 related to this matter.

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, 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 the Company 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 premium 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. The Company's consolidated operating results, financial position and cash flows could be adversely impacted by such changes.

(9) Concentration of credit risk

Future contract awards are contingent upon the continuation of the AHCCCS Acute, DES/DDD, HCG, and ALTCS programs by the State of Arizona and SCHN's ability and desire to retain its status as a contractor under these programs. The AHCCCS Acute contract is effective through September 30, 2016, with two additional one year renewal options. The ALTCS contract will expire on September 30, 2014, with two additional one year renewal options. The DES/DDD contract was renewed through September 30, 2013. The HCG contract is effective through December 31, 2013. The Medicare Advantage contract is renewed annually by CMS. Failure to renew these contracts could have a significant impact on operations.

ADDITIONAL INFORMATION

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

We have audited the consolidated financial statements of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate*** as of and for the years ended June 30, 2013 and 2012, and our report thereon dated October 28, 2013, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 - 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information on pages 23 through 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information on pages 21 and 22 are presented for purposes of additional analysis of the 2013 consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position or changes in net assets of the individual entities. The information on pages 21 through 24 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 28, 2013

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2013
(In thousands)

ASSETS

	SCHN	Mercy Maricopa	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 74,137	$ 34,035	$ -	$ 108,172
Short-term investments	5,260	-	-	5,260
Receivables:				
Reinsurance receivables, net of allowance for doubtful accounts of $4,483 for 2013 and $6,496 for 2012	32,556	-	-	32,556
Reconciliation receivables, net of allowance for doubtful accounts of $6,014 for 2013 and $3,197 for 2012	16,491	-	-	16,491
Capitation and supplemental receivables	7,767	-	-	7,767
Pharmacy receivable	4,665	-	-	4,665
Third party liability receivable, net of allowance for doubtful accounts of $1,717 for 2013 and $1,601 for 2012	5,443	-	-	5,443
Interest receivable	893	-	-	893
Provider advances, net of allowance for doubtful accounts of $2,323 for 2013 and $1,797 for 2012	7,949	-	-	7,949
Other receivables	759	-	-	759
Risk share settlement	9,047	-	-	9,047
Prepaid assets	132	-	-	132
TOTAL CURRENT ASSETS	165,099	34,035	-	199,134
RESTRICTED SECURITIES	-	500	-	500
CAPITALIZED SOFTWARE COSTS	-	762	-	762
RISK SHARE SETTLEMENT, less current portion	2,439	-	-	2,439
INVESTMENT IN MMIC	28,586	-	(28,586)	-
LONG-TERM INVESTMENTS	166,149	-	-	166,149
TOTAL ASSETS	$ 362,273	$ 35,297	$ (28,586)	368,984

LIABILITIES AND NET ASSETS

	SCHN	Mercy Maricopa	Eliminations	Consolidated
CURRENT LIABILITIES				
Medical claims payable	$ 157,277	$ -	$ -	$ 157,277
Reconciliation payable	17,110	-	-	17,110
Due to Aetna	1,106	1,960	-	3,066
Due to District	-	4,751	-	4,751
Other current liabilities	9,215	-	-	9,215
TOTAL CURRENT LIABILITIES	184,708	6,711	-	191,419
UNRESTRICTED NET ASSETS	177,565	28,586	(28,586)	177,565
TOTAL LIABILITIES AND NET ASSETS	$ 362,273	$ 35,297	$ (28,586)	$ 368,984

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2013
(In thousands)

	SCHN	Mercy Maricopa	Eliminations	Consolidated
OPERATING REVENUES				
Capitation premiums	$ 1,610,949	$ -	$ -	$ 1,610,949
Delivery/HIV-AIDS supplement	60,227	-	-	60,227
Reinsurance	51,553	-	-	51,553
Other, primarily third party recoveries	3,486	-	-	3,486
TOTAL OPERATING REVENUES	1,726,215	-	-	1,726,215
HEALTH CARE EXPENSES				
Hospitalization	311,576	-	-	311,576
Medical compensation	272,813	-	-	272,813
Ancillary and other medical services	657,954	-	-	657,954
Institutional	163,537	-	-	163,537
Home and community based services	150,473	-	-	150,473
TOTAL HEALTH CARE EXPENSES	1,556,353	-	-	1,556,353
GENERAL AND ADMINISTRATIVE EXPENSES	122,924	1,664	-	124,588
PREMIUM TAX EXPENSE	26,924	-	-	26,924
TOTAL EXPENSES	1,706,201	1,664	-	1,707,865
OPERATING INCOME (LOSS)	20,014	(1,664)	-	18,350
NONOPERATING INCOME (EXPENSE)				
Investment income	11,376	1	-	11,377
Investment fees	(1,024)	-	-	(1,024)
Investment income (loss) from MMIC	(1,414)	-	1,414	-
TOTAL NONOPERATING INCOME	8,938	1	1,414	10,353
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS	28,952	(1,663)	1,414	28,703
UNREALIZED GAINS ON INVESTMENTS	8,029	-	-	8,029
CHANGE IN NET ASSETS PRIOR TO CAPITAL CONTRIBUTIONS, DISTRIBUTIONS AND CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	36,981	(1,663)	1,414	36,732
MEMBER CONTRIBUTIONS	-	30,000	(30,000)	-
DISTRIBUTIONS TO SPONSOR ORGANIZATIONS	(40,000)	-	-	(40,000)
CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	-	249	-	249
CHANGE IN NET ASSETS	(3,019)	28,586	(28,586)	(3,019)
NET ASSETS, BEGINNING OF YEAR	180,584	-	-	180,584
NET ASSETS, END OF YEAR	$ 177,565	$ 28,586	$ (28,586)	$ 177,565

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION - SCHN

June 30, 2013
(In thousands)

ASSETS

	Acute	DES/DDD	HCG	ALTCS	Medicare	Total
CURRENT ASSETS						
Cash and cash equivalents	$ 32,538	$ 675	$ 8,933	$ 9,157	$ 22,834	$ 74,137
Short-term investments	(2,280)	888	90	5,823	739	5,260
Receivables:						
Reinsurance receivables, net	19,122	2,012	-	11,422	-	32,556
Reconciliation receivables, net	10,286	-	-	6,205	-	16,491
Capitation and supplemental receivables	1,092	-	-	(169)	6,844	7,767
Pharmacy receivable	1,467	351	80	572	2,195	4,665
Third party liability receivable, net	4,731	23	99	590	-	5,443
Interest receivable	443	53	5	348	44	893
Provider advances, net	2,692	656	214	3,045	1,342	7,949
Other receivables	327	-	-	-	432	759
Risk share settlement	-	-	-	-	9,047	9,047
Prepaid assets	132	-	-	-	-	132
TOTAL CURRENT ASSETS	70,550	4,658	9,421	36,993	43,477	165,099
RISK SHARE SETTLEMENT, less current portion	-	-	-	-	2,439	2,439
CAPITALIZED SOFTWARE COSTS	-	-	-	-	-	-
INVESTMENT IN MMIC	9,086	-	-	17,500	2,000	28,586
LONG-TERM INVESTMENTS	87,216	9,298	939	60,957	7,739	166,149
TOTAL ASSETS	$ 166,852	$ 13,956	$ 10,360	$ 115,450	$ 55,655	$ 362,273

LIABILITIES AND NET ASSETS

	Acute	DES/DDD	HCG	ALTCS	Medicare	Total
CURRENT LIABILITIES						
Medical claims payable	$ 71,196	$ 2,915	$ 496	$ 56,425	$ 26,245	$ 157,277
Reconciliation payable	14,453	2,582	-	75	-	17,110
Deferred capitation revenue	-	-	-	-	-	-
Due to Aetna	1,288	3	51	(170)	(66)	1,106
Other current liabilities	4,171	51	51	1,781	3,161	9,215
TOTAL LIABILITIES	91,108	5,551	598	58,111	29,340	184,708
UNRESTRICTED NET ASSETS	75,744	8,405	9,762	57,339	26,315	177,565
TOTAL LIABILITIES AND NET ASSETS	$ 166,852	$ 13,956	$ 10,360	$ 115,450	$ 55,655	$ 362,273

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - SCHN

Year Ended June 30, 2013
(In thousands)

	Acute	DES/DDD	HCG	ALTCS	Medicare	Total
OPERATING REVENUES						
Capitation premiums	$ 809,088	$ 37,499	$ 7,068	$ 429,869	$ 327,425	$ 1,610,949
Delivery/hospital/HIV-AIDS supplement	60,227	-	-	-	-	60,227
Reinsurance	29,713	1,930	-	19,938	(28)	51,553
Other, primarily third party recoveries	2,925	(97)	137	286	235	3,486
TOTAL OPERATING REVENUES	901,953	39,332	7,205	450,093	327,632	1,726,215
HEALTH CARE EXPENSES						
Hospitalization	183,506	6,523	979	19,698	100,870	311,576
Medical compensation	221,190	4,123	1,388	10,600	35,512	272,813
Ancillary and other medical services	408,000	24,485	2,681	62,624	160,164	657,954
Institutional	-	-	-	163,537	-	163,537
Home and community based services	-	-	-	150,473	-	150,473
TOTAL HEALTH CARE EXPENSES	812,696	35,131	5,048	406,932	296,546	1,556,353
GENERAL AND ADMINISTRATIVE EXPENSES	64,769	3,757	568	25,050	28,780	122,924
PREMIUM TAX EXPENSE	17,882	-	-	9,042	-	26,924
TOTAL EXPENSES	895,347	38,888	5,616	441,024	325,326	1,706,201
OPERATING INCOME	6,606	444	1,589	9,069	2,306	20,014
NONOPERATING INCOME (EXPENSE)						
Investment income	5,637	676	68	4,432	563	11,376
Investment fees	(507)	(61)	(6)	(399)	(51)	(1,024)
Investment in MMIC	(1,414)	-	-	-	-	(1,414)
TOTAL NONOPERATING INCOME	3,716	615	62	4,033	512	8,938
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS ON INVESTMENTS	10,322	1,059	1,651	13,102	2,818	28,952
UNREALIZED GAINS ON INVESTMENTS	3,961	481	42	3,149	396	8,029
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS	14,283	1,540	1,693	16,251	3,214	36,981
DISTRIBUTIONS TO SPONSOR ORGANIZATIONS	(20,000)	-	-	(20,000)	-	(40,000)
CHANGE IN NET ASSETS	(5,717)	1,540	1,693	(3,749)	3,214	(3,019)
NET ASSETS, BEGINNING OF YEAR	81,461	6,865	8,069	61,088	23,101	180,584
NET ASSETS END OF YEAR	$ 75,744	$ 8,405	$ 9,762	$ 57,339	$ 26,315	$ 177,565

See Independent Auditors' Report on Additional Information