

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

Years Ended June 30, 2025 and 2024

# MERCY CARE

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

Years Ended June 30, 2025 and 2024

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

### MERCY CARE

#### Report on the Audit of the Financial Statements

##### *Opinion*

We have audited the financial statements of Mercy Care, which comprise the statements of financial position as of June 30, 2025 and 2024, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Mercy Care as of June 30, 2025 and 2024, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

##### *Basis for Opinion*

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

##### *Responsibilities of Management for the Financial Statements*

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

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

##### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

### ***Supplemental Information***

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of Mercy Care's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mercy Care's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Care's internal control over financial reporting and compliance.

*CBIZ CPAs P.C.*

December 16, 2025

# MERCY CARE

## STATEMENTS OF FINANCIAL POSITION

June 30, 2025 and 2024

(In thousands)

	<b><u>ASSETS</u></b>	
	<b><u>2025</u></b>	<b><u>2024</u></b>
CURRENT ASSETS		
Cash and cash equivalents	\$ 156,910	\$ 380,450
Short-term investments	58,572	87,636
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of \$13,203 and \$10,276 at June 30, 2025 and 2024, respectively	68,387	28,463
Reconciliation receivables	122,932	67,085
Capitation and supplemental receivables	33,280	34,658
Pharmacy rebate receivable	29,432	26,284
Third party liability receivable, net of allowance for doubtful accounts of \$2,243 and \$702 at June 30, 2025 and 2024, respectively	6,549	5,806
Interest receivable	1,418	2,985
Provider advances, net of allowance for doubtful accounts of \$2,843 and \$1,219 at June 30, 2025 and 2024, respectively	11,160	20,069
Other receivables	30,090	32,910
Grant receivable	2,069	4,148
Due from Aetna receivable	38,693	2,529
Prepaid assets	860	862
TOTAL CURRENT ASSETS	560,352	693,885
RECONCILIATION RECEIVABLES, net of current portion	65,055	39,392
LONG-TERM INVESTMENTS	412,399	541,941
TOTAL ASSETS	<u>1,037,806</u>	<u>1,275,218</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
CURRENT LIABILITIES		
Claims payable	357,064	339,074
Payable to providers	28,555	182,057
Reconciliation payables	50,371	148,786
Grant payables	965	2,485
Due to Aetna	4,443	12,320
Deferred revenue	187	1,182
Other current liabilities	19,182	19,482
TOTAL CURRENT LIABILITIES	460,767	705,386
RECONCILIATION PAYABLE, net of current portion	-	1,323
TOTAL LIABILITIES	460,767	706,709
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>577,039</u>	<u>568,509</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,037,806</u>	<u>\$ 1,275,218</u>

See Notes to Financial Statements

# MERCY CARE

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2025 and 2024  
(In thousands)

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Capitation premiums	\$ 4,428,854	\$ 4,472,586
Delivery supplement	46,226	47,560
Grants	175,398	179,562
Reconciliations	150,493	59,462
Other, net	521	614
TOTAL OPERATING REVENUES	<u>4,801,492</u>	<u>4,759,784</u>
HEALTH CARE EXPENSES		
Hospitalization	503,503	459,355
Medical compensation	554,617	507,855
Ancillary and other medical services	2,937,007	2,828,608
Institutional	271,766	264,698
Home and community based services	298,630	297,356
Less: net third party liability recoveries	(8,174)	(7,126)
Less: net reinsurance recoveries	(110,695)	(92,400)
TOTAL HEALTH CARE EXPENSES	<u>4,446,654</u>	<u>4,258,346</u>
GENERAL AND ADMINISTRATIVE EXPENSES	297,540	337,194
PREMIUM TAX EXPENSE	<u>93,766</u>	<u>91,808</u>
TOTAL EXPENSES	<u>4,837,960</u>	<u>4,687,348</u>
OPERATING INCOME (LOSS)	<u>(36,468)</u>	<u>72,436</u>
NONOPERATING INCOME (EXPENSE)		
Investment income	77,296	49,969
Investment fees	(2,000)	(2,099)
Community reinvestment	(4,617)	(6,849)
TOTAL NONOPERATING INCOME	<u>70,679</u>	<u>41,021</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS	34,211	113,457
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	<u>(25,681)</u>	<u>37,045</u>
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS	8,530	150,502
DISTRIBUTION TO SPONSOR ORGANIZATIONS	-	(60,000)
NET ASSETS, BEGINNING OF YEAR	<u>568,509</u>	<u>478,007</u>
NET ASSETS, END OF YEAR	<u>\$ 577,039</u>	<u>\$ 568,509</u>

See Notes to Financial Statements

# MERCY CARE

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2025 and 2024

(In thousands)

	<u>2025</u>	<u>2024</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,530	\$ 150,502
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	(6,092)	(1,296)
Net unrealized (gains) losses on investments	25,681	(37,045)
Net realized gains on investments	62,026	20,660
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	(62,660)	(5,266)
Reconciliation receivables	(55,847)	(17,442)
Capitation and supplemental receivables	1,378	4,973
Pharmacy rebate receivable	(3,148)	(857)
Third-party liability receivable	798	(195)
Interest receivable	1,567	(246)
Provider advances	10,533	(12,650)
Other receivables	2,820	(10,218)
Due from Aetna	(36,164)	(865)
Grant receivable	2,079	2,148
Prepaid assets	2	(33)
Increase (decrease) in:		
Claims payable	17,990	(23,898)
Grant payable	(1,520)	486
Payable to providers	(153,502)	153,456
Reconciliation payable	(99,738)	(235,504)
Due to Aetna	(7,877)	(72,028)
Deferred revenue	(995)	(44,520)
Other current liabilities	(300)	(8,423)
Net cash used in operating activities	<u>(294,439)</u>	<u>(138,261)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(367,610)	(341,090)
Proceeds from sale of investments	438,509	299,296
Net cash provided by (used in) investing activities	<u>70,899</u>	<u>(41,794)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions to Sponsor Organizations	-	(60,000)
Net cash used in financing activities	<u>-</u>	<u>(60,000)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(223,540)	(240,055)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>380,450</u>	<u>620,505</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 156,910</u>	<u>\$ 380,450</u>

See Notes to Financial Statements

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

- AHCCCS Complete Care (ACC) (effective October 1, 2018) – Integrated physical and behavioral healthcare for members eligible under Title XIX Medicaid and Title XXI program requirements
- Arizona Long Term Care System (ALTCs) - Provide institutional care, home and community-based services and behavioral health services to long-term care members
- Arizona Department of Economic Security, Division of Developmental Disabilities (DES/DDD) - provide medical services to eligible members
- Regional Behavioral Health Agreement (RBHA) - behavioral healthcare services to Medicaid eligible adults with serious mental illness
- Department of Child Services (DCS), Comprehensive Health Plan (CHP) (effective April 1, 2021) – integrated physical and behavioral health for children in foster care eligible under Title XIX Medicaid and Title XXI program requirements

In July 2020, Mercy Care was chosen to deliver physical and behavioral healthcare services through the statewide Comprehensive Health Plan. This plan combines physical and behavioral healthcare into a single model for DCS members, utilizing principles from the AHCCCS Complete Care program. The model provides integrated care, encourages quality outcomes through value-based purchasing, and incorporates health information technology to support care coordination. Mercy Care began managing the Comprehensive Medical and Dental Plan contract on April 1, 2021. The agreement is for three years and may be extended for up to two additional two-year periods and three one-year periods, allowing for a total term of ten years. Mercy Care is currently in the first two-year extension period.

In March 2018, Mercy Care was selected to deliver both physical and behavioral healthcare services as part of the AHCCCS Complete Care program in Arizona’s Central and South regions. The AHCCCS Complete Care initiative integrates physical and behavioral health services within managed care plans for the majority of AHCCCS members. This integrated model fosters a more unified healthcare system by promoting quality outcomes through value-based purchasing and advanced health information technology for enhanced care coordination. Furthermore, combining physical and behavioral health contracts is expected to advance strategic and innovative healthcare initiatives. The Plan commenced operating under the Complete Care contract on October 1, 2018, while also fulfilling the remaining RBHA contract with AHCCCS to provide comprehensive health services to individuals with serious mental illness and other designated populations in Maricopa County through September 30, 2022.

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



# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

Effective October 1, 2022, the AHCCCS Complete Care program was superseded by the Comprehensive Contractual Entity (CCE), which now encompasses all RBHA services. This new agreement consolidates the previous AHCCCS Complete Care and RBHA contracts, providing integrated services for a five-year period ending September 30, 2027. In conjunction with the launch of the Complete Care contract, Mercy Care transferred a 0.5% nonvoting interest in the Plan to Equality Health Foundation in exchange for a \$1.5 million promissory note, which has since been fully repaid.

Mercy Care administers a Medicare Advantage plan in partnership with the Centers for Medicare & Medicaid Services (CMS), providing comprehensive medical and prescription drug benefits to eligible members. The Medicare Advantage plan functions as a special needs plan in accordance with CMS regulations. This coverage is specifically designed for individuals who qualify for both Medicare and Medicaid services.

Effective December 31, 2025, Mercy Care will end its capitated contract with DentaQuest for all dental services for all members and will transition to Liberty Dental effective January 1, 2026.

Since 2007, Mercy Care has maintained a plan management services agreement with Aetna, which succeeded a prior agreement with Schaller Anderson, L.L.C. dating back to 2001. The most recent contract commenced on July 1, 2022, and will remain in effect until the expiration or termination of the ACC contract with AHCCCS, or through September 30, 2028, whichever occurs first. Additionally, Mercy Maricopa Integrated Care ("MMIC") entered into a five-year management agreement with Aetna effective May 1, 2013; this agreement was assumed by Mercy Care following the merger of MMIC into Mercy Care on July 1, 2018.

The RBHA management agreement automatically renews for a second five-year term and subsequent one-year periods. A new agreement encompassing both RBHA and DCS contracts became effective July 1, 2022, for an initial period of six years through June 30, 2028, with provisions for automatic renewal in successive three-year terms. This agreement replaced the previous MMIC management agreement with Aetna, originally effective May 1, 2013, which Mercy Care had also assumed upon the aforementioned merger.

Any addition of New Service Lines will require a written amendment specifying the Base Monthly Management Fee and any other necessary adjustments, including relevant Performance Metrics. In accordance with these agreements, Mercy Care pays Aetna a monthly fee to cover employee salaries, benefits, as well as general and administrative expenses associated with organizational operations.

For the fiscal years ended June 30, 2025 and June 30, 2024, Mercy Care recorded management fees of approximately \$296,444,000 and \$290,875,000, respectively. These amounts are included within general and administrative expenses in the accompanying statements of activities and changes in net assets. As of June 30, 2025 and 2024, the net management fees payable to Aetna were approximately \$646,000 and \$1,867,000, respectively, and are reported as part of the net Due to and Due from Aetna balances in the accompanying statements of financial position.

Mercy Care's management agreement establishes a risk-sharing arrangement based on operational outcomes. If the Plan achieves at least 1.25% in operational revenue, any surplus income is contingent upon meeting specific performance measures to qualify for the maximum return. Conversely, if the plan does not achieve the minimum net income threshold, performance measures are excluded from the risk share calculation, and the plan bears full responsibility for amounts due from Aetna equal to 50% of operational losses. As of June 30, 2025, the amount Due from Aetna is \$36,469,000, included in the Due from Aetna receivable on the statement of financial position, and as of June 30, 2024, the amount Due to Aetna was \$9,989,000, included in the Due to Aetna on the statement of financial position, representing the risk share associated with the plan's performance not accounted for in management fees.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

**Basis of presentation** - The accompanying financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954-205, *Healthcare Entities - Presentation of Financial Statements*. The Plan’s financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statements*. Under FASB ASC 958-205, the Plan is required to report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of June 30, 2025 and 2024, there were no net assets with donor restrictions.

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

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

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

Capitation is paid prospectively as well as for prior period coverage (PPC) under the AHCCCS ACC-RBHA and ALTCS contracts. The PPC period is the period of time prior to the member’s enrollment, during which a member is eligible for covered services. The timeframe is from the effective date of eligibility to the day a member is enrolled with a contractor. The risk under PPC is shared by both the Plan and AHCCCS for the contract years ended September 30, 2025 and 2024. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

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

Profits that exceed the percentages specified in the contract are recouped by AHCCCS, while losses beyond the contract percentages are paid to the Plan. As of June 30, 2025, the Plan recorded an estimated receivable from AHCCCS of approximately \$185,938,000 and an estimated payable to AHCCCS of approximately \$50,371,000, included in reconciliation receivables and reconciliation payables, respectively, in the accompanying statements of financial position. As of June 30, 2024, the Plan reported an estimated receivable from AHCCCS of approximately \$102,001,000 and an estimated payable to AHCCCS of approximately \$150,109,000, which are also included in reconciliation receivables and payables accordingly. Reconciliation receivable and payable amounts for separate contracts cannot be offset against those of other contracts and are therefore presented separately as payable and receivable balances in the accompanying statements of financial position. Reconciliation receivables and payables are classified as current or noncurrent based on the expected timing of settlement with AHCCCS.

AHCCCS subjects 1% of gross prospective capitation of ACC contractors in Arizona to measurements based on each contractor's performance on selected Quality Management Performance Measures as determined by AHCCCS. The program is an effort to encourage activity for AHCCCS contractors in the area of quality improvement, particularly those initiatives that are conducive to improved health outcomes and cost savings. As of June 30, 2025, and 2024, the Plan anticipates achieving the required targets and accordingly, has not recorded a liability for the performance measures.

Capitation, supplemental, and reconciliation receivables are reported at the amounts anticipated to be collected. An allowance for probable uncollectible amounts is established through a charge to earnings and a credit to a valuation allowance according to the current assessment of individual balances. Any balances remaining after reasonable collection efforts are written off by charging the valuation allowance and crediting the related receivables. As of June 30, 2025 and 2024, these receivables are considered fully collectible; therefore, no allowance for credit losses has been recorded.

Mercy Care derives most of its revenue from contracts with AHCCCS. Operating revenue consists of capitation revenue, which is recognized over the coverage period on a per member basis for eligible individuals. Mercy Care receives a per member fee for all enrolled members, and this amount is recognized as revenue during the month when members are eligible for services. Fees received before the relevant service month are recorded as deferred revenue. Capitation, grant, and other revenues less reconciliation revenue amounted to approximately \$4,651,000,000 and \$4,700,000,000 for the years ended June 30, 2025 and 2024, respectively.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

Mercy Care's contracts include variable consideration components such as risk sharing, or profit corridor arrangements, with AHCCCS for each contract, as well as 1% of capitation that is contingent upon meeting performance measures. These components are closely associated with individual contract performance, and the related estimated variable consideration is determined on a monthly basis utilizing historical trends, contract results, claims activity, and other available operational data. Management recognizes variable consideration in the period in which the estimate is established, provided that a significant reversal of the estimate is not deemed probable. As of June 30, 2025 and 2024, management has recorded estimated receivables and payables relating to AHCCCS and CMS risk share, or profit corridor reconciliations, given that a significant reversal of these estimates is not considered likely.

*Grant Revenue* – The RBHA contract is partially funded through state, county, and block grants (non-title revenue), which are allocated as annual appropriations. Mercy Care recognizes revenue under the RBHA contract from these sources on a ratable basis over the applicable funding period. The Plan adopted ASU No. 2018-08, Not-For-Profit Entities (Topic 958), effective July 1, 2019. ASU 2018-08 provides clarification regarding the classification of grants and similar governmental contracts as either reciprocal (exchange) or nonreciprocal (contribution) transactions. In alignment with this guidance, Mercy Care has determined that all grant funding received from AHCCCS constitutes nonreciprocal transactions, thereby appropriately classified as contributions. The ASU also offers further delineation between conditional and unconditional contributions. The Plan assesses incoming contributions for the presence of measurable barriers to entitlement or any right of return to AHCCCS. Revenue related to conditional grant funds is recognized when relevant barriers have been overcome, while revenue from unconditional grant funds is recognized ratably over the associated funding period. For the years ended June 30, 2025 and 2024, non-title revenues, including block grants and other sources, amounted to approximately \$174,870,000 and \$176,041,000, respectively. Under the terms of its agreements with AHCCCS, Mercy Care identified grant revenue subject to conditions totaling \$17,747,000 and \$18,715,000 for the years ended June 30, 2025 and 2024, respectively. Mercy Care has verified that all conditions for recorded revenue have been satisfied as of June 30, 2025 and 2024.

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 \$187,000 and \$1,182,000 at June 30, 2025 and 2024, respectively.

*Delivery supplement* - Under the AHCCCS ACC contract, capitation premiums are supplemented with lump-sum payments for births to women eligible through the Medicaid program. The delivery supplement is recorded when the childbirth occurs as reimbursement for delivery costs. Beginning October 1, 2022, the AHCCCS rate was adjusted from \$6,600 to \$7,200 per birth. Delivery revenue of approximately \$46,226,000 and \$47,560,000 was recognized for the years ended June 30, 2025 and 2024, respectively. As of June 30, 2025, and 2024, approximately \$766,000 and \$915,000 respectively, was due from AHCCCS related to delivery supplement which is included in capitation and supplemental receivables in the accompanying statements of financial position.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

**Reinsurance** – AHCCCS, DES/DDD, and DCS/CHP administer a stop-loss reinsurance program for the Plan, offering partial reimbursement for reinsurable covered medical services incurred by members. This program features a deductible that varies according to the Plan's enrollment and the eligibility category of the members. Reimbursements to the Plan by AHCCCS, DES/DDD, and DCS/CHP are determined based on a coinsurance amount for reinsurable covered services exceeding the deductible. Additionally, Mercy Care secures reinsurance for the Medicare Advantage Plan through agreements with commercial reinsurers. Reinsurance recoveries are reported at actual and estimated amounts due to Mercy Care under the terms of AHCCCS ACC-RBHA, ALTCS, DES/DDD, DCS/CHP, and Medicare Advantage Plan contracts. These recoveries have been offset against healthcare expenses in the accompanying statements of activities and changes in net assets.

Below are the reinsurance thresholds by line of business:

<u>Line of Business</u>	<u>Annual Deductible Effective October 1, 2024</u>	<u>Annual Deductible Effective October 1, 2023</u>	<u>Coinsurance</u>
ACC-RBHA	\$ 150,000	\$ 150,000	75%
DES/DDD	150,000	150,000	75%
DCS/CHP	150,000	150,000	75%
ALTCS w/ Medicare	150,000	150,000	75%
ALTCS w/o Medicare	150,000	150,000	75%

  

<u>Line of Business</u>	<u>Annual Deductible Effective January 1, 2025</u>	<u>Annual Deductible Effective January 1, 2024</u>	<u>Coinsurance</u>
Mercy Care Medicare Advantage	\$ 900,000	\$ 900,000	90%

To qualify for reinsurance billing, eligible healthcare expenses must be incurred within the specified contract year. Reinsurance is recognized based on actual billed claims, adjusted for medical cost completion factors and historical collection data. The recorded amounts are subject to review by AHCCCS, DES/DDD, DCS/CHP, and the Medicare Advantage Plan's commercial reinsurer. Consequently, there remains a reasonable possibility that the reported reinsurance figures may undergo material changes in the near term.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, DCS/CHP and the Medicare Advantage Plan's commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by Mercy Care were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. At June 30, 2025 and 2024, gross reinsurance receivables totaled approximately \$81,590,000 and \$38,739,000, respectively. Mercy Care also had an allowance for credit losses of approximately \$13,203,000 and \$10,276,000 at June 30, 2025 and 2024, respectively.

**Pharmacy rebate receivable** - The Plan receives rebates from pharmaceutical companies based on drug purchase volume. A receivable and a reduction of healthcare expenses are recorded for estimated rebates due, calculated from purchase data. For the years ended June 30, 2025 and 2024, healthcare expenses were reduced by approximately \$34,611,000 and \$42,599,000 for rebates, respectively. As of June 30, 2025 and 2024, pharmacy rebates receivable was approximately \$29,432,000 and \$26,284,000, respectively. Management has determined that the pharmacy rebate receivable at June 30, 2025 and 2024 is fully collectible, so no allowance has been established.

**Third-party liability receivable** - In situations such as motor vehicle accidents and worker's compensation claims, a third-party insurer may be responsible for paying a claim. When Mercy Care processes claims for its members and identifies that a third-party insurance company holds ultimate responsibility, it records a receivable and seeks reimbursement from the third-party insurer. Mercy Care utilizes an asset recovery company to manage collections of these receivables. Third-party liability receivables are reported at amounts management expects to recover, with comparisons made to annual recoveries received. Recovery rates are updated regularly and verified by the vendor. As of June 30, 2025 and 2024, gross third-party liability receivables were approximately \$8,792,000 and \$6,508,000, respectively. Allowances for credit losses were approximately \$2,243,000 and \$702,000 at June 30, 2025 and 2024, respectively.

**Provider advances** - Mercy Care may provide advances to high-volume providers upon request, depending on cash flow needs and claims payment schedules. These advances are recorded at amounts expected to be collected or offset against future claims and do not accrue interest. Advances are typically settled within 12 months. Management records allowances for probable uncollectible amounts by charging earnings and crediting a valuation allowance, based on current assessments of individual balances. Outstanding balances after reasonable collection efforts are written off by charging the valuation allowance and crediting provider advances receivable.

On February 21, 2024, Change Healthcare (CHC), a subsidiary of Optum, experienced a cyber-attack that rendered its systems offline. A significant portion of the Mercy Care provider network uses CHC as their claims clearinghouse and for weekly claim payment processing. In response to anticipated disruption in health care transactions, Mercy Care issued provider advances totaling approximately \$64,700,000 during March and April 2024. Each advance was documented with an executed agreement outlining repayment terms, and those exceeding \$50,000 received AHCCCS approval. According to the agreements, providers had 30 days from the resumption of claim submissions to refund the advances to Mercy Care. Providers were notified on April 15, 2024, to complete repayment by May 15, 2024; otherwise, the advance amount would be recouped from future claim payments. As of June 30, 2025, approximately \$64,306,000 had been collected. Management expects full recovery of all remaining advances, so no additional allowances were recorded. At June 30, 2025 and 2024, gross provider advances receivable were approximately \$14,003,000 and \$21,288,000, respectively. Allowances for credit losses related to provider advances, but unrelated to CHC advances, were approximately \$2,843,000 and \$1,219,000 at June 30, 2025 and 2024, respectively.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

**Risk share settlement** – The risk share settlement receivable pertains to the CMS risk adjustment for Medicare Advantage (Medicare Part C) enrollees. Each year, CMS conducts a risk adjustment based on health status indicators to align payments with the health acuity of members. This process creates incentives for plans to enroll and treat Medicare beneficiaries with varying health conditions. Management estimates the potential impact from the CMS rate risk adjustment on the Plan's enrolled population for each contract year. As of June 30, 2025, and 2024, the Plan has recorded estimated current receivables from CMS of approximately \$8,509,000 and \$8,713,000, respectively, which are included in capitation and supplement receivables in the accompanying statements of financial position. Risk share settlement receivables at June 30, 2025 and 2024 are regarded by management as fully collectible, so an allowance for credit losses has not been recorded.

Management estimates the expected risk share settlements to be paid to or received from CMS in relation to the pharmacy component of Medicare Advantage and Medicare Part D. This balance is reviewed and updated by management as additional experience is gained or new information is obtained. Adjustments are reflected net against capitation premiums on the statements of activities and changes in net assets. Net amounts recorded under this program were approximately \$7,748,000 and \$3,417,000 for the years ended June 30, 2025 and 2024, respectively, and are presented as capitation premiums in the accompanying statements of activities and changes in net assets. As of June 30, 2025, the Plan recorded a receivable of \$8,947,000 for Medicare Part D settlements related to contract year 2024, and \$936,000 related to contract year 2025, both of which are included in capitation receivable in the accompanying statement of financial position, resulting in an estimated total receivable from CMS of approximately \$9,883,000.

The settlement for contract year 2023 was finalized in December 2025 with CMS paying Mercy Care approximately \$9,359,000. As of June 30, 2025, \$2,133,000 of the Medicare Part D estimated settlements connected to contract year 2018 were determined to be not recoverable based on recent communication with CVS, leading to the removal of the long-term reconciliation receivable.

AHCCCS periodically reviews Medicaid program rates for enrollees and evaluates the appropriateness of the applied rates for services provided to those enrollees. Risk adjustment of capitation payments modifies contractor revenue according to the health status of their covered population compared to the average health status of the overall population. To assess the impact on capitation rates for the open contract years, the Plan analyzed the effect of the published rate change for its enrolled populations based on member months during those years. As of June 30, 2025 and 2024, the Plan has not recorded any estimates related to risk adjustment.

**Premium deficiency reserve** - Mercy Care evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within claims payable on the statements of financial position. For the years ended June 30, 2025 and 2024, Mercy Care recorded a premium deficiency reserve of \$1,960,000 and \$1,253,000, respectively for expected losses within its Medicare contract for the contract years ending December 31, 2025 and 2024, respectively.

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

Mercy Care contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mental Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

block purchase arrangements. Fee-for-service contract expenses are accrued as incurred. Healthcare services provided under block purchase arrangements are accrued based upon contract terms. From time to time, Mercy Care amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

Mercy Care's estimates for unreported claims payable are determined using actuarial methodologies grounded in historical data, and are regularly evaluated by management. Adjustments are made as necessary based on current claims information and medical cost completion factors, and are reflected in healthcare expenses within the statements of activities and changes in net assets for each applicable period. Although management considers these estimates to be sufficient, actual liabilities may differ from those reported. There remains a reasonable possibility that the recorded estimates could materially change in the near term.

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 \$24,838,000 and \$22,037,000 for the years ended June 30, 2025 and 2024, respectively, and is included within healthcare expenses in the accompanying statements of activities and changes in net assets. Mercy Care accrued approximately \$24,874,000 and \$27,032,000 as of June 30, 2025 and 2024, respectively, which is included in payable to providers in the accompanying statements of financial position.

**Payable to providers** – Mercy Care pays providers for authorized healthcare and substance abuse services using estimates based on service authorizations, existing contracts, and direct communication with key providers. Additional payables include AHCCCS pass-through payments for programs like Health II, APSI/PSI, Nursing Facility Enhanced Payments (NFE), and the Safety Net Services Initiative (SNSI), which are distributed quarterly or upon receipt of funding from AHCCCS once approved by CMS. As of June 30, 2024, Mercy Care recorded a payable of about \$145,120,000 related to Health II and Nursing Facility Enhanced payments to be paid later. All such payments for the year ending June 30, 2025 were disbursed within the fiscal year, resulting in no outstanding year-end payable as of June 30, 2025.

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

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

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



# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

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

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

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

Level 3: Unobservable inputs for the asset or liability.

**Investment income** - Investment income consists of interest, dividends, and realized gains and losses on investments. Interest is recognized on the accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Accrual of income has not been suspended for any bonds or mortgage loans during the years ended June 30, 2025 and 2024. The Plan has a policy to review and identify investments with declines in value that would be considered to be other-than-temporary. Such other-than-temporary declines, if significant, are accounted for as realized losses in the statements of activities and changes in net assets (See Note 3).

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

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty in income taxes which requires the application of a "more likely than not" threshold recognition and de-recognition of uncertain tax positions in operations in the year of such change. The Plan evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. At June 30, 2025 and 2024, the Plan did not have any uncertain tax positions.

Mercy Care Returns of Organization Exempt from Income Tax (Form 990) for 2022, 2023 and 2024 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 2025 tax return for Mercy Care had not yet been filed.

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

**Subsequent events** - The Company has evaluated subsequent events through December 16, 2025, which is the date the financial statements were available to be issued.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (2) Reconciliation

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

	<b>2025</b>		<b>2024</b>	
	<b>Reconciliation Receivable</b>	<b>Reconciliation Payable</b>	<b>Reconciliation Receivable</b>	<b>Reconciliation Payable</b>
ACC-RBHA	\$ 119,306	\$ 46,818	\$ 51,425	\$ 129,751
ALTCS	10,418	2,855	19,635	13,456
DDD	32,579	123	14,326	6,580
DCS	23,635	575	16,615	322
Total	185,938	50,371	102,001	150,109
Less current portion	(122,932)	(50,371)	(67,085)	(148,786)
Non-current portion	\$ 63,006	\$ -	\$ 34,916	\$ 1,323

For the years ended June 30, 2025 and 2024, the Medicare Part D estimated settlements related to contract year 2018 were \$0 and \$2,133,000, respectively, and were classified as a long-term reconciliation receivable based on the anticipated timing of final settlement. As of June 30, 2025 the settlements were deemed uncollectable pursuant to renewed information and are considered final. Additionally, for the years ended June 30, 2025 and 2024, Mercy Care recorded a receivable for settled under-encounters with payment plans extending beyond one year for contract years 2021 and 2022, amounting to approximately \$2,049,000 and \$2,343,000, respectively. These amounts are included within long-term receivables in the accompanying statements of financial position.

### (3) Investments

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

	<b>2025</b>		<b>2024</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Short-term:				
Marketable equity securities	\$ 52,709	\$ 52,709	\$ 78,976	\$ 78,976
Money Market Instruments	1,072	1,077	-	-
Corporate bonds	4,965	4,786	9,213	8,660
	58,746	58,572	88,189	87,636
Long-term:				
Marketable equity securities	139,390	185,355	164,513	242,987
U.S. Govt securities	113,618	113,608	186,524	183,067
Corporate bonds	53,488	53,039	67,110	64,992
Mortgage-backed securities	59,871	60,397	51,702	50,895
	366,367	412,399	469,849	541,941
	\$ 425,113	\$ 470,971	\$ 558,038	\$ 629,577

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (3) Investments

Management regularly reviews the investment portfolio to determine if decreases in the fair value of securities qualify as other-than-temporary. This assessment takes into account general market conditions, the issuer's financial status and short-term outlook, industry circumstances, advisor recommendations, and the duration and degree to which market value is below cost. For the years ended June 30, 2025 and 2024, the Plan did not record any losses due to other-than-temporary declines in the fair value of investments.

The following table summarizes the unrealized losses on investments held at June 30, 2025 (in thousands):

Description of securities	Less than twelve months		Twelve months or longer		Total	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
U.S. Government securities	\$ -	\$ -	\$ 40,571	\$ 1,385	\$ 40,571	\$ 1,385
Marketable equity securities	-	-	27,451	4,216	27,451	4,216
Corporate bonds	2,053	199	12,624	1,201	14,677	1,400
Mortgage-backed securities	-	-	13,396	116	13,396	116
Total	<u>\$ 2,053</u>	<u>\$ 199</u>	<u>\$ 94,042</u>	<u>\$ 6,918</u>	<u>\$ 96,095</u>	<u>\$ 7,117</u>

The following table summarizes the unrealized losses on investments held at June 30, 2024 (in thousands):

Description of securities	Less than twelve months		Twelve months or longer		Total	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
U.S. Government securities	\$ -	\$ -	\$ 124,860	\$ 4,216	\$ 124,860	\$ 4,216
Marketable equity securities	-	-	19,084	2,046	19,084	2,046
Corporate bonds	7,409	573	40,295	2,423	47,704	2,996
Mortgage-backed securities	-	-	24,958	1,029	24,958	1,029
Total	<u>\$ 7,409</u>	<u>\$ 573</u>	<u>\$ 209,197</u>	<u>\$ 9,714</u>	<u>\$ 216,606</u>	<u>\$ 10,287</u>

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

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (4) Fair value measurement

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2025 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 113,608	\$ -	\$ 113,608
Marketable equity securities				
U.S. large cap	185,355	-	-	185,355
Money market mutual funds	45,435	-	-	45,435
Other	<u>8,351</u>	<u>-</u>	<u>-</u>	<u>8,351</u>
Total marketable equity securities	<u>239,141</u>	<u>-</u>	<u>-</u>	<u>239,141</u>
Corporate bonds	-	57,825	-	57,825
Mortgage-backed securities	-	60,397	-	60,397
Total Investments	<u>\$ 239,141</u>	<u>\$ 231,830</u>	<u>\$ -</u>	<u>\$ 470,971</u>

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2024 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. Government securities	\$ -	\$ 183,067	\$ -	\$ 183,067
Marketable equity securities				
U.S. large cap	242,987	-	-	242,987
Money market mutual funds	62,649	-	-	62,649
Other	<u>16,327</u>	<u>-</u>	<u>-</u>	<u>16,327</u>
Total marketable equity securities	<u>321,963</u>	<u>-</u>	<u>-</u>	<u>321,963</u>
Corporate bonds	-	71,552	-	71,552
Mortgage-backed securities	-	52,995	-	52,995
Total Investments	<u>\$ 321,963</u>	<u>\$ 307,614</u>	<u>\$ -</u>	<u>\$ 629,577</u>

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

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (5) Claims payable

At June 30, 2025 and 2024, claims outstanding to third parties for healthcare services provided to members, including estimates for incurred but not reported claims, were approximately \$357 million and \$339 million, respectively. The balances were certified by an actuary. Activity in the liability for claims payable and healthcare expense for the years ended June 30, 2025 and 2024 is as follows (in thousands):

	<u>2025</u>	<u>2024</u>
Claims unpaid at beginning of year prior to reinsurance recoverable	\$ 367,536	\$ 385,343
Reinsurance recoverable, beginning of year	<u>(28,463)</u>	<u>(22,371)</u>
Claims unpaid, beginning of year	339,074	362,972
Incurred related to:		
Current year	4,248,904	4,076,819
Prior years	<u>10,945</u>	<u>(48,265)</u>
Total incurred	<u>4,259,849</u>	<u>4,028,554</u>
Paid related to:		
Current year	(3,824,838)	(3,708,218)
Prior years	<u>(348,634)</u>	<u>(315,772)</u>
Total paid	<u>(4,173,472)</u>	<u>(4,023,990)</u>
Claims unpaid at end of year prior to reinsurance recoverable	425,451	367,536
Reinsurance recoverable, end of year	<u>(68,387)</u>	<u>(28,463)</u>
Claims unpaid, end of year	<u>\$ 357,064</u>	<u>\$ 339,074</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 incurred but not paid (IBNP) related to fiscal year ending 2024 and prior, as of June 30, 2024, was less than the actual claims incurred by approximately \$68 million. Fiscal years 2023 and 2024 were characterized by unprecedented changes in average member acuity and utilization patterns following the unwinding of the Public Health Emergency (PHE). Throughout this time period, Mercy Care sustained substantial membership losses causing variability in average risk profiles, utilization patterns, service mix, and provider payment rates, causing the perceived average PMPM liability at fiscal year-end 2024 to be understated versus the actual losses realized after 12 months of runout.

Estimated third-party subrogation, net of allowances included as a reduction to medical and hospital expenses in the accompanying statements of activities and changes in net assets at June 30, 2025 and 2024 totaled approximately \$8,174,000 and \$7,126,000 respectively.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (6) Related party transactions

In September 2015, Tenet Healthcare Corporation, Dignity Health and Ascension Health finalized a joint venture to own and operate Carondelet Health Network in Tucson, Arizona. Tenet Healthcare Corporation is the majority partner at 60% ownership share and Dignity Health and Ascension Health each having a 20% ownership share. In July 2022, Dignity Health and Ascension Health sold all their ownership shares in Carondelet Health Network to Tenet Healthcare Corporation. Mercy Care paid approximately \$333,649,000 in 2025 and \$291,213,000 in 2024 to Dignity Health, Ascension, Equality Health and its affiliates for services provided to members. These balances include net prospective provider advance payments made to Dignity. Provider advances to Dignity amounted to approximately \$53,071,000 and \$54,917,000 for years ending June 30, 2025 and 2024. During the year ended June 30, 2025 Mercy Care did not disburse any distributions to Dignity, Ascension Health and Equality Health. During the year ended June 30, 2024 Mercy Care made distributions to Dignity and Ascension Health of \$29,850,000 each and \$300,000 to Equality Health. During the year ended June 30, 2025, Mercy Care made no distributions to any related parties.

### (7) Commitments and contingencies

**Performance bonds** - Mercy Care obtains unsecured surety bonds to satisfy the AHCCCS ACC-RBHA, ALTCS, DES/DDD, DCS/CHP and Medicare performance bond requirements. The following table sets forth the Mercy Care contract requirement and the Performance Bond amounts at June 30, 2025:

Line of Business	AHCCCS Minimum Requirement	Performance Bond Amount	Effective Date
ACC-RBHA	100% of Capitation Revenue	\$ 305,000,000	10/1/2024
ALTCS	90% of Capitation Revenue	\$ 65,000,000	10/1/2024
DDD	90% of Capitation Revenue	\$ 27,000,000	10/1/2024
Medicare	\$1,050 PMPM	\$ 13,000,000	1/1/2025
DCS	90% of Capitation Revenue	\$ 16,000,000	10/1/2024

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

**Liability insurance** - Mercy Care maintains directors and officers, errors and omissions, and cyber liability insurance coverage under claims-made policies. Each policyholder is insured for losses up to \$30 million per claim and in the aggregate under each of its directors and officers liability policy and \$20 million per claim and in the aggregate under each of its errors and omissions and cyber liability policies. Claims reported endorsement (tail) coverage is available if the policy is not renewed to cover claims incurred but not reported. Mercy Care anticipates that renewal coverage will be available at expiration of the current policy. Aetna maintains the general liability coverage for Mercy Care and is insured for losses up to \$1 million per claim and \$2 million in the aggregate under its general liability policy.

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

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (7) **Commitments and contingencies (continued)**

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

**Community reinvestment program** - Mercy Care has established a Community Reinvestment program in compliance with the AHCCCS contract. The program involves contributing 6% of annual profits from ACC-RBHA, ALTCS, DDD/DES, and DCS/CHP to community reinvestment activities within the organization's geographic service area. The funds support community projects that are not eligible for service or prevention funding.

For the fiscal years ended June 30, 2025 and 2024, Mercy Care approved approximately \$4,617,000 and \$6,849,000, respectively, for various healthcare community projects. These amounts are reported as nonoperating expenses in the accompanying statements of activities and changes in net assets. As of June 30, 2025 and 2024, Mercy Care recorded liabilities for unspent Community Reinvestment program funds of approximately \$7,997,000 and \$9,436,000, respectively, which are included in other current liabilities in the accompanying statements of financial position.

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

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

Mercy Care's contract contains various quarterly financial performance requirements, including a required minimum liquidity ratio, an administrative cost percentage, and service expense percentages. As of June 30, 2025 and 2024, all lines of business were in compliance with the AHCCCS requirements.

If Mercy Care fails to fulfill any significant obligations under the AHCCCS contract, AHCCCS reserves the right, at its discretion and in addition to other available remedies, to either adjust future payments or withhold payment until the default or exception is satisfactorily resolved. Additionally, if funds are not appropriated by the State or become otherwise unavailable, AHCCCS may cancel the contract upon written notice, effective until such time as funds are appropriated or become available.

Mercy Care is required to meet quarterly and year-end minimum encounter submission percentages as stipulated by AHCCCS. Generally, Mercy Care has up to eight months after the contract period ends to fulfill the minimum encounter requirements. As of the date of this report, AHCCCS has not completed its encounter evaluation assessment for the contract years ending September 30, 2025, and 2024. As of June 30, 2025, Mercy Care projects that it will meet the encounter thresholds for both contract years ending September 30, 2025, and 2024.

As of June 30, 2025, Mercy Care had not recorded a liability for encounter sanctions. By June 30, 2024, Mercy Care anticipated meeting encounter thresholds for non-title block funding for the contract year ending September 30, 2024. For title block funding for the year ended June 30, 2024, Mercy Care did not expect any under-encounter amounts to be payable to AHCCCS, and therefore recorded no related liability as of June 30, 2024.

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (7) Commitments and contingencies (continued)

In January 2022, AHCCCS informed Mercy Care of plans to collect under-encountered title block funding for contract years ending June 30, 2020, and 2021. Due to the COVID-19 pandemic, AHCCCS directed Mercy Care not to pursue provider repayment until the public health emergency concluded. In September 2023, AHCCCS authorized Mercy Care to resume provider collections for under-encountered providers. As of June 30, 2025 and 2024, the outstanding receivable balance for contract years 2020 and 2021 is approximately \$5,398,000 and \$11,499,000, respectively, which Mercy Care anticipates collecting from providers.

As of June 30, 2025, and 2024, Mercy Care has reported net receivables from providers for under-encounters in the contract year ending September 30, 2022, of approximately \$5,297,000 and \$7,627,000. For the contract ending September 30, 2023, the amounts are approximately \$6,459,000 and \$8,934,000, and for the contract year ended September 30, 2024, the amount is \$1,822,000. Most receivables across all contract years are included within other accounts receivable; \$2,049,000 is classified as a long-term receivable due to payment agreements exceeding one year. As of June 30, 2025, Mercy Care has also recorded current liabilities for provider over-encounters of approximately \$742,000 and \$972,000 for contract years ending 2022 and 2023, to be disbursed at a future date depending on provider receivables collected for those years.

AHCCCS has a right to sanction Mercy Care for other matters of non-compliance of the AHCCCS contract, as determined by AHCCCS. Mercy Care received total sanctions for the years ended June 30, 2025 and 2024 of \$5,500 and \$8,600, respectively.

### (8) Concentration of credit risk

Mercy Care's future contract awards are contingent upon the continuation of the AHCCCS ACC-RBHA and ALTCS, DES/DDD and DCS/CHP programs by the State of Arizona and Mercy Care's ability and desire to retain its status as a Contractor under these programs. The AHCCCS ACC contract is effective through September 30, 2022. Effective October 2022, the previous AHCCCS Complete Care program was replaced with a comprehensive service agreement that is all inclusive of RBHA services. The new contract replaces the former AHCCCS Complete Care program and the RBHA contracts with combined services for a period of six years through September 30, 2028.

Earlier this year, AHCCCS announced a settlement resulting in new contracts for ALTCS-EPD services that were intended to begin on October 1, 2025. The intended contracting health plans were Mercy Care, Banner-University Family Care, UnitedHealthcare Community Plan and Arizona Complete Health-Long Term Care. However, due to a legal challenge, a court issued a stay order that temporarily halts implementation of the new contracts. That stay remains in place. As a result of the stay ruling, and for AHCCCS to provide continued ALTCS-EPD services beginning October 1, 2025, AHCCCS is extending its current contracts with Mercy Care, Banner-University Family Care, and UnitedHealthcare Community Plan through September 30, 2026. Oral argument for the ongoing protest is scheduled for September 10, 2025. There continues to be no negative impact to the Mercy Care ALTCS contract with what is occurring.

The DES/DDD contract was renewed through September 30, 2025. Mercy Care's Medicare Advantage contract is renewed annually by CMS. Mercy Care's RBHA contract with AHCCCS has been renewed through September 30, 2027 in the form of a new contract structure under AHCCCS (see Note 1).

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

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



# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (9) Functional expenses

The costs associated with Mercy Care's programs and activities are presented on a functional basis in the accompanying statements of activities and changes in net assets. The following presentation of functional expenses details expenses by their natural classification within each function. Certain costs have been distributed among the relevant programs and supporting services. Expenses that can be directly attributed to a specific program or service are allocated accordingly. Costs associated with multiple functions are assigned based on program membership or other appropriate allocation methods. General and administrative expenses refer to those not directly linked to any specific function but contribute to the overall management of Mercy Care. These are allocated using program membership or other suitable indicators.

The following table summarizes the functional expenses at June 30, 2025 (in thousands):

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total Expenses</u>
Hospitalization	\$ 503,503	\$ -	\$ 503,503
Medical compensation	554,617	-	554,617
Ancillary and other medical services	2,937,007	-	2,937,007
Institutional	271,766	-	271,766
Home and community-based services	298,630	-	298,630
Premium tax expense	-	93,766	93,766
Management fees	-	259,975	259,975
Other Expenses	-	37,565	37,565
Total Expenses	<u>\$ 4,565,523</u>	<u>\$ 391,306</u>	<u>\$ 4,956,829</u>

The following table summarizes the functional expenses at June 30, 2024 (in thousands):

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total Expenses</u>
Hospitalization	\$ 459,355	\$ -	\$ 459,355
Medical compensation	507,855	-	507,855
Ancillary and other medical services	2,828,608	-	2,828,608
Institutional	264,698	-	264,698
Home and community-based services	297,356	-	297,356
Premium tax expense	-	91,808	91,808
Management fees	-	300,865	300,865
Other Expenses	-	36,329	36,329
Total Expenses	<u>\$ 4,357,873</u>	<u>\$ 429,001</u>	<u>\$ 4,786,874</u>

# MERCY CARE

## NOTES TO FINANCIAL STATEMENTS

Years Ended June 30, 2025 and 2024

### (10) Liquidity and Availability of Resources

Mercy Care monitors its cash position on a monthly basis to ensure the fulfillment of all obligations. As part of the Mercy Care's liquidity plan, excess cash is invested according to Mercy Care's investment policy. As of June 30, 2025, 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	\$ 156,910
Receivables	344,010
Investments	<u>470,971</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 971,891</u>

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

## **SUPPLEMENTAL INFORMATION**



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of

### MERCY CARE

We have audited the financial statements of **Mercy Care** as of and for the year ended June 30, 2025, and our report thereon dated December 16, 2025, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. We previously audited the financial statements of Mercy Care as of and for the year ended June 30, 2024, and our report thereon dated December 13, 2024, contained an unmodified opinion. Our audits were performed for the purpose of forming opinions on the June 30, 2025 and 2024 financial statements as a whole. The accompanying supplemental statement of activities for the year ended June 30, 2025, supplemental schedule of activities – schedule A disclosure for the year ended June 30, 2025, supplemental sub-capitated expenses report for the contract year ended September 30, 2024 (collectively, the “supplemental information”) on pages 26 through 30 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements for the years ended June 30, 2025 and 2024. The information has been subjected to the auditing procedures applied in the audits of the 2025 and 2024 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2025 and 2024 financial statements or to the 2025 and 2024 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information on pages 26 through 30 is fairly stated in all material respects in relation to the June 30, 2025 and 2024 financial statements as a whole.

*CBIZ CPAs P.C.*

December 16, 2025

MERCY CARE  
ADDITIONAL INFORMATION  
SUB-CAPITATED AND BLOCK EXPENSES REPORT  
Contract Year Ended September 30, 2024

Account		Account Description	ACC-RBHA											ALTCS			DDD			MCA	DCS-CHP							
			Age <1	Age 1-20	Age 21+	Duals	SSI w/o Med	Prop 204 Childless Adults	Expansion Adults	TXIX/XXI SMI	TXIX/XXI Crisis (24 Hours)	Title XIX Total	Non-Title XIX/XXI Total	ACC-RBHA Total	Duals	Non-Duals	ALTCS Total	Duals	SSI w/o Med	DDD Total	MCA Total	Age <1	Age 1-20	SSI w/o Med	Title XIX/XXI Total	Non-Title XIX/XXI Total		
<b>Block Behavioral Health Expenses:</b>																												
60199 Total Treatment Services \$ 25,342,637																												
60299 Total Rehabilitation Services \$ 19,662,128																												
60399 Total Medical Services \$ 19,189,729																												
60499 Total Support Services \$ 47,762,464																												
60599 Total Crisis Intervention Services \$ 143,502,290																												
60699 Total Inpatient Services \$ 7,230,944																												
60799 Total Residential Services \$ 10,769,479																												
60899 Total Behavioral Health Day Program \$ 727,188																												
60999 Total HIV Services \$ 896,950																												
61099 Total Pharmacy Expense \$ -																												
61100-01 PPC BH Title XIX \$ -																												
61105-01 Other BH Services Not Rpt'd Above \$ -																												
61205-01 BH FQHC/RHC Services \$ -																												
Total Block Behavioral Health Expenses: \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ 69,563,137 \$ 115,856,696 \$ 185,419,833 \$ 89,663,977 \$ 275,083,810 \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ -																												
<b>Sub-Capitated Hospitalization Expenses:</b>																												
50105-01 Hospital Inpatient \$ 170,510																												
Total Sub-Capitated Hospitalization Expenses: \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ 132,560 \$ 37,950 \$ 170,510 \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ -																												
<b>Sub-Capitated Medical Compensation Expenses:</b>																												
50205-01 Primary Care Physician Services 64,507 1,246,091 477,185 140,036 75,429 563,684 178,236 \$ 2,745,167 \$ 2,745,167 8,294 2,386 \$ 10,680 7,784 40,776 48,560 8,669 2,187 22,563 762 25,513 - 25,513 \$ 2,838,588																												
50215-01 Referral Physician Services \$ -																												
50220-01 PH FQHC/RHC Services \$ -																												
50225-01 Other Professional Services \$ -																												
Total Sub-Capitated Medical Compensation Expenses: \$ 64,507 \$ 1,246,091 \$ 477,185 \$ 140,036 \$ 75,429 \$ 563,684 \$ 178,236 \$ - \$ - \$ 2,745,167 \$ - \$ 2,745,167 \$ 8,294 \$ 2,386 \$ 10,680 \$ 7,784 \$ 40,776 \$ 48,560 \$ 8,669 \$ 2,187 \$ 22,563 \$ 762 \$ 25,513 \$ - \$ 25,513 \$ - \$ 2,838,588																												
<b>Sub-Capitated Other Medical Expenses:</b>																												
50305-01 Emergency Facility Services \$ -																												
50310-01 PH Pharmacy \$ -																												
50315-01 Laboratory, Radiology and Medical Imaging 436,783 7,726,467 2,893,300 582,794 489,184 4,076,200 678,620 1,202,703 \$ 18,086,051 \$ 18,086,051 161,878 104,871 \$ 266,749 72,264 727,343 799,607 1,032,140 37,137 367,164 13,123 417,424 26,962 444,386 \$ 20,628,933																												
50320-01 Outpatient Facility \$ -																												
50325-01 Durable Medical Equipment 34,943 613,028 230,427 69,385 35,834 324,483 53,130 - \$ 1,361,230 \$ 1,361,230 159,187 45,324 \$ 204,511 1,220,736 5,850,616 7,071,353 \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ -																												
50330-01 Dental 1,357,015 23,707,031 - 2,689,128 1,385,502 12,489,120 2,043,352 1,090,299 \$ 44,761,447 \$ 44,761,447 677,339 194,125 \$ 871,464 446,832 2,143,681 2,590,513 3,557,504 220,084 2,125,586 70,560 2,416,238 153,552 2,569,790 \$ 54,350,719																												
50335-01 Transportation \$ -																												
50340-00 Nursing Facility, Home Health Care \$ -																												
50345-01 Therapies \$ -																												
50350-01 Alternative Payment Model Performance Based Payments to Providers \$ -																												
50350-10 Differential Adjusted Payments to Providers \$ -																												
50370-01 Other Medical Expenses 194,333 3,412,873 - 172 41,918 206,902 28,979 15,397 \$ 3,900,574 \$ 3,900,574 861,853 252,296 \$ 1,114,149 635 231,108 231,743 4,046,926 30,921 300,288 9,942 341,151 22,063 363,215 \$ 5,609,681																												
Total Sub-Capitated Other Medical Expenses: \$ 2,023,075 \$ 35,459,400 \$ 3,123,726 \$ 3,341,478 \$ 1,952,437 \$ 17,096,705 \$ 2,804,081 \$ 2,308,399 \$ - \$ 68,109,302 \$ - \$ 68,109,302 \$ 1,860,256 \$ 596,617 \$ 2,456,873 \$ 1,740,467 \$ 8,955,863 \$ 10,696,330 \$ 8,636,570 \$ 303,325 \$ 2,941,012 \$ 98,542 \$ 3,342,879 \$ 213,861 \$ 3,556,740 \$ - \$ 93,455,816																												
Total Sub-Capitated Physical Health Expenses: \$ 2,087,581 \$ 36,705,491 \$ 3,600,911 \$ 3,481,514 \$ 2,027,866 \$ 17,660,389 \$ 2,982,317 \$ 2,308,399 \$ - \$ 70,854,468 \$ - \$ 70,854,468 \$ 2,001,110 \$ 636,953 \$ 2,638,063 \$ 1,748,251 \$ 8,996,639 \$ 10,744,890 \$ 8,645,239 \$ 305,513 \$ 2,963,575 \$ 99,304 \$ 3,368,392 \$ 213,861 \$ 3,582,253 \$ - \$ 96,464,914																												
<b>Total Block and Subcapitated Medical Expenses</b>																												
\$ 2,087,581 \$ 36,705,491 \$ 3,600,911 \$ 3,481,514 \$ 2,027,866 \$ 17,660,389 \$ 2,982,317 \$ 71,871,536 \$ 115,856,696 \$ 256,274,301 \$ 89,663,977 \$ 345,938,278																												

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

Contractor Name: Mercy Care  
State Fiscal Year as of: 6/30/2025

		NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP/ESMI	SUBG	Other Federal	County	PASRR	Total NTXIX/XXI	Mgmt & Gen	Grand Total
00999	Total Member Months														
	REVENUE														
40205-01	Non-Title XIX/XXI Revenue*	10,098,104	30,683,327	7,002,781	0	5,777,769	5,442,507	2,182,967	20,316,839	16,348,793	76,992,367	65,700	174,911,155	24,482	174,935,637
40210-01	Specialty and Other Grants*	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40215-01	Non-Title XIX/XXI Profit Limit	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40305-01	Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40310-01	Other Income*	0	0	0	0	0	0	0	0	0	0	0	0	0	0
49999	TOTAL REVENUE	10,098,104	30,683,327	7,002,781	0	5,777,769	5,442,507	2,182,967	20,316,839	16,348,793	76,992,367	65,700	174,911,155	24,482	174,935,637
	EXPENSES														
	Behavioral Health (BH) Medical Expenses: Treatment Services														
60105-01	Counseling	0	35,174	0	0	2,041,134	2,447,021	0	1,453,296	0	966,778	0	6,943,402	0	6,943,402
60105-05	Assessment, Evaluation and Screening	0	97,968	0	0	621,063	606,555	0	707,852	0	2,491,200	0	4,524,637	0	4,524,637
60105-10	Other Professional	0	6,533	0	0	22,908	0	0	181,484	0	2,701,153	0	2,912,078	0	2,912,078
60199	Total Treatment Services	0	139,675	0	0	2,685,104	3,053,576	0	2,342,632	0	6,159,131	0	14,380,117	0	14,380,117
	Rehabilitation Services														
60205-01	Living Skills Training	0	89,031	0	0	612,105	53,302	0	13,126	0	1,925,491	0	2,693,055	0	2,693,055
60205-05	Cognitive Rehabilitation	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60205-10	Health Promotion	0	46,987	0	0	63,206	432,796	0	21,790	0	988,297	0	1,553,075	0	1,553,075
60205-15	Supported Employment Services	0	46,363	0	0	0	53,152	0	40,557	0	964,324	0	1,104,395	0	1,104,395
60299	Total Rehabilitation Services	0	182,381	0	0	675,311	539,249	0	75,473	0	3,878,112	0	5,350,525	0	5,350,525
	Medical Services														
60305-01	Medication Services	0	4,024	0	0	0	0	0	3,621,699	0	122,116	0	3,747,839	0	3,747,839
60305-05	Medical Management	0	39,893	0	0	880	29,723	0	352,830	0	845,353	0	1,268,679	0	1,268,679
60305-10	Laboratory, Radiology and Medical Imaging	0	3,680	0	0	13	0	0	552,052	0	109,675	0	665,421	0	665,421
60305-15	Electro-Convulsive Therapy	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60399	Total Medical Services	0	47,597	0	0	893	29,723	0	4,526,581	0	1,077,144	0	5,681,938	0	5,681,938
	Support Services														
60405-01	Case Management	0	3,056,360	0	0	1,197,870	479,666	0	809,747	0	10,398,260	0	15,941,903	0	15,941,903
60405-02	Targeted Behavioral Health Outreach Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60405-05	Personal Care Services	0	29,926	0	0	61	35,122	0	40	0	622,341	0	687,490	0	687,490
60405-10	Family Support	0	1,709	0	0	230,513	16,938	0	0	0	43,480	0	292,639	0	292,639
60405-15	Peer Support	0	62,237	0	0	11,683	32,037	0	706,334	0	1,304,439	0	2,116,730	0	2,116,730
60405-20	Therapeutic Foster Care	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60405-21	Adult Behavioral Health Therapeutic Home	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60405-25	Unskilled Respite Care	0	939	0	0	21,674	0	0	0	0	19,534	0	42,147	0	42,147
60405-30	Supported Housing*	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60405-40	Transportation	0	106,382	0	0	10,558	14,226	0	83,629	0	2,446,545	0	2,661,340	0	2,661,340
60499	Total Support Services	0	3,257,552	0	0	1,472,359	577,989	0	1,599,751	0	14,834,598	0	21,742,249	0	21,742,249
	Crisis Intervention Services														
60505-01	Crisis Intervention - Mobile	2,792,516	0	1,791,490	0	0	0	0	0	0	6,401,184	0	10,985,190	0	10,985,190
60505-05	Crisis Intervention - Stabilization	5,122,098	0	3,285,993	0	0	0	0	0	0	1,516,886	0	9,924,977	0	9,924,977
60505-10	Crisis Intervention - Telephone	1,433,201	0	919,445	0	0	0	0	0	0	1,249,982	0	3,602,628	0	3,602,628
60599	Total Crisis Intervention Services	9,347,815	0	5,996,928	0	0	0	0	0	0	9,168,053	0	24,512,795	0	24,512,795
	Inpatient Services														
60605-01	Hospital	0	0	0	0	0	0	0	0	0	24,636,644	0	24,636,644	0	24,636,644
60605-05	Sub acute Facility	0	171,454	0	0	0	0	0	0	0	3,565,589	0	3,737,043	0	3,737,043
60605-10	Residential Treatment Center (RTC)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60605-15	Inpatient Services, Professional	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60699	Total Inpatient Services	0	171,454	0	0	0	0	0	0	0	28,202,233	0	28,373,687	0	28,373,687
	Residential Services														
60705-01	Behavioral Health Residential Facilities	0	33,838	0	0	0	173,548	0	4,518,145	0	703,697	0	5,429,227	0	5,429,227
60705-10	Room and Board	0	722,377	0	0	240,381	20,649	0	2,425,640	0	0	0	3,409,047	0	3,409,047
60799	Total Residential Services	0	756,215	0	0	240,381	194,196	0	6,943,785	0	703,697	0	8,838,273	0	8,838,273
	Behavioral Health Day Program														
60805-01	Supervised Day Program	0	9,913	0	0	0	0	0	0	0	206,388	0	216,301	0	216,301
60805-05	Therapeutic Day Program	0	1,479	0	0	0	659	0	31,572	0	31,357	0	65,068	0	65,068
60805-10	Medical Day Program	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60899	Total Behavioral Health Day Program	0	11,393	0	0	0	659	0	31,572	0	237,745	0	281,369	0	281,369
	HIV Services														
60905-05	HIV	0	0	0	0	0	0	0	807,133	0	0	0	807,133	0	807,133
60999	Total HIV Services	0	0	0	0	0	0	0	807,133	0	0	0	807,133	0	807,133
	BH Pharmacy Expenses														
61005-01	BH Pharmacy Expense	0	21,751,551	0	0	0	0	0	0	0	5,982,214	0	27,733,765	0	27,733,765
61099	Total Pharmacy Expense	0	21,751,551	0	0	0	0	0	0	0	5,982,214	0	27,733,765	0	27,733,765
61100-01	PPC BH Title XIX	0	0	0	0	0	0	0	0	0	0	0	0	0	0
61105-01	Other BH Service Expenses Not Reported Above*	0	2,147,850	475,834	0	28,877	411,429	2,021,265	1,640,522	15,035,426	0	65,700	21,826,904	14,768	21,841,672
61205-01	BH FQHC/RHC Services	0	(0)	0	0	0	0	0	0	0	0	0	(0)	0	(0)
61299	Subtotal BH Medical Expenses	9,347,815	28,465,667	6,472,762	0	5,102,926	4,806,822	2,021,265	17,967,449	15,035,426	70,242,926	65,700	159,528,758	14,768	159,543,526
61305-01	Specialty and Other Grant Expenses*	0	0	0	0	0	0	0	0	0	0	0	0	0	0

69998	Total BH Medical Expenses	9,347,815	28,465,667	6,472,762	0	5,102,926	4,806,822	2,021,265	17,967,449	15,035,426	70,242,926	65,700	159,528,758	14,768	159,543,526
	Less:														
70105-01	Reinsurance Recoveries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70205-02	Third Party Liability	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70305-01	Claims Overpayment Recoveries	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70310-05	Pharmacy Rebates	0	(62,111)	0	0	0	0	0	0	0	(17,082)	0	(79,193)	0	(79,193)
70310-10	Pharmacy Performance Guarantees	0	0	0	0	0	0	0	0	0	0	0	0	0	0
85999	Total Net Medical Expense	9,347,815	28,403,556	6,472,762	0	5,102,926	4,806,822	2,021,265	17,967,449	15,035,426	70,225,844	65,700	159,449,565	14,768	159,464,333
	Administrative Expenses:														
80105-01	Compensation	168,381	511,629	125,726	0	96,341	108,197	36,322	338,773	294,747	1,236,439	0	2,916,554	0	2,916,554
80205-01	Occupancy	3,827	11,628	2,857	0	2,190	2,459	825	7,699	6,699	28,101	0	66,285	0	66,285
80305-01	Depreciation	5	14	3	0	3	3	1	9	8	34	0	80	0	80
80405-01	Care Management/Care Coordination	105,203	319,663	78,553	0	60,194	67,601	22,694	211,663	184,157	772,520	0	1,822,247	0	1,822,247
80405-05	Care Management/Care Coordination (HCQI Activities)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
80505-01	Professional and Outside Services	389,948	1,184,865	291,164	0	223,114	250,570	84,116	784,554	682,596	2,863,429	0	6,754,356	0	6,754,356
80605-01	Office Supplies and Equipment	23,403	71,112	17,475	0	13,391	15,038	5,048	47,086	40,967	171,854	0	405,375	0	405,375
80705-01	Travel	2,130	6,471	1,590	0	1,219	1,368	459	4,285	3,728	15,638	0	36,888	0	36,888
80805-01	Repair and Maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0	0
80905-01	Bank Service Charge	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81005-01	Insurance	58	177	43	0	33	37	13	117	102	427	0	1,007	0	1,007
81105-01	Marketing	477	1,448	356	0	273	306	103	959	834	3,499	0	8,254	0	8,254
81205-01	Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81305-01	Pharmacy Benefit Manager Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81405-01	Fraud Reduction Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81505-01	Third Party Activities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81605-01	Sub Capitation Block Administration	0	0	0	0	0	0	0	0	0	0	0	0	0	0
81705-01	Health Care Quality Improvement	30,473	92,593	22,753	0	17,435	19,581	6,573	61,310	53,342	223,766	0	527,826	0	527,826
81810-01	Program Integrity Fraud, Waste and Abuse Prevention	2,423	7,361	1,809	0	1,386	1,557	523	4,874	4,241	17,790	0	41,964	0	41,964
82505-01	Interpretation/Translation Services	23,963	72,811	17,892	0	13,711	15,398	5,169	48,212	41,946	175,961	0	415,063	0	415,063
83005-01	Other Administrative Expenses*	0	0	0	0	0	0	0	0	0	0	0	0	1,959	1,959
83999	Subtotal Administrative Expenses	750,289	2,279,771	560,223	0	429,288	482,115	161,846	1,509,541	1,313,368	5,509,458	0	12,995,899	1,959	12,997,857
83105-01	Non-Title XIX/XXI Encounter Valuation Sanctions*	0	0	0	0	0	0	0	0	0	0	0	0	0	0
83205-01	Admin Expenses from Specialty and Other Grants*	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84999	Total Administrative Expense	750,289	2,279,771	560,223	0	429,288	482,115	161,846	1,509,541	1,313,368	5,509,458	0	12,995,899	1,959	12,997,857
90205-01	Premium Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
86999	Total Expenses	10,098,104	30,683,327	7,032,985	0	5,532,214	5,288,937	2,183,111	19,476,990	16,348,793	75,735,302	65,700	172,445,463	16,727	172,462,190
87999	Profit (Loss) from Operations	0	0	(30,203)	0	245,555	153,570	(145)	839,849	0	1,257,066	0	2,465,692	7,755	2,473,447
88999-01	Non-Operations - Investment Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0
88999-02	Non-Operations - Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
88999	Profit (Loss) from Non-Operations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
89999	Profit/(Loss) Before Taxes	0	0	(30,203)	0	245,555	153,570	(145)	839,849	0	1,257,066	0	2,465,692	7,755	2,473,447
90105-01	Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
99999	Net Profit/(Loss)	0	0	(30,203)	0	245,555	153,570	(145)	839,849	0	1,257,066	0	2,465,692	7,755	2,473,447
990105-01	Community Reinvestment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
990205-01	Non-Covered Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
990305-01	Unreimbursed Performance Based Payments	0	0	0	0	0	0	0	0	0	0	0	0	0	0
990405-01	Value-Added Services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
999999	Net Profit/(Loss) After 990xxx-xx Accounts	0	0	(30,203)	0	245,555	153,570	(145)	839,849	0	1,257,066	0	2,465,692	7,755	2,473,447

\*Disclose on Schedule A



Contractor Name: Mercy Care  
State Fiscal Year as of: 6/30/2025

	NTXIX/XXI Crisis	NTXIX/XXI SMI Services	NTXIX/XXI Other	Housing Trust Fund	MHBG SED	MHBG SMI	MHBG FEP/EMSI	SUBG	Other Federal	County	PASRR	Total NTXIX/XXI	Mgmt & Gen	Grand Total
Disclosure of NTXIX/XXI Other, Other Federal and Mgmt & Gen AHCCCS Revenue reported on line 40205-01														
ARPA-MHBG-SED									1,562,845.97			\$ 1,562,846		\$ 1,562,846
ARPA-MHBG-SMI									1,314,393.77			\$ 1,314,394		\$ 1,314,394
ARPA-SUBG									5,754,273.30			\$ 5,754,273		\$ 5,754,273
MHBG-TA									13,157.43			\$ 13,157		\$ 13,157
ARPA-MHBG-FEP									378,874.61			\$ 378,875		\$ 378,875
SOR III									2,523,502.38			\$ 2,523,502		\$ 2,523,502
SOR IV									3,755,642.32			\$ 3,755,642		\$ 3,755,642
CRRSSA-MHBG-FEP									257,102.13			\$ 257,102		\$ 257,102
MHBG 5% Crisis Set-Aside									784,462.50			\$ 784,463		\$ 784,463
ARPA-SUBG-TAM									4,539.09			\$ 4,539		\$ 4,539
SMI Case Manager Incentive			515,513.63									\$ 515,514		\$ 515,514
State and Local Funding Recovery Fund (SLFRF)			6,518,400.00									\$ 6,518,400		\$ 6,518,400
CBHS			(31,132.40)									\$ (31,132)		\$ (31,132)
MBEP Diabetes Pilot - ADOH												\$ 0	24,482	\$ 24,482
												\$ 0		\$ 0
												\$ 0		\$ 0
Total NTXIX/XXI Other and Other Federal Column	\$ 0	\$ 0	\$ 7,002,781	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 16,348,794	\$ 0	\$ 0	\$ 23,351,575	\$ 24,482	\$ 23,376,056
Disclosure of Specialty and Other Grants Reported on line 40210-01												\$ 0		\$ 0
												\$ 0		\$ 0
												\$ 0		\$ 0
Total Specialty and Other Grants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Disclosure of Other Income Reported on line 40310-01														
												\$ 0		\$ 0
												\$ 0		\$ 0
												\$ 0		\$ 0
Total Other Income	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Disclosure of Supported Housing Reported on line 60405-30														
Rental Subsidy												\$ 0		\$ 0
Management Fees												\$ 0		\$ 0
Utility Payments												\$ 0		\$ 0
Repair & Maintenance												\$ 0		\$ 0
Damages												\$ 0		\$ 0
Deposits												\$ 0		\$ 0
Start UP												\$ 0		\$ 0
Eviction Prevention												\$ 0		\$ 0
Housing Trust Fund - Construction/Improvements												\$ 0		\$ 0
												\$ 0		\$ 0
Total Supported Housing	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Disclosure of Non-Title XIX/XXI Other Services Reported on line 61105-01														
PASRR											65,700	\$ 65,700		\$ 65,700
FEP Grant Expense							2,021,265					\$ 2,021,265		\$ 2,021,265
MHBG CJET						411,429						\$ 411,429		\$ 411,429
ARPA-MHBG-SED									1,447,080			\$ 1,447,080		\$ 1,447,080
ARPA-MHBG-SMI									1,080,145			\$ 1,080,145		\$ 1,080,145
ARPA-SUBG									5,328,031			\$ 5,328,031		\$ 5,328,031
CRRSAA-MHBG SMI									0			\$ 0		\$ 0
SOR									(55)			\$ (55)		\$ (55)
SOR II									(2,932)			\$ (2,932)		\$ (2,932)
SOR III									2,308,752			\$ 2,308,752		\$ 2,308,752
SOR IV									3,490,222			\$ 3,490,222		\$ 3,490,222
ARPA-MHBG-TA									12,183			\$ 12,183		\$ 12,183
ARPA-MHBG-FEP									373,650			\$ 373,650		\$ 373,650
CRRSAA-MHBG-FEP									0			\$ 0		\$ 0
MHBG-SMI 5% CRISIS SET-ASIDE TEXT & CHAT									755,578			\$ 755,578		\$ 755,578
ARPA-SUBG-TAM									4,203			\$ 4,203		\$ 4,203
NT SMI - Temporary Housing Assistance Program (THAP)		300,998										\$ 300,998		\$ 300,998
NT SMI - Non Encounterable Behavioral Health														
Coordinators		150,000										\$ 150,000		\$ 150,000
NT SMI - Non Encounterable Connections Conference		91,253										\$ 91,253		\$ 91,253
NT SMI - Non Encounterable HMIS		0										\$ 0		\$ 0



NT SMI - Non Encounterable SDOH Needs and Community Intervention		100,000											\$	100,000		\$	100,000
NT SMI - Non Encounterable Court Advocacy Positions		77,286											\$	77,286		\$	77,286
NT SMI - Non Encounterable TLP		894,008											\$	894,008		\$	894,008
NT SMI - Non Encounterable NSPIRE Training		8,800											\$	8,800		\$	8,800
NT SMI - Non Encounterable Dental Kits		19,996											\$	19,996		\$	19,996
NT SMI - Non Encounterable Hotel Assistance		169,967											\$	169,967		\$	169,967
NT SMI - Non Encounterable Peer Based Doula Support Program		20,000											\$	20,000		\$	20,000
NT SMI - Non Encounterable Start-Up Boxes		250,000											\$	250,000		\$	250,000
NT SMI - Non Encounterable Eviction Prevention		65,542											\$	65,542		\$	65,542
													\$	0		\$	0
SABG Outreach								972,603					\$	972,603		\$	972,603
Oxford House								275,438					\$	275,438		\$	275,438
Barbell Saves								392,482					\$	392,482		\$	392,482
MHBG SED Non Encounterable Outreach Positions						5,416							\$	5,416		\$	5,416
MHBG SED 5% Crisis Set-Aside Crisis 911						0				512			\$	512		\$	512
MHBG SED Out of Home Placement (OOH)						23,460							\$	23,460		\$	23,460
													\$	0		\$	0
SMI Case Manager Incentive			475,834										\$	475,834		\$	475,834
MBEP Diabetes Pilot - ADOH													\$	0	14,768	\$	14,768
CRRSAA-MHBG-FEP									238,058				\$	238,058		\$	238,058
<b>Total Other Services</b>	<b>\$ 0</b>	<b>\$ 2,147,850</b>	<b>\$ 475,834</b>	<b>\$ 0</b>	<b>\$ 28,877</b>	<b>\$ 411,429</b>	<b>\$ 2,021,265</b>	<b>\$ 1,640,522</b>	<b>\$ 15,035,426</b>	<b>\$ 0</b>	<b>\$ 65,700</b>	<b>\$ 21,826,904</b>	<b>\$ 14,768</b>	<b>\$ 21,841,672</b>			
<b>Disclosure of Specialty and Other Grants Reported on line 61305-01</b>													\$	0		\$	0
													\$	0		\$	0
													\$	0		\$	0
<b>Total Specialty and Other Grants Expenses</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Disclosure of Non-Title XIX/XXI Other Admin Expenses Reported on line 83005-01</b>																	
MBEP Diabetes Pilot - ADOH													\$	0	1,959	\$	1,959
													\$	0		\$	0
													\$	0		\$	0
<b>Total Non-Title XIX/XXI Other Admin Expenses</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$1,959</b>	<b>\$ 1,959</b>	<b>\$ 1,959</b>
<b>Disclosure of Non-Title XIX/XXI Encounter Valuation Reported on line 83105-01</b>																	
													\$	0		\$	0
													\$	0		\$	0
													\$	0		\$	0
<b>Total Non-Title XIX/XXI Encounter Valuation Sanctions</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Disclosure of Administrative Expenses from Specialty and Other Grants Reported on line 83205-01</b>																	
													\$	0		\$	0
													\$	0		\$	0
													\$	0		\$	0
<b>Total Adm Expenses from Specialty and Other Grants Expenses</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$0</b>	<b>\$ 0</b>	<b>\$ 0</b>

## **ADDITIONAL INFORMATION**



## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

### **MERCY CARE**

We have audited the financial statements of **Mercy Care** as of and for the year ended June 30, 2025, and our report thereon dated December 16, 2025, which contained an unmodified opinion on those financial statements, appears on pages 1 - 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The additional information on pages 32 and 33 is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information on pages 32 and 33 is fairly stated in all material respects in relation to the financial statements as a whole.

*CBIZ CPAs P.C.*

December 16, 2025

**MERCY CARE**

**ADDITIONAL INFORMATION**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2025  
(In thousands)

**ASSETS**

	<u>ACC-RBHA</u>	<u>DES/DDD</u>	<u>DCS/CHP</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>City of Phx</u>	<u>Total</u>
CURRENT ASSETS							
Cash and cash equivalents	\$ 115,523	\$ (51,283)	\$ (5,296)	\$ 65,080	\$ 32,888	\$ (2)	\$ 156,910
Short-term investments	39,682	4,127	1,763	8,991	4,009	-	58,572
Receivables:							
Reinsurance receivables, net	34,056	23,111	4,722	6,498	-	-	68,387
Reconciliation receivables	71,304	21,336	22,917	7,375	-	-	122,932
Capitation and supplemental receivables	3,116	9,340	626	190	20,008	-	33,280
Pharmacy rebate receivable	11,523	274	61	286	17,288	-	29,432
Third-party liability receivable, net	5,867	16	-	566	100	-	6,549
Interest receivable	960	100	43	218	97	-	1,418
Provider advances, net	6,630	846	259	2,722	703	-	11,160
Other receivables	29,442	11	-	632	5	-	30,090
Grant receivable	2,069	-	-	-	-	-	2,069
Due From Aetna	25,875	2,773	1,152	5,857	3,032	4	38,693
Prepaid assets	593	54	29	129	55	-	860
TOTAL CURRENT ASSETS	346,640	10,705	26,276	98,544	78,185	2	560,352
RECONCILIATION RECEIVABLES, LT	50,051	11,243	718	3,043	-	-	65,055
LONG-TERM INVESTMENTS	279,392	29,056	12,414	63,310	28,227	-	412,399
TOTAL ASSETS	\$ 676,083	\$ 51,004	\$ 39,408	\$ 164,897	\$ 106,412	\$ 2	\$ 1,037,806

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES							
Claims payable	\$ 212,195	\$ 34,004	\$ 12,432	\$ 72,349	\$ 26,084	\$ -	\$ 357,064
Payable to providers	22,154	1,186	279	2,806	2,130	-	28,555
Reconciliation payable	46,818	123	575	2,855	-	-	50,371
Grant payable	965	-	-	-	-	-	965
Deferred revenue	187	-	-	-	-	-	187
Due to Aetna	3,811	113	31	380	108	-	4,443
Other current liabilities	17,719	170	65	958	270	-	19,182
TOTAL CURRENT LIABILITIES	303,849	35,596	13,382	79,348	28,592	-	460,767
RECONCILIATION PAYABLE, LT	-	-	-	-	-	-	-
TOTAL LIABILITIES	303,849	35,596	13,382	79,348	28,592	-	460,767
NET ASSETS WITHOUT DONOR RESTRICTIONS	372,234	15,408	26,026	85,549	77,820	2	577,039
TOTAL LIABILITIES AND NET ASSETS	\$ 676,083	\$ 51,004	\$ 39,408	\$ 164,897	\$ 106,412	\$ 2	\$ 1,037,806

**MERCY CARE**  
**ADDITIONAL INFORMATION**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Year Ended June 30, 2025  
(In thousands)

	<u>ACC-RBHA</u>	<u>DES/DDD</u>	<u>DCS/CHP</u>	<u>ALTCS</u>	<u>Medicare</u>	<u>City of Phx</u>	<u>Total</u>
OPERATING REVENUES							
Capitation premiums	\$ 2,915,529	\$ 306,027	\$ 138,975	\$ 731,824	\$ 336,499	\$ -	\$ 4,428,854
Delivery supplement	46,226	-	-	-	-	-	46,226
Grants	174,870	-	-	-	-	528	175,398
Reconciliation	118,821	18,252	5,229	8,191	-	-	150,493
Other	521	-	-	-	-	-	521
TOTAL OPERATING REVENUES	<u>3,255,967</u>	<u>324,279</u>	<u>144,204</u>	<u>740,015</u>	<u>336,499</u>	<u>528</u>	<u>4,801,492</u>
HEALTH CARE EXPENSES							
Hospitalization	327,591	49,357	7,047	31,181	88,327	-	503,503
Medical compensation	465,751	20,095	12,490	20,753	35,528	-	554,617
Ancillary and other medical services	2,237,818	267,513	121,470	117,595	192,131	480	2,937,007
Institutional	-	-	-	271,766	-	-	271,766
Home and community based services	-	-	-	298,630	-	-	298,630
Less: net third party liability recoveries	(7,589)	(68)	(15)	(260)	(242)	-	(8,174)
Less: net reinsurance recoveries	(69,528)	(22,289)	(3,882)	(14,996)	-	-	(110,695)
TOTAL HEALTH CARE EXPENSES	<u>2,954,043</u>	<u>314,608</u>	<u>137,110</u>	<u>724,669</u>	<u>315,744</u>	<u>480</u>	<u>4,446,654</u>
GENERAL AND ADMINISTRATIVE EXPENSES	205,393	22,885	9,240	39,085	20,902	35	297,540
PREMIUM TAX EXPENSE	<u>77,178</u>	<u>-</u>	<u>-</u>	<u>16,588</u>	<u>-</u>	<u>-</u>	<u>93,766</u>
TOTAL EXPENSES	<u>3,236,614</u>	<u>337,493</u>	<u>146,350</u>	<u>780,342</u>	<u>336,646</u>	<u>515</u>	<u>4,837,960</u>
OPERATING INCOME (LOSS)	<u>19,353</u>	<u>(13,214)</u>	<u>(2,146)</u>	<u>(40,327)</u>	<u>(147)</u>	<u>13</u>	<u>(36,468)</u>
NONOPERATING INCOME (EXPENSE)							
Investment income	52,366	5,446	2,327	11,866	5,291	-	77,296
Investment fees	(1,355)	(141)	(60)	(307)	(137)	-	(2,000)
Community reinvestment	(5,376)	-	(2)	761	-	-	(4,617)
TOTAL NONOPERATING INCOME (EXPENSE)	<u>45,635</u>	<u>5,305</u>	<u>2,265</u>	<u>12,320</u>	<u>5,154</u>	<u>-</u>	<u>70,679</u>
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS	64,988	(7,909)	119	(28,007)	5,007	13	34,211
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	<u>(17,216)</u>	<u>(657)</u>	<u>(1,034)</u>	<u>(4,659)</u>	<u>(2,115)</u>	<u>-</u>	<u>(25,681)</u>
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTION TO SPONSOR ORGANIZATIONS	47,772	(8,566)	(915)	(32,666)	2,892	13	8,530
DISTRIBUTION TO SPONSORS	-	-	-	-	-	-	-
EQUITY TRANSFERS	(7,500)	7,500	-	-	-	-	-
NET ASSETS, BEGINNING OF YEAR	<u>331,962</u>	<u>16,474</u>	<u>26,941</u>	<u>118,215</u>	<u>74,928</u>	<u>(11)</u>	<u>568,509</u>
NET ASSETS END OF YEAR	<u>\$ 372,234</u>	<u>\$ 15,408</u>	<u>\$ 26,026</u>	<u>\$ 85,549</u>	<u>\$ 77,820</u>	<u>\$ 2</u>	<u>\$ 577,039</u>

**UNIFORM GUIDANCE  
SUPPLEMENTAL REPORTS**

**MERCY CARE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2025

<b>Federal Grantor / Pass-Through Agency / Program or Cluster Title</b>	<b>Federal Assistance Listing Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services</b>				
<b>Passed Through Arizona Health Care Cost Containment System:</b>				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	11356415170214	\$ 23,085,643	\$ 25,004,640
COVID-19 - Block Grants for Prevention and Treatment of Substance Abuse	93.959	11356415170214	328,245	354,505
Subtotal Block Grants for Prevention and Treatment of Substance Abuse (93.959)			<u>23,413,888</u>	<u>25,359,145</u>
Block Grants for Community Mental Health Services	93.958	11356415170214	13,645,341	15,011,476
COVID-19 - Block Grants for Community Mental Health Services	93.958	11356415170214	<u>3,327,859</u>	<u>3,594,088</u>
Subtotal Block Grants for Community Mental Health Services (93.958)			<u>16,973,200</u>	<u>18,605,564</u>
Opioid STR	93.788	11356415170214	6,898,158	7,450,017
Total Passed-Through Arizona Health Care Cost Containment System			<u>47,285,246</u>	<u>51,414,726</u>
<b>Passed Through the City of Phoenix:</b>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	11356415170214	<u>971,997</u>	<u>1,069,197</u>
<b>Passed Through Arizona Department of Health Services:</b>				
Strengthening Public Health Systems and Services Through National Partnerships to Improve and Protect the Nations Health	93.421	QMWUG1AMYP65	<u>22,256</u>	<u>24,482</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 48,279,499</u>	<u>\$ 52,508,405</u>

## MERCY CARE

### NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2025

(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, 2025. 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.





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

To the Board of Directors of

**MERCY CARE**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Mercy Care**, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2025.

***Report on 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.

### ***Report on 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.

*CBIZ CPAs P.C.*

December 16, 2025



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

To the Board of Directors of

**MERCY CARE**

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited **Mercy Care's** compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mercy Care's major federal programs for the year ended June 30, 2025. **Mercy Care's** major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, **Mercy Care** complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with GAAS; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

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

## ***Auditors' Responsibilities for the Audit of Compliance***

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

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

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

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

## **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 Auditors' Responsibilities for Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

*CBIZ CPAs P.C.*

December 16, 2025

# MERCY CARE

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2025

### Section I – Summary of Auditors' Results

#### **Financial Statements**

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

#### **Federal Awards**

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

4. Identification of major federal programs:

Assistance Listing Number

Name of Federal Program or Cluster

93.958

Block Grants for Community Mental Health Services

93.959

Block Grants for Prevention and Treatment of Substance Abuse

93.788

Opioid STR

- |   |             |
|---|-------------|
| 5. Dollar threshold used to distinguish between type A and type B programs: | \$1,575,252 |
| 6. Auditee qualified as a low-risk auditee?                                 | Yes         |

# **MERCY CARE**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2025

### **Section II – Financial Statement Findings**

None noted

### **Section III – Federal Award Findings**

None noted

### **Section IV – Prior Audit Findings**

None