

**SAINT JOSEPH'S MERCY CARE SERVICES, INC.
dba MERCY CARE SERVICES**

FINANCIAL STATEMENTS AND
COMPLIANCE REPORTS

As of and for the Years Ended June 30, 2019 and 2018

And Report of Independent Auditor

SAINT JOSEPH’S MERCY CARE SERVICES, INC.

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Report of Independent Auditor

To the Board of Directors
Saint Joseph's Mercy Care Services, Inc.
dba Mercy Care Services
Atlanta, Georgia

We have audited the accompanying financial statements of Saint Joseph's Mercy Care Services, Inc., dba Mercy Care Services ("Mercy Care"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Care as of June 30, 2019 and 2018, 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.

Changes in Financial Statement Presentation

As discussed in Note 2, Mercy Care adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of functional expenses and liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 15, Mercy Care restated its beginning net asset as of July 1, 2017, and certain balances as of and for the year ended June 30, 2018, to properly present those balances. Our opinion is not modified with respect to these matters.

Other Matters

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 and state 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2020, on our consideration of Mercy Care’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercy Care’s internal control over financial reporting and compliance.



Atlanta, Georgia
February 13, 2020

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018 As Restated
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 441,296	\$ 393,492
Patient accounts receivable, less allowances for uncollectible accounts of \$51,691 and \$259,093, respectively	274,635	350,318
Grants receivable	802,200	613,858
Other receivables	51,622	147,020
Prepaid expenses and other assets	167,053	184,232
Total Current Assets	<u>1,736,806</u>	<u>1,688,920</u>
Property and equipment, net	3,893,847	4,093,170
Assets held by Mercy Care Foundation, Inc.	4,140,446	2,986,476
Interest in net assets of Mercy Care Foundation, Inc.	6,570,745	8,288,417
Total Assets	<u><u>\$ 16,341,844</u></u>	<u><u>\$ 17,056,983</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 601,142	\$ 650,555
Accrued expenses	51,856	55,250
Salaries and benefits payable	1,203,795	1,042,255
Deferred revenues	832,929	1,242,619
Total Current Liabilities	<u>2,689,722</u>	<u>2,990,679</u>
Net Assets:		
Net assets without donor restrictions	7,081,377	5,777,887
Net assets with donor restrictions	6,570,745	8,288,417
Total Net Assets	<u>13,652,122</u>	<u>14,066,304</u>
Total Liabilities and Net Assets	<u><u>\$ 16,341,844</u></u>	<u><u>\$ 17,056,983</u></u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018 As Restated
Changes in Net Assets Without Donor Restrictions		
Revenues, Gains, and Other Support:		
Grant income	\$ 10,334,546	\$ 9,746,954
Support received from Saint Joseph's Health System, Inc. and affiliate	7,511,072	6,635,256
Contributions	1,137,113	153,819
Contributed services and supplies	191,754	239,389
Net patient service revenue	3,116,594	2,704,933
Other income	508,664	490,384
	<u>22,799,743</u>	<u>19,970,735</u>
Net assets released from restrictions	2,009,247	2,771,687
	<u>24,808,990</u>	<u>22,742,422</u>
Expenses and Losses:		
Salaries, wages, and payroll taxes	14,072,259	12,948,852
Benefits	2,470,617	2,283,875
Medical supplies and drugs	612,527	741,444
Professional fees and purchased services	3,862,680	3,399,673
Depreciation	375,351	361,290
Taxes and insurance	72,591	200,742
Occupancy	833,881	737,392
Other supplies and expenses	1,205,594	1,407,835
	<u>23,505,500</u>	<u>22,081,103</u>
Change in Net Assets Without Donor Restrictions	<u>1,303,490</u>	<u>661,319</u>
Changes in Net Assets With Donor Restrictions		
Net change in interest in net assets of Mercy Care Foundation, Inc.	291,575	1,531,216
Net assets released from restrictions	(2,009,247)	(2,771,687)
Change in Net Assets With Donor Restrictions	<u>(1,717,672)</u>	<u>(1,240,471)</u>
Change in net assets	<u>(414,182)</u>	<u>(579,152)</u>
Net assets, beginning of year, as previously stated	14,066,304	13,841,854
Restatement (See Note 15)	-	803,602
Net assets, beginning of year, as restated	<u>14,066,304</u>	<u>14,645,456</u>
Net assets, end of year	<u>\$ 13,652,122</u>	<u>\$ 14,066,304</u>

The accompanying notes to the financial statements are an integral part of these statements.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u> <u>As Restated</u>
Cash flows from operating activities:		
Change in net assets	\$ (414,182)	\$ (579,152)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Loss on sale of assets	12,790	48,393
Provision for bad debts, net	190,540	371,051
Depreciation	375,351	361,290
Changes in operating assets and liabilities:		
Patient accounts receivable	(114,857)	(499,913)
Grants receivable	(188,342)	(75,557)
Other receivables	95,398	81,975
Prepaid assets and other assets	17,179	123,730
Assets held by Mercy Care Foundation, Inc.	(1,153,970)	(191,808)
Interest in net assets of Mercy Care Foundation, Inc.	1,717,672	(68,567)
Accounts payable, salaries and benefits payable, and accrued expenses	108,733	21,597
Deferred revenues	(409,690)	432,001
Net cash flows from operating activities	<u>236,622</u>	<u>25,040</u>
Cash flows from investing activities:		
Purchases of property and equipment	(188,818)	(242,084)
Net cash flows from investing activities	<u>(188,818)</u>	<u>(242,084)</u>
Net increase (decrease) in cash and cash equivalents	47,804	(217,044)
Cash and cash equivalents, beginning of year	393,492	610,536
Cash and cash equivalents, end of year	<u>\$ 441,296</u>	<u>\$ 393,492</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 1—Description of organization

Saint Joseph's Mercy Care Services, Inc. ("Mercy Care") is a nonprofit corporation whose primary activity is the provision of healthcare services for the indigent and underserved in Atlanta, Georgia. Effective July 1, 2014, Saint Joseph's Mercy Care Services, Inc. began doing business under the name of Mercy Care.

Mercy Care is a controlled entity of Saint Joseph's Health System, Inc. ("SJHS") and, therefore, the financial statements of Mercy Care are combined in the financial statements of SJHS. SJHS is a mission health ministry of Trinity Health Corporation, an Indiana nonprofit corporation ("Trinity Health"). This is a Catholic national health system that enhances the mission of service to people and communities across the United States.

The provision of charity care is an integral part of the mission of SJHS and the Sisters of Mercy. Mercy Care has received a commitment for continued support from SJHS and Mercy Care Foundation, Inc. ("MCF").

SJHS has pledged annual support for the operations of Mercy Care up to 5% a year of the average total market value of the Mercy Care endowment for the trailing five-year period ended December 31, 2018; additional support may be provided to Mercy Care at the discretion of SJHS. Support received by Mercy Care from SJHS was \$5,767,821 and \$5,181,247 for the years ended June 30, 2019 and 2018, respectively.

MCF, which is also a controlled entity of SJHS, was established to solicit contributions from the general public and to support SJHS and its nonprofit affiliates, including Mercy Care. In addition to funds raised from solicited contributions, as discussed in Note 5, MCF has also pledged annual support to Mercy Care based on a computed percentage of the fair market value of a portion of MCF's investments. Support received by Mercy Care from MCF was \$1,743,251 and \$1,454,009 for the years ended June 30, 2019 and 2018, respectively.

Mercy Care incurred a deficit of revenues and support over expenses without donor restrictions before support provided by SJHS and affiliates of (\$7,361,552) and (\$6,165,645) for the years ended June 30, 2019 and 2018, respectively.

Note 2—Summary of significant accounting policies

Basis of Accounting – The financial statements of Mercy Care have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Financial Statement Presentation – Mercy Care is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of Mercy Care. These net assets may be used at the discretion of management.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by the donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Mercy Care or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand, deposits with banks, and highly liquid investments. Mercy Care considers all highly liquid investments purchased with an original maturity of three months or less when purchased to be cash equivalents.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Concentration of Credit Risk – Mercy Care places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. Mercy Care from time to time may have had amounts on deposit in excess of the insured limits.

Patient Accounts Receivable – Patient accounts receivable are reported net of contractual adjustments which represent the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, and other third party payment programs. Current operations are charged with an allowance for uncollectible accounts based upon experience and any unusual circumstances which affect the collectability of receivables. Accounts deemed uncollectible are charged against the allowance.

Grants Receivable – Mercy Care receives a substantial amount of its operating support from federal, state, and local government grants. Grants receivable are funds expended by Mercy Care that are eligible for reimbursement under the various awarded governmental grant programs. Therefore, grants receivable represent the unreimbursed expenditures of grants awarded.

Property and Equipment – Property and equipment acquisitions are stated on the basis of cost with the exception of donated items, which are stated at fair market value at the date of donation. Replacements, maintenance, and repairs which do not improve or extend the life of the respective assets are charged to expense when incurred.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are depreciated over the shorter of the remaining lease term or their estimated useful lives.

Lives used for depreciation calculations are as follows:

Buildings	30 – 40 years
Equipment	5 – 15 years
Major Movable	5 – 10 years
Vehicles	3 – 5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Donated Services – Mercy Care receives donated services from healthcare professionals, which are recorded at fair value.

Income Taxes – Mercy Care is exempt from income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, no provision for federal income taxes has been made. Mercy Care has evaluated the effect of U.S. GAAP guidance on accounting for uncertainty in income taxes. Management believes Mercy Care continues to satisfy the requirements of a tax-exempt organization and, therefore, had no uncertain income tax positions at June 30, 2019 and 2018.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

Fair Value Measurements – The Mercy Care financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in Mercy Care's statements of financial position including cash, cash equivalents, and interest in net assets of MCF. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of nonperformance risk. To determine fair value, Mercy Care uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market, the valuation methodology is widely accepted by market participants, and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. Mercy Care assesses the inputs used to measure fair value using a three-level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in nonactive markets (few transactions, limited information, noncurrent prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

Adopted Accounting Pronouncements – During the year ended June 30, 2019, Mercy Care adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements and Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Mercy Care has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the disclosure of functional expenses and liquidity and availability of resources, which has been implemented prospectively as allowed under the provisions of ASU 2016-14.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 2—Summary of significant accounting policies (continued)

Forthcoming Accounting Pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. In August 2015, the FASB amended the guidance to defer the effective date of this standard by one year. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Mercy Care has completed its evaluation of the requirements of the new standard to ensure that it has processes, systems, and internal controls in place to collect the necessary information to implement the standard, which will be effective for Mercy Care beginning July 1, 2019. The modified retrospective method will be used to adopt ASU 2014-09 on July 1, 2019. For healthcare operations, Mercy Care will apply a portfolio approach to apply the new model to classes of payors with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU 2014-09 will result in changes to the presentation for a disclosure of revenue related to uninsured or self-pay patients as under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to patient service revenue and, correspondingly, will result in a reduction in the amounts presented separately as provision for bad debts.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*, which adds and clarifies guidance on the presentation of changes in restricted cash on the statement of cash flows and requires restricted cash to be included with cash and cash equivalents in the statement of cash flows. The guidance does not provide a definition of restricted cash. This guidance is effective for Mercy Care beginning July 1, 2019. Mercy Care is still evaluating the impact this guidance may have on the statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance introduces a lessee model that brings substantially all leases on the balance sheet. The main difference between the guidance in ASU 2016-02 and current U.S. GAAP is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. This guidance is effective for Mercy Care beginning July 1, 2020. Mercy Care is still evaluating the impact this guidance will have on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance revises accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for Mercy Care beginning July 1, 2019. Mercy Care is still evaluating the impact this guidance may have on its financial statements.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in ASU 2018-08 provide guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction, determining whether a contribution is conditional, and modifies the simultaneous release option currently in U.S. GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in unrestricted net assets/net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns. This standard is effective for fiscal years beginning July 1, 2019. Management is currently evaluating the impact of this standard on Mercy Care's financial statements.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 3—Liquidity and availability of resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year at June 30, 2019:

Financial assets at year-end:

Cash and cash equivalents	\$ 441,296
Patient receivables, net	274,635
Grants and other receivables	853,822
Assets held by Mercy Care Foundation, Inc.	4,140,446
Interest in net assets of Mercy Care Foundation, Inc.	6,570,745
Total financial assets	<u>12,280,944</u>

Less amounts not available to be used for general expenditures within one year:

Subject to donor purpose restrictions	<u>6,570,745</u>
Financial assets not available to be used within one year	<u>6,570,745</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,710,199</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Mercy Care considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

As discussed in Note 1, Mercy Care receives annual operating support from SJHS and MCF without which it would incur annual deficits from operations. Mercy Care maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Note 4—Net patient service revenue

Third party payors (Medicare, Medicaid, and commercial insurance payors) provide payments at amounts different from established rates. Payment arrangements include prospectively determined rates per visit, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is recorded on the date of service and is reported at the estimated net realizable amounts for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors.

Gross revenue and contractual adjustments for the years ended June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Gross patient revenue	\$ 11,811,462	\$ 9,918,642
Less contractual adjustments	(1,115,342)	(329,293)
Less charity care	<u>(7,579,526)</u>	<u>(6,884,416)</u>
Net patient service revenue	<u>\$ 3,116,594</u>	<u>\$ 2,704,933</u>

SAINT JOSEPH’S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 4—Net patient service revenue (continued)

Mercy Care renders care to patients covered by the Medicare and Medicaid programs. Reimbursements for outpatient services under the Medicare program are based on fixed amounts per eligible patient subject to certain adjustments. Payments for outpatient services under the Medicaid program are generally related to the cost of providing care subject to certain prescribed limits. Services rendered under these programs are recorded at established rates and reduced to the estimated amounts due from the third party payors through the recording of contractual adjustments and other discounts. Because Mercy Care cannot pursue collections for the contractual adjustments or discounted amounts, they are not reported as revenue.

Note 5—Charity care and community benefits

Mercy Care provides care to patients who meet certain criteria under its charity care policies without charge or at amounts less than the established rates. Because Mercy Care does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue or accounts receivable in the accompanying statements of financial position and activities.

Mercy Care maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone and direct and indirect costs for services and supplies furnished under its charity care policies. Charges forgone for charity care were \$7,579,526 and \$6,884,416 for the years ended June 30, 2019 and 2018, respectively. The direct and indirect costs associated with these services for charity care provided were \$17,484,356 and \$16,420,986 for the years ended June 30, 2019 and 2018, respectively.

Note 6—Interest in the net assets of Mercy Care Foundation, Inc.

MCF maintains funds that have been contributed by various donors to MCF for the benefit of Mercy Care. These funds are included as assets of Mercy Care because Mercy Care has unconditional rights to distributions from these funds. Despite the variance power, Mercy Care believes MCF will continue to make annual distributions to Mercy Care.

Investments held by MCF for Mercy Care’s benefit at fair value totaled \$6,570,745 and \$8,288,417 at June 30, 2019 and 2018, respectively. These investments consist principally of marketable equity and debt securities with fair values determined by quoted market prices. Based on the valuation method and nonredeemable nature of the assets, the measures of the fair value of the interest in the net assets of MCF are categorized as Level 3.

The following is a reconciliation of activity for 2019 and 2018 for assets measured at fair value based on significant unobservable information:

	Interest in Net Assets of MCF
Balance, July 1, 2017	\$ 8,219,850
Increases	1,531,216
Distributions	<u>(1,462,649)</u>
Balance, June 30, 2018	8,288,417
Increases	291,575
Distributions	<u>(2,009,247)</u>
Balance, June 30, 2019	<u><u>\$ 6,570,745</u></u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 7—Assets held by Mercy Care Foundation, Inc.

Mercy Care has entered into an arrangement with MCF to manage investments of Mercy Care consistent with investment policies of MCF. Mercy Care's investment balances under management as of June 30, 2019 and 2018 were \$4,140,446 and \$2,986,476, respectively.

Note 8—Property and equipment

Property and equipment consist of the following as of June 30:

	2019	2018
Land, buildings, and improvements	\$ 4,146,854	\$ 4,112,926
Furniture, fixtures, and equipment	3,453,088	3,381,455
Construction in progress	-	50,000
Property and equipment, at cost	7,599,942	7,544,381
Less accumulated depreciation	(3,706,095)	(3,451,211)
Property and equipment, net	<u>\$ 3,893,847</u>	<u>\$ 4,093,170</u>

Depreciation expense for the years ended June 30, 2019 and 2018 was \$375,351 and \$361,290, respectively.

Note 9—Due to/from affiliated companies and related party transactions

SJHS reimburses Trinity Health for certain employee benefits as well as financial and other service expenses incurred on behalf of Mercy Care. SJHS then allocates those expenses to Mercy Care. During the years ended June 30, 2019 and 2018, Mercy Care reimbursed SJHS \$198,072 and \$202,852, respectively, for those expenses.

Mercy Care incurs certain human resources and financial services expenses on behalf of affiliated organizations. Mercy Care then allocates those expenses to the related affiliated organization. During the years ended June 30, 2019 and 2018, Mercy care was reimbursed \$227,556 and \$267,876, respectively, for those expenses.

Mercy Care received \$48,000 in rental income from MCF for the leasing of the new Mercy Care Chamblee Clinic for each of the years ended June 30, 2019 and 2018.

Note 10—Pension and other benefit plans

Defined Benefit Pension Plan – Substantially all of Mercy Care's employees participate in a frozen, qualified noncontributory single employer defined benefit pension plan sponsored by Trinity Health. The plan has church plan status as defined in the Employee Retirement Income Security Act of 1974. As a single employer plan, participating subsidiaries have been allocated their share of pension costs (credits) and contributions based on an actuarial valuation of Mercy Care's plan participants.

The plan's assets are invested in equity securities, fixed income securities, money market investments, hedge funds, commingled funds directly holding securities, long/short equity, and private equity funds. Mercy Care recorded net periodic pension income of \$20,504 and \$48,920 and made cash contributions to the plan of \$19,209 and \$3,769 for the years ended June 30, 2019 and 2018, respectively.

SAINT JOSEPH’S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 10—Pension and other benefit plans (continued)

Defined Contribution Benefits – Trinity Health sponsors defined contribution plans covering substantially all of Mercy Care’s employees. The plans are funded by employee voluntary contributions, subject to legal limitations. Employer contributions to the plans include both non-elective and matching contributions. Employer and employee contributions are self-directed by plan participants in the defined contribution plans. Mercy Care recorded contribution expense under the plan of \$544,879 and \$523,482 during the years ended June 30, 2019 and 2018, respectively.

Note 11—Operating leases

Mercy Care leases certain office space and equipment under operating lease agreements. Lease expense totaled \$216,818 and \$145,464 for the years ended June 30, 2019 and 2018, respectively. Mercy Care has no future minimum obligations as of June 30, 2019.

Note 12—Functional expenses

There are certain categories of expenses that are attributed to program and supporting functions. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Depreciation and taxes and insurance expenses are allocated based upon square footage.

Expenses by function and nature consist of the following for the year ended June 30, 2019:

	<u>Program Expenses</u>	<u>Supporting Expenses</u>	
	<u>Health Care Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries, wages, and payroll taxes	\$ 11,042,165	\$ 3,030,094	\$ 14,072,259
Benefits	1,088,993	1,381,624	2,470,617
Medical supplies and drugs	612,527	-	612,527
Professional fees and purchased services	3,093,312	769,368	3,862,680
Depreciation	247,732	127,619	375,351
Taxes and insurance	47,910	24,681	72,591
Occupancy	485,720	348,161	833,881
Other supplies and expenses	540,476	665,118	1,205,594
Total Expenses	<u>\$ 17,158,835</u>	<u>\$ 6,346,665</u>	<u>\$ 23,505,500</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 13—Net assets with donor restrictions

Net assets with donor restrictions are restricted at June 30, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Subject to purpose restrictions:		
Healthcare services	\$ 6,570,745	\$ 8,288,417

Net assets were released from donor restrictions by incurring expense satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Satisfaction of purpose restrictions:		
Healthcare services	\$ 2,009,247	\$ 2,771,687

Note 14—Commitments and contingencies

From time to time, Mercy Care is involved in various lawsuits and regulatory investigations arising in the course of business. Based upon information, reports, and analyses provided by outside consultants, attorneys, and insurance carriers, management is of the opinion that adequate provisions have been made for all asserted and unasserted claims and that these matters will be resolved without material adverse effect on the future financial position or results of activities.

Note 15—Adjustment to prior period financial statements

Management of Mercy Care determined that the previously issued financial statements for the year ended June 30, 2018 required correction due to two errors identified during the year ended June 30, 2019.

Mercy Care from time to time transfers funds, without donor restrictions, to MCF for investment management purposes only. These funds are owned by Mercy Care and should have been reflected as assets on Mercy Care's financial statements. Mercy Care has reported the fair value of these funds on its financial statements as an increase to beginning net assets as of July 1, 2017 and assets held by MCF and other income, related to investment returns on these funds, on its statements of financial position and activities as of and for the year ended June 30, 2018.

In a prior year, MCF received a gift, without restrictions, from a donor. The donor named MCF as the beneficiary of that gift. That gift was improperly included in the interest in net assets of MCF balance on Mercy Care's financial statements. Mercy Care has reflected the correction as a reduction to beginning net assets as of July 1, 2017 and interest in net assets of MCF and net change in interest in net assets of MCF as of and for the year ended June 30, 2018.

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

Note 15—Adjustment to prior period financial statements (continued)

The adjustments made to the reissued 2018 financial statements are summarized below:

	Balances as Previously Reported	Effect of Restatement	Balances As Restated
Statement of Financial Position			
Assets held by Mercy Care Foundation, Inc.	\$ -	\$ 2,986,476	\$ 2,986,476
Interest in net assets of Mercy Care Foundation, Inc.	10,467,460	(2,179,043)	8,288,417
Net assets without donor restrictions	2,791,411	2,986,476	5,777,887
Net assets with donor restrictions	10,467,460	(2,179,043)	8,288,417
Statement of Activities			
Other income	298,576	191,808	490,384
Net change in interest in net assets of Mercy Care Foundation, Inc.	1,719,193	(187,977)	1,531,216
Change in net assets	(582,983)	3,831	(579,152)
Net assets, beginning of the year	13,841,854	803,602	14,645,456
Statement of Cash Flows			
Change in net assets	(582,983)	3,831	(579,152)
Changes in operating assets and liabilities:			
Assets held by Mercy Care Foundation, Inc.	-	(191,808)	(191,808)
Interest in net assets of Mercy Care Foundation, Inc.	(256,544)	187,977	(68,567)

Note 16—Subsequent events

Mercy Care evaluated subsequent events through February 13, 2020, the date the financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.

COMPLIANCE REPORTS

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant ID Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development:				
<i>Pass Through from City of Atlanta:</i>				
Housing Opportunities for Persons with AIDS	14.241	250132457	PASS - CITY OF ATLANTA	\$ 211,849
Atlanta Cooperative Agreements to Benefit Homeless Individuals (CABHI)	93.243	FC-9553	PASS - CITY OF ATLANTA	77,403
Total U.S. Department of Housing and Urban Development				<u>289,252</u>
U.S. Department of Health and Human Services:				
<i>Direct Programs:</i>				
HIV Prevention Activities_Non-Governmental Organization Based	93.939	5NU65PS004933		337,173
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00090		704,405
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	H80CS00022		5,586,884
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	5H79T1025797		231,652
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	1H79T1080635		307,391
				<u>7,167,505</u>
<i>Pass Through from Georgia Department of Public Health:</i>				
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	40500-032-16151252	40500-046-18161803	140,153
<i>Pass Through from Fulton County Department of Community Development:</i>				
Community Service Program Funding	93.940	17RFP90117A-MH	PASS - FULTON COUNTY	67,408
<i>Pass Through from Fulton County Board of Commissioners:</i>				
HIV Emergency Relief Project Grants	93.914	270 19SC118458B-BR	PASS - FULTON COUNTY	741,607
<i>Pass Through from Emory Healthcare</i>				
Nurse Training Improving Projects	93:359	UK1HP31697	UK1HP31697-01-00	24,822
				<u>973,990</u>
Total U.S. Department of Health and Human Services				<u>8,141,495</u>
Total Federal Expenditures				<u>\$ 8,430,747</u>
State Grantor/Program				
State of Georgia Department of Community Health				
Healthcare Services to Homeless Individuals in the City of Atlanta	N/A	16035G		\$ 222,433
State of Georgia Department of Human Resources:				
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	441-263-0262019041		978,686
Mental Health, Developmental Disabilities and Addictive Diseases	N/A	44100-026-00000		600,000
Dept. of Public Health	N/A	40500-046-19161803		96,869
Total State of Georgia Department of Human Resources				<u>1,675,555</u>
Total State Expenditures				<u>\$ 1,897,988</u>

SAINT JOSEPH'S MERCY CARE SERVICES, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2019

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal and state contract activity of Saint Joseph's Mercy Care Services, Inc. ("Mercy Care") for the year ended June 30, 2019, and is presented based on accounting principles generally accepted in the United States of America. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

Note 2—Summary of significant accounting policies

Basis of Accounting – Expenditures reported on the Schedule 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.

Indirect Cost Rate – Mercy Care has elected not to use the 10% de minimum indirect cost rate as allowed under the Uniform Guidance.

Note 3—Contingencies

These federal and state programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect Mercy Care's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although Mercy Care expects such amounts, if any, to be immaterial.

Note 4—Facilities and administrative costs

Expenditures consist of direct costs and indirect costs. Mercy Care has a predetermined facilities administrative rate for federal awards which is effective from July 1, 2015 until June 30, 2019. The rate is 38% of modified total direct costs for all federal programs.

Note 5—Subrecipients

There were no awards passed through to subrecipients for the year ended June 30, 2019.

**Report of Independent Auditor 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
Saint Joseph's Mercy Care Services, Inc. dba Mercy Care Services
Atlanta, Georgia

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 Saint Joseph's Mercy Care Services, Inc. dba Mercy Care Services ("Mercy Care"), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mercy Care's internal control over financial reporting ("internal control") 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 Mercy Care's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mercy Care's financial statements are free from material misstatements, 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.

Cheryl Bekart LLP

Atlanta, Georgia
February 13, 2020

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by *the Uniform Grant Guidance*

To the Board of Directors
Saint Joseph's Mercy Care Services, Inc. dba Mercy Care Services
Atlanta, Georgia

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in cursive script that reads "Cherry Bekart LLP".

Atlanta, Georgia
February 13, 2020

SAINT JOSEPH'S MERCY CARE SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST

YEAR ENDED JUNE 30, 2019

Section I—Summary of the Auditor's Results

1. The auditor's report expressed an unmodified opinion on the financial statements of Mercy Care.
2. Internal control over financial reporting:
Material weaknesses identified: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **None reported**
3. No instances of noncompliance material to the financial statements of Mercy Care, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. Internal control over major programs:
Material weaknesses identified: **No**
Significant deficiencies identified that are not considered to be material weaknesses: **None reported**
5. The auditor's report on compliance for the major federal award program for Mercy Care expressed an unmodified opinion on its major programs.
6. Any audit findings which are required to be reported in accordance with 2 CFR Section 200.516(a): **No**
7. The programs tested as major programs were:
CFDA# 93.224 Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Healthcare for the Homeless, and Public Housing Primary Care)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Mercy Care qualified as a low-risk auditee.

Section II—Findings in Relation to the Audit of the Financial Statements

None

Section III—Federal Awards Findings and Questioned Costs

None