SOUTHWEST CATHOLIC
HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND
ADDITIONAL INFORMATION

Years Ended June 30, 2016 and 2015

SOUTHWEST CATHOLIC
HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Years Ended June 30, 2016 and 2015

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

We have audited the accompanying consolidated financial statements of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate***, which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate*** as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 26, 2016

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015
(In thousands)

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 406,018	$ 251,676
Short-term investments	19,957	19,288
Receivables:		
Reinsurance receivables, net of allowance for doubtful accounts of $13,207 for 2016 and $7,069 for 2015	17,634	19,290
Reconciliation receivables	7,780	11,809
Capitation and supplemental receivables	3,251	8,824
Pharmacy rebate receivable	17,151	12,172
Third party liability receivable, net of allowance for doubtful accounts of $507 for 2016 and $1,517 for 2015	3,684	3,176
Interest receivable	314	321
Provider advances, net of allowance for doubtful accounts of $1,282 for 2016 and $1,086 for 2015	7,412	6,602
Other receivables	415	359
Risk share settlement	14,486	15,119
Due from ADHS	9,304	12,967
Due from Aetna	1,426	10,461
Prepaid assets	8,264	1,824
TOTAL CURRENT ASSETS	517,096	373,888
RESTRICTED SECURITIES	520	520
CAPITALIZED SOFTWARE COSTS, net	2,115	2,884
RISK SHARE SETTLEMENT, less current portion	2,309	2,331
LONG-TERM INVESTMENTS	105,486	105,968
TOTAL ASSETS	$ 627,526	$ 485,591

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES		
Claims payable	$ 246,885	$ 242,694
Payable to providers	18,324	5,973
Reconciliation payable	44,829	29,937
Due to ADHS	36,157	117
Due to Aetna	2,674	-
Deferred revenue	5,668	225
Due to District	17,400	-
Other current liabilities	14,612	11,141
TOTAL CURRENT LIABILITIES	386,549	290,087
RISK SHARE SETTLEMENT PAYABLE	2,345	2,629
DUE TO DISTRICT	-	12,860
TOTAL LIABILITIES	388,894	305,576
UNRESTRICTED NET ASSETS	238,632	180,015
TOTAL LIABILITIES AND NET ASSETS	$ 627,526	$ 485,591

See Notes to Consolidated Financial Statements

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Years Ended June 30, 2016 and 2015
(In thousands)

	2016	2015
OPERATING REVENUES		
Capitation premiums	$ 3,194,793	$ 2,945,105
Delivery supplement	60,144	59,020
Reinsurance	60,183	53,020
Other, primarily third party recoveries	5,511	1,936
TOTAL OPERATING REVENUES	3,320,631	3,059,081
HEALTH CARE EXPENSES		
Hospitalization	365,267	331,576
Medical compensation	335,717	313,902
Ancillary and other medical services	1,920,950	1,770,624
Institutional	181,943	189,689
Home and community based services	170,125	173,772
TOTAL HEALTH CARE EXPENSES	2,974,002	2,779,563
GENERAL AND ADMINISTRATIVE EXPENSES	247,829	213,433
PREMIUM TAX EXPENSE	35,842	33,500
TOTAL EXPENSES	3,257,673	3,026,496
OPERATING INCOME	62,958	32,585
NONOPERATING INCOME (EXPENSE)		
Investment income	3,276	7,615
Investment fees	(573)	(570)
TOTAL NONOPERATING INCOME	2,703	7,045
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	(2,504)	(3,762)
CHANGE IN NET ASSETS PRIOR TO DISTRIBUTIONS AND CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	63,157	35,868
DISTRIBUTIONS TO SPONSOR ORGANIZATIONS	-	(30,000)
CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	(4,540)	(3,891)
CHANGE IN NET ASSETS	58,617	1,977
NET ASSETS, BEGINNING OF YEAR	180,015	178,038
NET ASSETS, END OF YEAR	$ 238,632	$ 180,015

See Notes to Consolidated Financial Statements

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets prior to distributions and noncontrolling interests	$ 63,157	$ 35,868
Adjustments to reconcile change in net assets prior to distributions and change attributable to District to net cash provided by operating activities:		
Bad debt expense	8,266	7,500
Amortization expense	769	769
Net unrealized losses on investments	3,884	3,761
Net unrealized losses on restricted securites	-	1
Net realized gains on investments	(719)	(5,406)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Reinsurance receivables	(7,130)	(7,491)
Reconciliation receivables	4,029	7,971
Capitation and supplemental receivables	5,573	60,737
Pharmacy rebate receivable	(4,979)	(5,548)
Third party liability receivable	503	(66)
Interest receivable	7	334
Provider advances	(1,301)	(2,291)
Other receivables	(56)	16
Risk share settlement	371	(3,472)
Due from ADHS	3,663	(11,839)
Due from Aetna	9,035	(10,461)
Prepaid assets	(6,440)	(274)
Increase (decrease) in:		
Claims payable	4,191	42,186
Payable to providers	12,351	3,007
Reconciliation payable	14,892	22,767
Due to ADHS	36,040	(590)
Due to Aetna	2,674	(4,291)
Deferred revenue	5,443	225
Other current liabilities	3,471	4,268
Due to District	-	84
Net cash provided by operating activities	157,694	137,765
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of restricted securities	520	-
Purchase of restricted securities	(520)	-
Purchases of investments	(73,295)	(73,390)
Proceeds from sale of investments	69,943	71,448
Net cash used in investing activities	(3,352)	(1,942)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments to Aetna for Mercy Maricopa start up costs	-	(2,714)
Collection on amounts due from District	-	5,000
Distributions to sponsor organizations	-	(30,000)
Net cash used in financing activities	-	(27,714)
NET CHANGE IN CASH AND CASH EQUIVALENTS	154,342	108,109
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	251,676	143,567
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 406,018	$ 251,676

See Notes to Consolidated Financial Statements

(1) Company operations and significant accounting policies

Company operations - Southwest Catholic Health Network Corporation dba Mercy Care Plan (SCHN, or the Plan) is a nonprofit corporation, whose sponsor organizations are Dignity Health (Dignity) and Carondelet Health Network (Carondelet), collectively the “sponsors.” SCHN provides medical care under various contracts with the Arizona Health Care Cost Containment System (AHCCCS), a department of the state of Arizona charged with administering health care for the state’s indigent population. SCHN provides medical coverage under the AHCCCS contract for the following populations:

- AHCCCS Acute - Members eligible under Title XIX Medicaid program and Title XXI program requirements
- Arizona Long Term Care System (ALTCS) - Provide institutional care, home and community based services and behavioral health services to long term care members
- Arizona Department of Economic Security, Division of Developmental Disabilities (DES/DDD) - provide medical services to eligible members

Effective January 22, 2013, Mercy Maricopa Integrated Care (Mercy Maricopa), was incorporated in the State of Arizona with a dissolution date of the later of December 31, 2021 or six months after the expiration of the Regional Behavioral Health Authority (RBHA) contract. The initial members of Mercy Maricopa are SCHN, its two sponsor organizations Dignity and Carondelet, and Maricopa County Special Health Care District (District). The by-laws provide that Mercy Maricopa shall have one class of members initially; however, the current members may decide to create additional classes of membership or to add new members with unanimous consent of existing members. Relative interests of the members of Mercy Maricopa and the formula for distributions to members effective September 9, 2013 are as follows:

SCHN	85%
District	15%

The agreements also provide that SCHN serve as the managing member of Mercy Maricopa.

Mercy Maricopa was formed to provide physical and behavioral health care services on an integrated basis to Medicaid eligible adults with serious mental illness, and to operate as the RBHA to coordinate the delivery of health care services to eligible persons in Maricopa County, Arizona. Mercy Maricopa was initially funded through a $30 million capital contribution from SCHN and a $10 million capital contribution from District. SCHN contributed additional capital totaling $25 million during each of the years ended June 30, 2015 and 2014.

On March 25, 2013, Mercy Maricopa was awarded a $3 billion three year contract with the Arizona Department of Health Services (ADHS) to serve as the designated RBHA for the geographical service area (GSA) of Maricopa County. This new contract was to take effect October 1, 2013; however, the prior contract holder filed a legal challenge and requested and received a stay order requiring the contract to remain with the prior contract holder until the legal challenge had been decided. On December 3, 2013, the Deputy Director of the Arizona Department of Administration issued an Order affirming the Arizona Department of Health Services award of the GSA 6 Integrated Care RBHA contract to Mercy Maricopa effective April 1, 2014. The Organization’s contract expired September 30, 2016 and has two optional one year extensions. Subsequent to June 30, 2016, Mercy Maricopa’s contract with ADHS was renewed through September 30, 2017.

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

Mercy Maricopa is responsible for managing and maintaining an organized, comprehensive integrated healthcare delivery system for the benefit of eligible members within its assigned geographical service area. Effective October 1, 2015, due to changes in the RBHA contract with ADHS, Mercy Maricopa no longer provides General Mental Health and Substance Abuse services to the dually eligible population. The General Mental Health and Substance Abuse dually eligible members total approximately 57,000 with annualized revenues of approximately $27,000,000 for fiscal year 2015 and approximately $6,750,000 for fiscal year 2016.

SCHN and Mercy Maricopa operate Medicare Advantage Plans (Medicare Advantage) with the Centers for Medicare and Medicaid Services (CMS), offering medical and prescription drug benefits to qualified members. Medicare Advantage operates as a special needs plan under CMS guidelines. The populations covered under Medicare Advantage are members who are eligible for both Medicare and Medicaid coverage. Mercy Maricopa did not renew its Medicare Advantage Plan with CMS and discontinued the plan effective December 31, 2015. For the years ended June 30, 2016 and 2015, capitation revenue for the Mercy Maricopa Medicare Advantage Plan was approximately $13,800,000 and $28,000,000, respectively, and the net income (loss) of the plan was approximately $3,400,000 and ($5,500,000), respectively.

SCHN has had a management agreement with Aetna since 2007, which is a continuation of the agreement held with Schaller Anderson, L.L.C. since 2001. The current agreement is ongoing and a new contract is being developed. Mercy Maricopa entered into a five year management agreement with Aetna effective May 1, 2013. The Mercy Maricopa agreement automatically renews for a second five year term and thereafter for successive one-year periods. Under the terms of the agreements, SCHN and Mercy Maricopa pay a monthly fee to Aetna, as defined in the agreement, to cover the employee salary and benefit costs and general and administrative expenses incurred to operate the organizations. SCHN and Mercy Maricopa incurred management fees per the management agreements of approximately $236,437,000 for the year ended June 30, 2016, and $218,188,000 for the year ended June 30, 2015. These amounts are included in general and administrative expenses in the accompanying consolidated statements of activities and changes in net assets. At June 30, 2015, unpaid management fees due to Aetna for SCHN and Mercy Maricopa totaled approximately $198,000 and are included in the net Due from Aetna in the accompanying consolidated statements of financial position.

Concurrent with the management agreement, Mercy Maricopa executed a letter of agreement that remained in effect until the one year anniversary of the start date of the ADHS contract (April 1, 2014). Under the terms of the letter of agreement, Aetna assumed the costs incurred by Mercy Maricopa in pursuit of any protest filed in connection with the ADHS contract and any defense thereof. In addition, Aetna paid for certain implementation costs, as defined in the letter of agreement, to cover employee salary and benefit costs and general and administrative expense incurred as start-up expenses. Upon termination of the letter of agreement, Mercy Maricopa reimbursed Aetna an amount equal to the lesser of the implementation costs incurred or $20,000,000. For the year ended June 30, 2014, Aetna paid implementation costs totaling approximately $14,226,000. In fiscal 2015, upon a full reconciliation of implementation costs, Aetna reduced the amount due from Mercy Maricopa by approximately $1,583,000 of previously billed implementation costs. Total amounts repaid to Aetna in accordance with the agreement for implementation costs totaled approximately $0 and $2,714,000 for the years ended June 30, 2016 and 2015, respectively.

SCHN's management agreement provides for a share of risk of the results of operations. Subject to certain performance measures, amounts will either be due from or due to Aetna. Additionally, the management agreement provides for supplemental compensation to be paid to Aetna upon meeting certain performance measures. At June 30, 2016 net amounts due to Aetna totaled approximately $2,000,000 and at June 30, 2015 net amounts due from Aetna were approximately $10,000,000, relating to these provisions in the management agreement. Mercy Maricopa's agreement does not provide for a share of the risk of the results from operations.

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

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

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

Basis of presentation - The accompanying consolidated financial statements have been prepared in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 954-205, *Health Care Entities – Presentation of Financial Statements*. The Company’s consolidated financial statements are also presented in accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements.* Under FASB ASC 958-205, the Company is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets temporarily restricted net assets and permanently restricted net assets. As of June 30, 2016 and 2015, there were no temporarily restricted or permanently restricted net assets.

Management’s use of estimates - The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate potentially susceptible to change in the near term relates to the liability for claims.

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

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

Capitation is paid prospectively as well as for prior period coverage (PPC) under the AHCCCS Acute 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, 2016 and 2015. AHCCCS reconciles the actual PPC medical costs to the PPC capitation paid during the contract year.

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

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

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

Profits in excess of the percentages set forth by the contract will be recouped by AHCCCS. Losses in excess of the percentages set forth by the contract will be paid to the contractor. As of June 30, 2016, the Company has recorded an estimated receivable of approximately $7,780,000 due from AHCCCS and an estimated payable of approximately $44,829,000 due to AHCCCS which is included in reconciliation receivables and reconciliation payable, respectively. Additionally, as of June 30, 2015, the Company has recorded an estimated receivable of approximately $11,809,000 due from AHCCCS and an estimated payable of approximately $29,937,000 due to AHCCCS which is included in reconciliation receivables and reconciliation payable, respectively. Reconciliation receivable and payable amounts pertaining to separate contracts cannot be offset against reconciliation receivable and payable balances of a different contract, and as such, amounts have been presented separately as a payable and receivable balance on the accompanying consolidated statements of financial position.

The Patient Protection and Affordable Care Act (ACA) requires that Contractors pay qualified primary care providers (and other providers specified in ACA) fees that are no less than the Medicare fee schedule in effect for 2013 and 2014, or the fee schedule rate that would result from applying the 2009 Medicare conversion factor, whichever is greater, for certain services designated by specific Current Procedural Terminology (CPT) codes. AHCCCS has developed an enhanced fee schedule containing the qualifying codes using the 2009 Medicare conversion factor in compliance with the greater-of requirement. The enhanced payments apply only to services provided on and after January 1, 2013 through December 31, 2014 by qualified providers, who self-attest to AHCCCS as defined in the federal regulations.

The Plan was required to reprocess all qualifying claims for qualifying providers back to January 1, 2013 dates of service with no requirements that providers re-submit claims or initiate any action. In the event that a provider retroactively loses his/her qualification for enhanced payments, the Contractor was required to identify impacted claims and automatically reprocess for the recoupment of enhanced payments. This reprocessing was to be conducted by the Contractor without requirement of further action by the provider.

AHCCCS will make quarterly cost-settlement payments to the Contractor based upon adjudicated/approved encounter data. The Contractor will be required to refund payments to AHCCCS for any reduced claim payments in the event that a provider is subsequently “decertified” for enhanced payments due to audit or other reasons. For the years ended June 30, 2016 and 2015, approximately $5,979,000 and $18,223,000 was earned from AHCCCS for these cost-settlement payments based upon adjudicated/approved encounter data, which is included in capitation premiums on the accompanying consolidated statements of activities and changes in net assets. Per an AHCCCS reconciliation as of June 30, 2016, a payable of $1,806,000 is included in other current liabilities on the accompanying consolidated statements of financial position to be paid in the next fiscal year related to these cost settlements.

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

For fiscal years 2016 and 2015, capitation and supplemental receivables also include quality distributions to be received from AHCCCS, funded by deducting 1% from certain capitation premiums. This program was discontinued October 1, 2014. The quality withhold will be paid to the Plan according to the Plan's performance on selected performance measures relative to minimum performance standards. Management believes the Plan has met these standards and approximately $0 and $2,199,000 was earned from AHCCCS for these distributions for the years ended June 30, 2016 and 2015, respectively, which is included in capitation premiums in the accompanying consolidated statements of activities and changes in net assets. As of June 30, 2016 and 2015, no payments had been received on these amounts. Accordingly, approximately $7,982,000 is included in receivables on the accompanying consolidated statements of financial position as of June 30, 2016 and 2015.

Capitation and supplemental and reconciliation receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to capitation and supplemental and reconciliation receivables. Capitation and supplemental and reconciliation receivables at June 30, 2016 and 2015 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Maricopa receives substantially all of its revenue from its contracts with ADHS and CMS. Operating revenue includes funding in the form of capitation revenue, which is recognized over the applicable coverage period on a per member basis for covered members. Under this arrangement, the Organization is paid a per member fee for all enrolled members, and this fee is recorded as revenue in the month in which members are entitled to services. Any fees received prior to the month of service are recorded as deferred revenue. Capitation revenues from ADHS and CMS totaled approximately $1,023,821,000 and $966,279,000 for the years ended June 30, 2016 and 2015, respectively. The ADHS contract is partially funded by federal, state, county and block grants (non-title revenue), which represent annual appropriations. Mercy Maricopa recognizes revenue from this funding ratably over the period to which the funding applies. Non-Title revenues, including block grants, totaled approximately $138,757,000 and $133,188,000 for the years ended June 30, 2016 and 2015, respectively.

Mercy Maricopa's ADHS contract revenue is limited by the terms of the ADHS contract to a maximum profit percentage of four percent. ADHS contract revenue that cannot be recognized due to the profit limits for the contract period of April 1, 2014 through September 30, 2015 as of June 30, 2016 and 2015 totaled approximately $16,884,000 and $117,000 respectively. Mercy Maricopa's ADHS contract revenue that cannot be recognized due to the profit limits for the contract year October 1, 2015 through September 30, 2016 as of June 30, 2016 totaled approximately $19,273,000. These amounts are included in Due to ADHS on the accompanying consolidated statements of financial position and represent a reduction in operating revenue.

Due from ADHS - At June 30, 2016 and 2015, due from ADHS consists primarily of amounts due for the provisions of housing and other services and for capitation payments under Mercy Maricopa's contract. The receivables are stated at the amount management expects to collect. Mercy Maricopa establishes an allowance for doubtful accounts, if necessary, based upon factors including credit risk, historical trends, and other information. As of June 30, 2016 and 2015, amounts due from ADHS are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

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

Delivery supplement - As part of the AHCCCS Acute Care contract, AHCCCS supplements capitation premiums with lump-sum payments for births by women eligible under the Medicaid program. This delivery supplement represents childbirth delivery reimbursement which is recorded when the delivery occurs. Delivery revenue of approximately $60,144,000 and $59,020,000 was recognized for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, approximately $521,000 and $521,000 was due from AHCCCS related to delivery supplement, respectively, which is included in capitation and supplemental receivables in the accompanying consolidated statements of financial position.

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

Reinsurance revenue - AHCCCS and DES/DDD provide a stop-loss reinsurance program for the Plan for partial reimbursement of reinsurable covered medical services incurred for members. The program includes a deductible, which varies based on the Plan's enrollment and the eligibility category of the members. AHCCCS and DES/DDD reimburse the Plan based on a coinsurance amount for reinsurable covered services incurred above the deductible. SCHN and Mercy Maricopa contract with commercial reinsurers to provide reinsurance for the Medicare Advantage Plans. Reinsurance revenue is stated at the actual and estimated amounts due to SCHN and Mercy Maricopa pursuant to the AHCCCS Acute, DES/DDD, ALTCS and Medicare Advantage Plan contracts.

Below are the reinsurance thresholds by line of business:

Line of Business	Annual Deductible Effective October 1, 2015	Annual Deductible Effective October 1, 2014	Coinsurance
AHCCCS Acute – Prospective Only	$ 25,000	$ 25,000	75%
DES/DDD	50,000	20,000	75%
ALTCS w/Medicare	20,000	20,000	75%
ALTCS w/o Medicare	30,000	30,000	75%

Line of Business	Annual Deductible Effective January 1, 2016	Annual Deductible Effective January 1, 2015	Coinsurance
SCHN Medicare Advantage	$ 700,000	$ 750,000	90%

Line of Business	Annual Deductible Effective April 1, 2015	Coinsurance
Mercy Maricopa Medicare Advantage and certain SMI membership– effective April 1, 2015 through September 30, 2016	$ 500,000	90%

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

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

Reinsurance receivables represent the expected payment from AHCCCS, DES/DDD, and the Medicare Advantage Plan’s commercial insurer to the Company for certain enrollees whose qualifying medical expenses paid by the Plan were in excess of specified deductible limits. Reinsurance receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to reinsurance receivables. At June 30, 2016 and 2015, gross reinsurance receivables totaled approximately $30,841,000 and $25,913,000, for SCHN and totaled approximately $0 and $446,000 for Mercy Maricopa, respectively. SCHN also had an allowance for doubtful accounts of approximately $13,207,000 and $7,069,000 at June 30, 2016 and 2015, respectively. As of June 30, 2015, Mercy Maricopa’s reinsurance receivable balance is considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Pharmacy rebate receivable - The Company receives rebates from pharmaceutical companies based on the volume of drugs purchased. The Company records a receivable and a reduction of health care expenses for estimated rebates due based on purchase information. During the years ended June 30, 2016 and 2015, health care expenses were reduced by approximately $34,304,000 and $25,715,000 for rebates, respectively. At June 30, 2016 and 2015, management believes the pharmacy rebate receivables are fully collectible and accordingly, an allowance has not been established.

Third-party liability receivable - In cases such as motor vehicle accidents and worker’s compensation claims, a third-party insurer may be liable for a claim. When SCHN pays claims on behalf of its members and determines a third-party insurance company is ultimately responsible for that claim, it estimates a receivable and recoups the claim cost from the third-party insurer. SCHN has hired an asset recovery company to manage the third-party receivable collections. Third-party liability receivables are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to third-party liability receivable. At June 30, 2016 and 2015, gross third-party liability receivable totaled approximately $4,191,000 and $4,693,000, respectively. SCHN also had an allowance for doubtful accounts of approximately $507,000 and $1,517,000 at June 30, 2016 and 2015, respectively.

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

Provider advances - Upon request, SCHN and Mercy Maricopa may advance monies to high-volume providers based on cash flow needs and timing of claims payments. Advances are stated at the amount management expects to collect or offset against future claims. Advances are non-interest bearing and are expected to be settled within 12 months. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowances and a credit to provider advances receivable. At June 30, 2016 and 2015, gross provider advances receivable totaled approximately $8,694,000 and $7,688,000, respectively. SCHN also had an allowance for doubtful accounts of approximately $1,282,000 and $1,086,000 at June 30, 2016 and 2015, respectively. Mercy Maricopa's provider advance receivable balances of approximately $802,000 and $1,217,000 at June 30, 2016 and 2015, respectively are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Risk share settlement - The risk share settlement includes expected payments to be paid to or received from CMS in connection with the pharmacy component of Medicare Advantage, Medicare Part D. This balance is reviewed and monitored by management and adjusted as necessary as experience develops or new information becomes available. Such adjustments are netted against the capitation premiums on the consolidated statements of activities and changes in net assets. The pharmacy risk share settlement for calendar years 2016 and 2015, recorded at June 30, 2016 and 2015, is expected to be finalized through late 2016. Amounts recorded under this program totaled approximately $7,143,000 and $3,990,000 for the years ended June 30, 2016 and 2015, respectively, which are included as capitation premiums in the accompanying consolidated statements of activities and changes in net assets. The pharmacy risk share settlement is a payable as of June 30, 2016 of $9,058,000 and a receivable as of June 30, 2015 of $4,902,000. The pharmacy risk share settlement for calendar year 2013 is still open and is in a long-term receivable position totaling $2,309,000. The risk share settlement receivable balance is considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Mercy Maricopa amounts earned under this program totaled approximately $1,096,000 and $770,000 for the years ended June 30, 2016 and 2015, respectively, which are included in capitation revenues in the accompanying consolidated statements of activities and changes in net assets. The Mercy Maricopa risk share settlement receivable balance of approximately $1,096,000 and $770,000 at June 30, 2016 and 2015 respectively is considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided. The Mercy Maricopa risk share settlement program ended with the termination of the Medicare Advantage contract on December 31, 2015.

Premium deficiency reserve - The Company evaluates possible losses on its contracts through the end of each contract year. If necessary, a premium deficiency reserve is recorded within claims payable on the consolidated statements of financial position. For the years ended June 30, 2016 and 2015, SCHN recorded a premium deficiency reserve of $5,899,000 and $2,769,000 for probable losses within its Medicare Advantage contract through the end of the contract years ending December 31, 2016 and 2015. For the years ended June 30, 2016 and 2015, Mercy Maricopa recorded a premium deficiency reserve of $0 and $1,551,000 for probable losses within its Medicare Advantage contract through the end of the contract years ending December 31, 2015 and 2016.

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

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

Mercy Maricopa contracts with various providers for the provision of a full range of integrated healthcare services to eligible adults and children for Title XIX, Title XXI, and Non-Title programs, and physical healthcare services to Seriously Mental Ill Title XIX eligible adults. Healthcare services are purchased under fee-for-service or block purchase arrangements. Fee-for-service contract expenses are accrued as incurred.

Healthcare services provided under block purchase arrangements are accrued based upon contract terms. From time to time, Mercy Maricopa amends the provider contracts. The effects of these amendments are recorded in the period in which the amendment was executed.

The estimate for unreported claims payable is developed using actuarial methods based on historical experience and are continually reviewed by management and adjusted as necessary based on current claims data, and medical cost completion factors. Such adjustments are included in health care expenses in the consolidated statements of activities and changes in net assets in each period when necessary. While management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. There is at least a reasonable possibility that the recorded estimates will change by a material amount, in the near future.

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

Investments - Investments are recorded in accordance with FASB ASC 958-320, *Investments-Debt and Equity Securities*. Under FASB ASC 958-320 and FASB ASC 958-325, the Company reports investments in equity securities that have readily determinable fair values, and all investments in debt securities at fair value based on quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets. SCHN's investment portfolio is managed by professional investment managers within guidelines established by SCHN's Board of Directors which, as a matter of policy, limits the amounts which may be invested in any one issuer or type of investment.

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

Restricted securities - At June 30, 2016 and 2015, restricted securities consists of U.S. Treasury notes held by a bank required to remain in trust by the State of Arizona, Department of Insurance for the duration of Mercy Maricopa's contract with ADHS. Mercy Maricopa may not make withdrawals on the account without prior approval from the State of Arizona, Department of Insurance. The purchases and sales of restricted securities are recorded on a trade-date basis. Interest is recognized on the accrual basis.

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

Investment income - Investment income consists of interest, dividends, and realized gains and losses on investments. Interest is recognized on the accrual basis, and dividends are recorded as earned on the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Accrual of income has not been suspended for any bonds or mortgage loans during the years ended June 30, 2016 and 2015. The Company has a policy to review and identify investments with declines in value that would be considered to be other-than-temporary. Such other-than-temporary declines, if significant, are accounted for as realized losses (See Note 3).

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

Amortization of capitalized software development costs begins when the product is available for release and installation. Amortization is provided on a straight-line method over periods not exceeding five to seven years. Unamortized capitalized software development costs determined to be in excess of net realizable value of the product is expensed immediately. Capitalized software cost totaled approximately $3,845,000 at June 30, 2016 and 2015. Effective April 1, 2014, the software was completed and placed into service, at which time Mercy Maricopa commenced amortization. Amortization expense totaled approximately $769,000 and $769,000 for the years ended June 30, 2016 and 2015, respectively. Accumulated amortization was approximately $1,730,000 and $961,000 as of June 30, 2016 and 2015, respectively.

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

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

FASB ASC 740-10, *Income Taxes*, relates to the accounting for uncertainty in income taxes which requires the application of a “more likely than not” threshold recognition and de-recognition of uncertain tax positions in operations in the year of such change. The Company evaluates its uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax flings, and discussions with outside experts. At June 30, 2016 and 2015, the Company did not have any uncertain tax positions.

SCHN and Mercy Maricopa’s Federal Exempt Organization Business Income Tax Returns (Form 990) for 2013, 2014, and 2015 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 2016 tax returns for either organization had not yet been filed.

Performance indicator - The consolidated statements of activities and changes in net assets includes the performance indicator operating income. The performance indicator excludes non-operating income and net unrealized investment losses, which is consistent with industry practice.

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

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

In February 2016, the FASB issued ASU No. 2016-02 – *Leases* (Topic 842). ASU 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee’s right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the consolidated statement of activities and changes in net assets and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the effect that the adoption of this standard will have on the consolidated financial statements.

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

In January 2015, the FASB issued ASU No. 2016-01*, Financial Instruments – Overall (Subtopic 825-10).* ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). ASU 2016-01 also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, ASU 2016-01 eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the consolidated statement of financial position for public business entities. The amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in ASU 2016-01 earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early application by public business entities to financial statements of fiscal years or interim periods that have not yet been issued or, by all other entities, that have not yet been made available for issuance of the following amendments in this Update are permitted as of the beginning of the fiscal year of adoption:

1. An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

2. Entities that are not public business entities are not required to apply the fair value of financial disclosure guidance in the General Subsection of Section 825-10-50.

The Company has elected to early adopt ASU 2016-01 as of June 30, 2016 relative to the requirement to apply the fair value of financial instruments disclosure guidance in the General Subsection of Section 825-10-50.

Subsequent events - The Company has evaluated subsequent events through October 26, 2016, which is the date the consolidated financial statements were available to be issued.

(2) Reconciliation

Reconciliation balances are recorded as a net receivable or payable on the consolidated statements of financial position by line of business. A summary of the balances by line of business for the years ended June 30 is as follows (in thousands):

	2016		2015	
	Reconciliation Receivable	Reconciliation Payable	Reconciliation Receivable	Reconciliation Payable
Acute	$ 5,539	$ 44,829	$ 5,252	$ 29,808
ALTCS	2,241	-	6,557	129
DES/DDD	-	-	-	-
Total	7,780	44,829	11,809	29,937
Less current portion	(7,780)	(44,829)	(11,809)	(29,937)
Non-current portion	$ -	$ -	$ -	$ -

(3) Investments

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

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Short-term:				
Marketable equity securities	$ 19,090	$ 19,090	$ 16,635	$ 16,635
Corporate bonds	908	867	2,676	2,653
	19,998	19,957	19,311	19,288
Long-term:				
Marketable equity securities	35,611	40,147	36,649	44,594
U.S. government securities	21,751	21,935	20,118	20,185
Corporate bonds	30,837	31,691	27,081	27,635
Mortgage-backed securities	5,741	5,817	7,851	7,898
Preferred securities	5,011	5,896	5,250	5,656
	98,951	105,486	96,949	105,968
	$ 118,949	$ 125,443	$ 116,260	$ 125,256
Restricted securities	$ 520	$ 520	$ 520	$ 520

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

	2016	2015
Interest and dividend income	$ 2,557	$ 2,209
Realized gains on investments	719	5,406
	$ 3,276	$ 7,615

Management continually reviews their investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost. During the years ended June 30, 2016 and 2015, the Company recorded no losses for other-than-temporary declines in the fair value of investments.

The following table summarizes the unrealized losses on investments held at June 30, 2016 (in thousands):

	Less than twelve months		Twelve months or longer		Total	
Description of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	$ -	$ -	$ 987	$ 10	$ 987	$ 10
Marketable equity securities	-	-	8,509	1,195	8,509	1,195
Corporate bonds	867	42	6,037	68	6,904	110
Mortgage-backed securities	-	-	150	-	150	-
Preferred securities	-	-	-	-	-	-
Total	$ 867	$ 42	$ 15,683	$ 1,273	$ 16,550	$ 1,315

(3) Investments (continued)

The following table summarizes the unrealized losses on investments held at June 30, 2015 (in thousands):

	Less than twelve months		Twelve months or longer		Total	
Description of securities	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government securities	$ -	$ -	$ 11,142	$ 12	$ 11,142	$ 12
Marketable equity securities	-	-	7,796	397	7,796	397
Corporate bonds	1,185	27	16,318	188	17,503	215
Mortgage-backed securities	-	-	1,680	1	1,680	1
Preferred securities	-	-	1,502	19	1,502	19
Total	$ 1,185	$ 27	$ 38,438	$ 617	$ 39,623	$ 644

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

(4) Fair value measurements

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. government securities	$ -	$ 21,935	$ -	$ 21,935
Marketable equity securities				
U.S. large cap	40,148	-	-	40,148
Money market mutual funds	11,877	-	-	11,877
Other	7,212	-	-	7,212
Total marketable equity securities	59,237	-	-	59,237
Corporate bonds	-	32,558	-	32,558
Mortgage-backed securities	-	5,817	-	5,817
Preferred securities	5,896	-	-	5,896
Total Investments	$ 65,133	$ 60,310	$ -	$ 125,443
Restricted securities	$ -	$ 520	$ -	$ 520

(4) Fair value measurements (continued)

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of June 30, 2015 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
Investments:				
U.S. government securities	$ -	$ 20,185	$ -	$ 20,185
Marketable equity securities				
U.S. large cap	44,594	-	-	44,594
Money market mutual funds	11,850	-	-	11,850
Other	4,785	-	-	4,785
Total marketable equity securities	61,229	-	-	61,229
Corporate bonds	-	30,288	-	30,288
Mortgage-backed securities	-	7,898	-	7,898
Preferred securities	5,656	-	-	5,656
Total Investments	$ 66,885	$ 58,371	$ -	$ 125,256
Restricted securities	$ -	$ 520	$ -	$ 520

(5) Claims payable

On a consolidated basis at June 30, 2016 and 2015, claims outstanding to third parties for health care services provided to members, including estimates for incurred but not reported claims, were approximately $247 million and $243 million (SCHN $190 and $169 million and Mercy Maricopa $57 and $74 million), respectively. The balances at June 30, 2016 and 2015 were certified by an actuary. Activity in the liability for claims payable and health care expense for the years ended June 30, 2016 and 2015 is as follows (in thousands):

	2016	2015
Balance at July 1	$ 242,694	$ 200,508
Incurred related to:		
Current year	2,419,568	2,184,178
Prior years	(33,720)	17,395
Total incurred	2,385,848	2,201,573
Paid related to:		
Current year	(2,186,024)	(1,967,679)
Prior years	(195,633)	(191,708)
Total paid	(2,381,657)	(2,159,387)
Balance at June 30	$ 246,885	$ 242,694

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.

(5) Medical claims payable (continued)

The liability for SCHN claims unpaid at June 30, 2015 was more than the actual claims incurred related to fiscal year 2015 and prior by approximately $13.2 million or 8% of SCHN claims unpaid. The liability for SCHN claims unpaid at June 30, 2014 underestimated the actual claims incurred related to fiscal year 2014 and prior by approximately $13.9 million or 11% of SCHN claims unpaid. The primary drivers for the claim development variations include member mix changes, active cost and encounter management, changes in anticipated member utilization, a shift in inpatient costs and re-admittance utilization to physician office visits, inpatient unit cost variations related to state-mandated outlier reform, speed of claims processing, and initiative levels to recoup provider overpayments. The liability for Mercy Maricopa claims payable at June 30, 2015 was more than the actual claims incurred related to fiscal year 2015 and prior by approximately $31.8 million or 43%. The primary drivers for favorable claim development include member mix changes, lower than anticipated member utilization, enrollment growth, and a retroactive rate adjustment. SCHN and Mercy Maricopa continue to incur claims for prior periods. The claims payable is adjusted each period end as more information becomes available.

Estimated third-party subrogation included as a reduction to medical and hospital expenses in the accompanying consolidated statements of activities and changes in net assets at June 30, 2016 and 2015 totaled approximately $4,230,000 and $3,448,000, respectively.

(6) Due to/from District

During the period from formation (January 22, 2013) through June 30, 2013, District contributed $5 million towards the initial funding of Mercy Maricopa. Additionally, in accordance with a promissory note agreement between Mercy Maricopa and District dated September 9, 2013, District agreed to pay Mercy Maricopa an additional $5 million for a total of $10 million contributed. The promissory note was due April 1, 2015, one year after the implementation of the RBHA contract for GSA 6 awarded to Mercy Maricopa. The promissory note bore no interest through the maturity date and was unsecured. was All amounts were collected in full as of June 30, 2015.

In accordance with the membership agreement, any time after three years from the commencement of the ADHS RBHA contract (April 1, 2014), District may require that Mercy Maricopa purchase the membership interest of District. The purchase price of District's membership interest under the District put option shall be the sum of District's capital contributions to Mercy Maricopa, without interest, and any remaining accrued or deferred distributions to District (a 15% relative interest), plus interest, if any. As a result of the put option within the membership agreement, approximately $17,400,000 (the $10 million, plus District's share of the changes in Mercy Maricopa's net assets since formation of approximately $7,400,000) and approximately $12,860,000 is included in Due to District, within the accompanying consolidated statements of financial position at June 30, 2016 and 2015, respectively.

In accordance with the membership agreement, payment to District for its Membership Interest under the District put option shall be made, at the option of Mercy Maricopa, either in cash at closing, or by payment of all remaining accrued or deferred distributions to District, plus interest, at closing, along with repayment of fifty percent (50%) of District's capital contributions, with the balance represented by a promissory note, secured by the assets of the Corporation (whether the Corporation or the Non-Public Members is the purchaser) and payable in one (1) year, with interest on the unpaid balance at the JPMorgan Chase "prime rate," or such other rate as may be unanimously agreed upon by the Members. Accordingly, based on the membership agreement and management's intent, the entire balance owed to District has been classified in the accompanying consolidated statement of financial position as a current liability at June 30, 2016.

(7) Related party transactions

In September 2015 Tenet Healthcare Corporation, Dignity Health and Ascension Health finalized a joint venture to own and operate Carondelet Health Network in Tucson, Arizona. Tenet Healthcare Corporation is the majority partner at 60% ownership share and Dignity Health and Ascension Health each having a 20% ownership share. The Company paid approximately $163,266,000 in 2016 and $97,740,000 in 2015 to Dignity Health and its affiliates, and paid approximately $18,608,000 in 2016 to Ascension Health and its affiliates and $23,054,000 in 2015 to Carondelet and its affiliates, and paid approximately $42,782,000 in 2016 and $30,573,000 in 2015 to District for hospitalization, behavioral health and other medical services provided to its members. These balances include net prospective provider advance payments made to Dignity and Carondelet. At June 30, 2016, provider advances to Dignity and Carondelet amounted to approximately $5,377,000 and $0 respectively. At June 30, 2015, provider advances to Dignity and Carondelet amounted to approximately $3,781,000 and $9,000, respectively. During the year ended June 30, 2016 SCHN made no asset distributions to either Dignity or Carondelet, respectively. During the year ended June 30, 2015 SCHN made net asset distributions of $15,000,000 and $15,000,000 to both Dignity and Carondelet, respectively. The distributions were approved by AHCCCS.

(8) Commitments and contingencies

Performance bonds - SCHN obtains unsecured surety bonds to satisfy the AHCCCS Acute, ALTCS, DES/DDD and Medicare performance bond requirements. The following table sets forth the SCHN contract requirement and the Performance Bond amounts at June 30, 2016:

Line of Business	AHCCCS Requirement	Performance Bond Amount	Effective Date
Acute	100% of Capitation Revenue	$ 100,000,000	10/1/2015
ALTCS	80% of Capitation Revenue	$ 32,000,000	10/1/2015
DDD	80% of Capitation Revenue	$ 4,000,000	12/10/2015
Medicare	$1,050 PMPM	$ 19,800,000	2/24/2016

In accordance with the terms of its contract with ADHS, Mercy Maricopa is required to post a performance bond with ADHS equal to 80% of the expected monthly Title capitation and Non-Title payments, as specified in the contract. The performance bond must be maintained to guarantee payment of Mercy Maricopa's obligations under the contract. The following table sets forth the Mercy Maricopa performance bond amount at June 30, 2016.

Line of Business	ADHS Requirement	Performance Bond Amount	Effective Date
Title/Non-Title	80% of Capitation Revenue	$ 72,100,000	10/1/2015

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

Liability insurance - SCHN and Mercy Maricopa each maintain directors and officers, errors and omissions, and cyber liability insurance coverage under claims-made policies. Each policyholder is insured for losses up to $20 million per claim and in the aggregate under its directors and officers liability policy and $10 million per claim and in the aggregate under its 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. SCHN and Mercy Maricopa anticipate that renewal coverage will be available at expiration of the current policy. Aetna maintains the general liability coverage for the Company, and is insured for losses up to $2 million per claim and $4 million in the aggregate under its general liability policy.

(8) Commitments and contingencies (continued)

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

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

Community reinvestment program – In accordance with the ADHS contract, Mercy Maricopa has approved a Community Reinvestment program. Under the program, Mercy Maricopa will place 5% of its total change in net assets for the purposes of community reinvestment. The program funds community projects that enhance the lives of people in the communities in Mercy Maricopa's geographic service area. These funds are for projects and services not eligible for service or prevention dollars from Mercy Maricopa.

For the years ended June 30, 2016 and 2015, Mercy Maricopa approved amounts that resulted in expenses of approximately $1,328,000 and $1,647,000, respectively, to be spent on various healthcare community projects. These amounts are included in general and administrative expenses in the accompanying consolidated statements of activities and changes in net assets. At June 30, 2016 and 2015, Mercy Maricopa had not yet spent all of the funds appropriated. Accordingly, at June 30, 2016 and 2015, Mercy Maricopa has recorded a liability for unspent community reinvestment program funds of approximately $3,395,000 and $1,925,000, respectively, which is included in other current liabilities.

Contract compliance - Under the terms of the AHCCCS and Medicare Advantage (MCA) contracts, SCHN is required to meet certain financial covenants for both AHCCCS and CMS products, as applicable. As of June 30, 2016 and 2015, SCHN is in compliance with the AHCCCS covenants and CMS financial covenants, as applicable. At June 30, 2015, the equity per member per month was below the AHCCCS requirement for the MCA program. To reduce the shortfall SCHN transferred approximately $9,550,000 of equity from the Acute line of business to the MCA line of business subsequent to June 30, 2015.

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

Mercy Maricopa must maintain unrestricted minimum capitalization of at least 90% of the monthly capitation and block payments received under the Contract. As of June 30, 2016, Mercy Maricopa was in compliance with this requirement.

Mercy Maricopa'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, 2016 Mercy Maricopa was in compliance with these requirements.

As discussed in Note 1, Mercy Maricopa is limited by the terms of its contract with ADHS to profit that can be earned under the various programs.

(8) Commitments and contingencies (continued)

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

Mercy Maricopa is required to meet quarterly and contract year end minimum encounter submission percentages, or be subject to sanction by ADHS. Typically, Mercy Maricopa has up to eight months after the contract period end to meet the minimum number of encounters. For the year ended June 30, 2015, Mercy Maricopa anticipated meeting the required encounter threshold for the contract period from April 1, 2014 through September 30, 2015. Accordingly as of June 30, 2015, Mercy Maricopa did not record a liability associated with an encounter sanction. Through the date of this report, ADHS has not yet completed its encounter evaluation assessment for the contract year ended September 30, 2015. However, management continues to anticipate meeting the required encounter threshold. For the year ended June 30, 2016, Mercy Maricopa anticipates meeting the required encounter threshold for the contract period from October 1, 2015 through September 30, 2016. Accordingly, as of June 30, 2016, Mercy Maricopa has not recorded a liability associated with an encounter sanction.

ADHS has a right to sanction Mercy Maricopa for other matters of non-compliance of the Contract, as determined by ADHS. Mercy Maricopa received sanctions of approximately $22,000 and $131,000 from ADHS for the years ended June 30, 2016 and 2015, respectively. Sanctions are included in Mercy Maricopa's management agreement with Aetna and as such, no additional expense is reflected in the accompanying consolidated financial statements.

(9) Concentration of credit risk

SCHN's future contract awards are contingent upon the continuation of the AHCCCS Acute, DES/DDD, and ALTCS programs by the State of Arizona and SCHN's ability and desire to retain its status as a contractor under these programs. The AHCCCS Acute contract is effective through September 30, 2017, with one additional one year renewal option. The ALTCS contract expires on September 30, 2017. The DES/DDD contract was renewed through September 30, 2017. Mercy Maricopa currently holds a contract with the ADHS to provide services through September 2017, with one additional one year renewal option. SCHN's Medicare Advantage contract is renewed annually by CMS. Failure to renew these contracts could have a significant impact on operations.

ADDITIONAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors of

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

We have audited the consolidated financial statements of ***Southwest Catholic Health Network Corporation dba Mercy Care Plan and Affiliate*** as of and for the years ended June 30, 2016 and 2015, and our report thereon dated October 26, 2016, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1 - 2. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental statements - SCHN on pages 28 through 29 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The consolidating additional information on pages 26 and 27 are presented for purposes of additional analysis of the 2016 consolidated financial statements rather than to present the financial position, activities and changes in net assets of the individual entities and are not a required part of the consolidated financial statements. The additional information on pages 26 through 29 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
October 26, 2016

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2016
(In thousands)

A S S E T S

	SCHN	Mercy Maricopa	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	$ 170,779	$ 235,239	$ -	$ 406,018
Short-term investments	19,957	-	-	19,957
Receivables:				
Reinsurance receivables, net of allowance for doubtful accounts of $13,207 for 2016 and $7,069 for 2015	17,634	-	-	17,634
Reconciliation receivables	7,780	-	-	7,780
Capitation and supplemental receivables	3,251	-	-	3,251
Pharmacy rebate receivable	14,423	2,728	-	17,151
Third party liability receivable, net of allowance for doubtful accounts of $507 for 2016 and $1,517 for 2015	3,684	-	-	3,684
Interest receivable	314	-	-	314
Provider advances, net of allowance for doubtful accounts of $1,282 for 2016 and $1,086 for 2015	6,610	802	-	7,412
Other receivables	301	114	-	415
Risk share settlement	13,390	1,096	-	14,486
Due from ADHS	-	9,304	-	9,304
Due from Aetna	-	1,426	-	1,426
Prepaid assets	597	7,667	-	8,264
TOTAL CURRENT ASSETS	258,720	258,376	-	517,096
RESTRICTED SECURITIES	-	520	-	520
CAPITALIZED SOFTWARE COSTS, net	-	2,115	-	2,115
RISK SHARE SETTLEMENT, less current portion	2,309	-	-	2,309
INVESTMENT IN MMIC	121,934	-	(121,934)	-
LONG-TERM INVESTMENTS	105,486	-	-	105,486
TOTAL ASSETS	$ 488,449	$ 261,011	$ (121,934)	$ 627,526

L I A B I L I T I E S A N D N E T A S S E T S

	SCHN	Mercy Maricopa	Eliminations	Consolidated
CURRENT LIABILITIES				
Claims payable	$ 189,472	$ 57,413	$ -	$ 246,885
Payable to providers	-	18,324	-	18,324
Reconciliation payable	44,829	-	-	44,829
Due to ADHS	-	36,157	-	36,157
Due to Aetna	2,674	-	-	2,674
Deferred revenue	-	5,668	-	5,668
Due to District	-	17,400	-	17,400
Other current liabilities	10,497	4,115	-	14,612
TOTAL CURRENT LIABILITIES	247,472	139,077	-	386,549
RISK SHARE SETTLEMENT PAYABLE	2,345	-	-	2,345
TOTAL LIABILITIES	249,817	139,077	-	388,894
UNRESTRICTED NET ASSETS	238,632	121,934	(121,934)	238,632
TOTAL LIABILITIES AND NET ASSETS	$ 488,449	$ 261,011	$ (121,934)	$ 627,526

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016
(In thousands)

	SCHN	Mercy Maricopa	Eliminations	Consolidated
OPERATING REVENUES				
Capitation premiums	$ 2,032,216	$ 1,162,577	$ -	$ 3,194,793
Delivery supplement	60,144	-	-	60,144
Reinsurance	60,237	(54)	-	60,183
Other, primarily third party recoveries	5,511	-	-	5,511
TOTAL OPERATING REVENUES	2,158,108	1,162,523	-	3,320,631
HEALTH CARE EXPENSES				
Hospitalization	365,267	-	-	365,267
Medical compensation	335,717	-	-	335,717
Ancillary and other medical services	882,387	1,038,563	-	1,920,950
Institutional	181,943	-	-	181,943
Home and community based services	170,125	-	-	170,125
TOTAL HEALTH CARE EXPENSES	1,935,439	1,038,563	-	2,974,002
GENERAL AND ADMINISTRATIVE EXPENSES	154,136	93,693	-	247,829
PREMIUM TAX EXPENSE	35,842	-	-	35,842
TOTAL EXPENSES	2,125,417	1,132,256	-	3,257,673
OPERATING INCOME	32,691	30,267	-	62,958
NONOPERATING INCOME (EXPENSE)				
Investment income	3,273	3	-	3,276
Investment fees	(573)	-	-	(573)
Investment income from MMIC	25,730	-	(25,730)	-
TOTAL NONOPERATING INCOME	28,430	3	(25,730)	2,703
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	(2,504)	-	-	(2,504)
CHANGE IN NET ASSETS PRIOR TO CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	58,617	30,270	(25,730)	63,157
CHANGE IN NET ASSETS ATTRIBUTABLE TO DISTRICT	-	(4,540)	-	(4,540)
CHANGE IN NET ASSETS	58,617	25,730	(25,730)	58,617
NET ASSETS, BEGINNING OF YEAR	180,015	96,204	(96,204)	180,015
NET ASSETS, END OF YEAR	$ 238,632	$ 121,934	$ (121,934)	$ 238,632

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

SUPPLEMENTAL STATEMENT OF FINANCIAL POSITION - SCHN

June 30, 2016
(In thousands)

ASSETS

	Acute	DES/DDD	ALTCS	Medicare	Total
CURRENT ASSETS					
Cash and cash equivalents	$ 101,607	$ 7,364	$ 37,719	$ 24,089	$ 170,779
Short-term investments	10,920	1,273	6,856	908	19,957
Receivables:					
Reinsurance receivables, net	12,523	378	4,733	-	17,634
Reconciliation receivables	5,539	-	2,241	-	7,780
Capitation and supplemental receivables	3,254	-	(3)	-	3,251
Pharmacy rebate receivable	3,362	226	396	10,439	14,423
Third party liability receivable, net	2,542	-	442	700	3,684
Interest receivable	172	20	108	14	314
Provider advances, net	5,243	68	406	893	6,610
Other receivables	318	(2)	-	(15)	301
Risk share settlement	7,982	-	-	5,408	13,390
Prepaid assets	481	6	48	62	597
TOTAL CURRENT ASSETS	153,943	9,333	52,946	42,498	258,720
RISK SHARE SETTLEMENT, less current portion	-	-	-	2,309	2,309
INVESTMENT IN MMIC	74,340	-	34,559	13,035	121,934
LONG-TERM INVESTMENTS	57,719	6,732	36,238	4,797	105,486
TOTAL ASSETS	$ 286,002	$ 16,065	$ 123,743	$ 62,639	$ 488,449

LIABILITIES AND NET ASSETS

	Acute	DES/DDD	ALTCS	Medicare	Total
CURRENT LIABILITIES					
Claims payable	$ 97,668	$ 3,141	$ 51,097	$ 37,566	$ 189,472
Reconciliation payable	44,829	-	-	-	44,829
Due to Aetna	2,095	(29)	209	399	2,674
Other current liabilities	7,352	190	1,595	1,360	10,497
TOTAL CURRENT LIABILITIES	151,944	3,302	52,901	39,325	247,472
RISK SHARE SETTLEMENT PAYABLE	-	-	-	2,345	2,345
TOTAL LIABILITIES	151,944	3,302	52,901	41,670	249,817
UNRESTRICTED NET ASSETS	134,058	12,763	70,842	20,969	238,632
TOTAL LIABILITIES AND NET ASSETS	$ 286,002	$ 16,065	$ 123,743	$ 62,639	$ 488,449

SOUTHWEST CATHOLIC HEALTH NETWORK CORPORATION
dba MERCY CARE PLAN AND AFFILIATE

SUPPLEMENTAL STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS - SCHN

Year Ended June 30, 2016
(In thousands)

	Acute	DES/DDD	ALTCS	Medicare	Total
OPERATING REVENUES					
Capitation premiums	$ 1,136,897	$ 49,420	$ 481,116	$ 364,783	$ 2,032,216
Delivery supplement	60,144	-	-	-	60,144
Reinsurance	34,496	2,078	23,663	-	60,237
Other, primarily third party recoveries	3,782	261	7	1,461	5,511
TOTAL OPERATING REVENUES	1,235,319	51,759	504,786	366,244	2,158,108
HEALTH CARE EXPENSES					
Hospitalization	226,580	7,312	19,804	111,571	365,267
Medical compensation	278,897	6,064	12,276	38,480	335,717
Ancillary and other medical services	592,843	28,032	74,361	187,151	882,387
Institutional	-	-	181,943	-	181,943
Home and community based services	-	-	170,125	-	170,125
TOTAL HEALTH CARE EXPENSES	1,098,320	41,408	458,509	337,202	1,935,439
GENERAL AND ADMINISTRATIVE EXPENSES	89,529	3,691	28,537	32,379	154,136
PREMIUM TAX EXPENSE	25,005	-	10,837	-	35,842
TOTAL EXPENSES	1,212,854	45,099	497,883	369,581	2,125,417
OPERATING INCOME (LOSS)	22,465	6,660	6,903	(3,337)	32,691
NONOPERATING INCOME (EXPENSE)					
Investment income	1,791	209	1,124	149	3,273
Investment fees	(313)	(37)	(197)	(26)	(573)
Investment income from MMIC	15,439	-	7,638	2,653	25,730
TOTAL NONOPERATING INCOME	16,917	172	8,565	2,776	28,430
CHANGE IN NET ASSETS PRIOR TO UNREALIZED GAINS (LOSSES) ON INVESTMENTS	39,382	6,832	15,468	(561)	61,121
UNREALIZED GAINS (LOSSES) ON INVESTMENTS	(1,063)	(160)	(1,143)	(138)	(2,504)
CHANGE IN NET ASSETS PRIOR TO EQUITY TRANSFER	38,319	6,672	14,325	(699)	58,617
EQUITY TRANSFER (Note 8)	(9,550)	-	-	9,550	-
CHANGE IN NET ASSETS	28,769	6,672	14,325	8,851	58,617
NET ASSETS, BEGINNING OF YEAR	105,289	6,091	56,517	12,118	180,015
NET ASSETS END OF YEAR	$ 134,058	$ 12,763	$ 70,842	$ 20,969	$ 238,632