Financial Statements and Required Supplementary Information

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System
Years Ended June 30, 2019 and 2018
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Financial Statements and Required Supplementary Information

Years Ended June 30, 2019 and 2018

Contents

Ernst & Young LLP
101 E. Washington Street
Suite 910
Phoenix, AZ 85004

Tel: +1 602 322 3000
ey.com

Report of Independent Auditors

Management and the Board of Directors
Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Report on the Financial Statements

We have audited the accompanying financial statements of the Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District), as of and for the year ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2019 and 2018, the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–11, the Schedule of District's Proportionate Share of the Net Pension Liability, Schedule of District's Proportionate Share of the Net OPEB Liability (Asset), the Schedule of Contributions Pension Plan and the Schedule of Contributions OPEB Plan be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 13, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Ernst & Young LLP

December 13, 2019

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Management's Discussion and Analysis

Years Ended June 30, 2019 and 2018

This management's discussion and analysis of the operational and financial performance of Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District or MIHS) provides an overview of the District's major activities for the years ended June 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the District. The District is comprised of Maricopa Medical Center, Maryvale Hospital, Desert Vista Behavioral Health, Comprehensive Health Center and 11 Family Health Centers.

In 2019, MIHS continued to make financial gains as evidenced by an excess margin of 9.9%. The margin improvement initiatives begun in 2015, known as "100-Day Workouts," continue to produce revenue enhancements, cost savings and process improvements. In addition to generating financial improvement, this program has been a catalyst for interdisciplinary camaraderie and has installed a sense of pride and achievement for MIHS employees.

From a patient activity perspective, fiscal year 2019 total admissions grew by about 1% over fiscal year 2018 volumes while observation admissions increased by 7% over fiscal year 2018. The acute average length of stay increased slightly during the year to 4.8 days, driven by an increase in the case mix index to 1.68 from 1.64 in fiscal year 2018.

In the highly competitive Emergency Department and Ambulatory areas, fiscal year 2019 visits were up by 3.9% and 1.4%, respectively, from fiscal year 2018. Surgical case volumes improved 2.3% and Burn Center Emergency Department patient visits increased by 4.7%. The MIHS Medicare case mix index of about 2.0 reflects the complexity and severity of the Medicare inpatient activity.

In fiscal year 2014, MIHS uninsured gross patient service revenue was 24.4%. Following the January 1, 2014 implementation of the Affordable Care Act (ACA), the State of Arizona's decision to expand the Medicaid program under the ACA, and the State's decision to levy a provider assessment to restore the Medicaid program, MIHS's uninsured population declined from the 2014 levels. However, in fiscal year 2019 the trend reversed as the percentage of gross patient service revenue attributed to uninsured inpatients increased to 12.4% from 11.3% in fiscal year 2018. The opening of the Maryvale Hospital Emergency Department in April 2019 was a factor contributing to the increase in the uninsured percentage of gross patient service revenue.

In 2017, the District Board set a roadmap for our organization's future by receiving the final report resulting from the Proposition 480 implementation planning initiative. This plan, known as Care Reimagined, will ensure our organization continues to be recognized for high-quality care, innovation, and service. It creates a better model of patient care and medical education that improves access, quality, cost, and outcomes for patients and increases the supply of future health care professionals.

The implementation of this capital plan is well underway; as of June 30, 2019, $235,111,000 of the bond proceeds have been expended. During 2019, the majority of project funds were expended on the Maryvale Hospital, which was substantially complete as of June 30, 2019. In addition, the West Valley Specialty Center construction was greater than 50% completed by June 30, 2019; this project is estimated to cost $71,000,000 upon completion in 2020. The Maryvale Hospital provides emergency services and inpatient behavioral health services. Using a phased approach, the hospital will increase its bed capacity over the next year to 192 beds to help address the growing community need for inpatient behavioral health services.

In October 2018, the District issued the third bond tranche in the amount of $422,125,000 General Obligation Bonds, Series C (2018). The District is authorized to issue $935,000,000, in aggregate, principal amount toward the project. At June 30, 2019, $304,000,000 of the authorized amount remains unissued.

Also, during the 2019 fiscal year, a Cooperative Service Agreement was consummated between the District and the Maricopa Health Foundation. The purpose of this agreement is to provide financial support to the Foundation to enhance the Foundation's ability to fund raise on behalf of MIHS.

The Creighton University – Arizona Health Education Alliance (the Alliance) was formed in 2018 between Creighton University School of Medicine, Dignity Health St. Joseph's Hospital and Medical Center, District Medical Group, Inc. and MIHS, and is well underway. During fiscal year 2019, the official Internal Revenue Service tax exemption notice as a 501(c)3 organization was received. The Board of the Alliance has developed a support infrastructure and organization chart including sub-committees comprised of partner representatives in preparation to bring independent teaching programs together. The Alliance will coordinate all clinical training for health profession students and residents, and contracts with clinical partners to purchase academic faculty time have been executed. The Board of the Alliance has finalized plans to include 800 new learners and has completed construction plans for a building site in downtown Phoenix. The Alliance is designed to improve and expand current health education programs offered by each of the entities. The Alliance will also develop new academic and clinical education programs in medicine, nursing, pharmacy, and allied health.

Overview of the Financial Statements

The District's financial statements consist of three statements – statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These statements provide information about the activities of the District, including resources held by the District that are restricted for specific purposes by creditors, contributors, grantors, or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The statements of net position and statements of revenues, expenses, and changes in net position report the District's net position and changes in it. The District's total net position – the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources – is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors, should also be considered to assess the overall financial health of the District.

The statements of cash flows report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The District's Net Position

The District's net position represents the difference between its assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported on the statements of net position. The District's net position at June 30, 2019, 2018, and 2017 was $258,251,356, $207,168,312, and $113,820,853, respectively, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

	June 30		
	2019	**2018**	**2017**
Assets			
Current assets	**$ 689,363,400**	$ 420,931,978	$ 343,448,330
Other assets	**167,737,590**	73,803,435	70,489,369
Capital assets	**359,840,756**	254,112,284	224,319,648
Total assets	**1,216,941,746**	748,847,697	638,257,347
Deferred outflows of resources	**65,048,262**	38,134,646	62,218,418
Liabilities			
Current liabilities	**163,282,578**	141,176,075	131,385,933
Risk claims payable, less current portion	**11,177,826**	10,032,177	10,088,318
Net pension liability	**300,585,929**	304,258,185	339,937,627
Other long-term liabilities	**–**	7,963,326	11,777,162
Long-term debt	**501,163,873**	76,300,266	40,387,622
Total liabilities	**976,210,206**	539,730,029	533,576,662
Deferred inflows of resources	**47,528,446**	40,084,002	53,078,250
Net position			
Unrestricted deficit	**(128,763,175)**	(100,932,414)	(137,643,593)
Net investment in capital assets	**212,962,293**	201,174,379	175,564,826
Restricted for bonds	**171,579,684**	104,203,956	73,256,391
Restricted for grants	**2,472,554**	2,722,391	2,643,229
Total net position	**$ 258,251,356**	$ 207,168,312	$ 113,820,853

The District's significant assets as of June 30, 2019, 2018, and 2017 were cash and cash equivalents (including restricted cash), investments, patient accounts receivable, receivables from Arizona Health Care Cost Containment System (AHCCCS), other receivables, and capital assets. Current assets increased $268,431,421 from June 30, 2018 to June 30, 2019, primarily as a result of an increase in restricted short-term investments, which is due to proceeds from tax levies and bond issuance. Current assets of the District increased $77,483,648 from June 30, 2017 to June 30, 2018 due to increase in short-term investments, increase in patient account receivable and increase in prepaid expenses. Other assets increased $93,934,155 during the year ended June 30, 2019 primarily in long-term investments and restricted cash-bond, and $3,314,066 from June 30, 2017 to June 30, 2018 mainly in restricted cash. These increases were the result of bond issuances in both years. Capital assets increased $105,728,472 during the year ended June 30, 2019 and $29,792,636 during the year ended June 30, 2018, which were due to the purchase and renovation of a hospital building, various land purchases and other capital expenditures related to new construction and equipment expenditures under Care Reimagined.

Long-term debt increased $424,863,607 from June 30, 2018 to June 30, 2019, which primarily was a result of the issuance of $422,125,000 General Obligation Bonds, Series C (2018), off-set by principal payments. There was also an increase in long-term debt of $35,912,644 during the year ended June 30, 2018, which was due to a bond issuance, offset by principal payments. The net pension liability decreased $3,672,256 during the year ended June 30, 2019 and decreased $35,679,442 during the year ended June 30, 2018. The changes in the net pension liability are primarily due to the change in assumptions used by the actuaries and contributions made to the pension assets.

Operating Results and Changes in the District's Net Position

For the years ended June 30, 2019, 2018, and 2017, the District's net position increased by $51,083,044, $93,347,459, and $120,606,382, respectively. These are made up of several different components, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	June 30		
	2019	**2018**	**2017**
Operating revenues			
Net patient service revenue	**$ 427,301,404**	$ 437,158,739	$ 391,266,867
AHCCCS medical education revenue	**38,607,817**	39,721,412	38,432,067
Capitation and other revenue	**41,904,850**	33,438,311	171,381,920
Total operating revenues	**507,814,071**	510,318,462	601,080,854
Operating expenses			
Salaries and wages	**242,211,381**	224,211,477	206,343,120
Employee benefits	**48,286,608**	40,103,682	47,238,559
Purchased services	**122,387,122**	122,003,416	112,887,931
Medical claims and other expenses	**52,736,053**	49,315,987	175,703,332
Supplies	**79,134,622**	74,594,191	61,364,780
Depreciation	**27,902,991**	24,703,577	25,666,488
Total operating expenses	**572,658,777**	534,932,330	629,204,210
Operating loss	**(64,844,706)**	(24,613,868)	(28,123,356)
Nonoperating revenues (expenses)			
Property tax receipts	**119,074,910**	113,702,828	110,524,141
Noncapital grants	**12,466,739**	12,770,173	9,411,541
Noncapital subsidies from State	**3,547,896**	3,547,896	3,547,896
Other nonoperating expense	**(16,009,627)**	(12,352,080)	(5,618,980)
Gain from sale of healthplan membership	**–**	–	32,373,025
Investment income	**10,325,302**	2,231,612	665,716
Interest expense	**(13,477,470)**	(1,939,102)	(2,173,601)
Total nonoperating revenues, net	**115,927,750**	117,961,327	148,729,738
Increase in net position	**51,083,044**	93,347,459	120,606,382
Net position, beginning of year	**207,168,312**	113,820,853	(6,785,529)
Net position, end of year	**$ 258,251,356**	$ 207,168,312	$ 113,820,853

Operating Losses

The first component of the overall change in the District's net position is its operating loss – generally, the difference between total operating revenues and total operating expenses incurred to perform services. Net patient service revenue includes inpatient, outpatient and emergency services provided to patients. Net patient service revenue for the year ended June 30, 2019, was $427,301,404, which was a decrease from the prior year net patient service revenue of $437,158,739, of $9,857,335 due to payor mix degradation, and challenges in cash collections related to Behavioral Health reimbursement changes that went into effect on October 1, 2018. Net patient service revenue increased $45,891,872 in the year ended June 30, 2018, due to increased patient activity and continuous improvement in cash collections in the business office.

Other operating revenues included three significant sources of income during the year ended June 30, 2019, 2018 and 2017: (1) the receipt of $3,196,013, $4,683,635, and $5,672,191, respectively, of AHCCCS and Medicare disproportionate share funding to assist in providing additional resources to offset some of the costs associated with serving lower-income and medically complex residents of Maricopa County, (2) the receipt of $38,607,817, $39,721,412, and $38,432,067, respectively, from AHCCCS for medical education support, and (3) the receipt of $2,302,959, $2,423,157, and $2,426,749, respectively, from AHCCCS for trauma services.

Total operating revenues in fiscal year 2019 were $507,814,071 in comparison with the prior year of $510,318,462, due in great part to the quality of gross revenue and the behavioral health reimbursement issues sited above. Total operating revenues decreased in fiscal year 2018 from $601,080,854 to $510,318,462, primarily due to the sale of the health plan membership, which eliminated capitation and reinsurance revenue.

Total operating expenses in fiscal year 2019 were $572,658,777, which is an increase of $37,726,447 (7%) over the prior year operating expenses of $534,932,330. Of the total increase, $8,077,429 or 21% is related to the opening of the Maryvale Hospital in April 2019. Additionally, salaries increased due to higher patient volumes, a higher case mix index and related additional patient days (6.2% increase). Depreciation increased by $3,199,414 related to routine capital additions and the acquisition and renovation of the Maryvale Hospital. Total operating expenses decreased $94,271,880 in fiscal year 2018 primarily due to the decrease in medical claims and other expenses of $126,387,345, which was a result of the sale of the health plan membership.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property tax receipts, both for maintenance and operation, and bond debt service. These amounts were $76,921,021 and $42,153,889, respectively, for the year ended June 30, 2019, $73,820,558 and $39,882,270, respectively, for the year ended June 30, 2018, and $70,777,141 and $39,747,000, respectively, for the year ended June 30, 2017. Also included in nonoperating revenues are noncapital grants and noncapital subsidies from the state. These amounts were $12,466,739 and $3,547,896, respectively, for the year ended June 30, 2019, $12,770,173 and $3,547,896, respectively, for the year ended June 30, 2018, and $12,466,739 and $3,547,896, respectively, for the year ended June 30, 2017. Other nonoperating revenues and expenses for the year ended June 30, 2019 consisted primarily of investment income, interest expense and other nonoperating expenses. Investment income for the year ended June 30, 2019 increased from the prior year by $8,093,690 due to the purchase of additional short-term investments. Interest expense for the year ended June 30, 2019 increased from the prior year by $11,538,368 due to issuance of $422,125,000 of general obligation bonds. Other nonoperating revenues and expenses for the year ended June 30, 2018 consisted primarily of investment income, interest expense and other nonoperating expenses. Nonoperating revenues for the year ended June 30, 2018 decreased from the prior year due to the gain on sale of health plan membership of $32,373,025 in February 2017, which was not present in the year ended June 30, 2018.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses discussed earlier. Net cash used in operating activities for the years ended June 30, 2019, 2018, and 2017 was $69,230,854, $12,167,515, and $45,490,042, respectively.

Capital Assets

As of June 30, 2019, the District had $359,840,756 invested in capital assets, net of accumulated depreciation. For the years ended June 30, 2019, 2018, and 2017, the District purchased capital assets amounting to $1,333,771,463, $54,496,214, and $35,512,511, respectively.

Debt

As of June 30, 2019, 2018, and 2017, the District had bonds payable of $538,541,763, $112,000,000 and $73,000,000, respectively. As set forth in the voter approved Proposition 480 language, bond proceeds are used to purchase various equipment and to fund various improvement projects on the District's existing acute, behavioral health facilities and outpatient health centers. A portion of the bond proceeds, $36,000,000, was used to reimburse the District's general fund for prior capital asset purchases. At June 30, 2018, and 2017, the District had notes payable to Maricopa County in the amount of $1,414,972, and $7,024,026, respectively. The District did not have any notes payable to Maricopa County at June 30, 2019. For the years ended June 30, 2019, 2018, and 2017, the District had capital lease and other long-term obligations totaling $1,260,762, $1,979,716, and $3,759,448, respectively, to various other entities.

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, community members, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to District Administration by telephoning (602) 344-8425.

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Statements of Net Position

	June 30	
	2019	**2018**
Assets		
Current assets:		
Cash and cash equivalents	**$ 77,820,581**	$ 123,845,236
Short-term investments	**106,237,284**	107,179,691
Restricted cash – bond	**53,635,121**	40,400,521
Restricted short-term investments – bond	**289,276,568**	–
Patient accounts receivable, net of allowances	**88,602,464**	75,609,173
Receivable from AHCCCS for medical education (net)	**38,607,817**	39,721,412
Receivable from AHCCCS for health plan premiums	**20,852**	2,389,855
Other receivables	**10,266,471**	9,148,764
Due from related parties	**1,680,183**	1,920,176
Supplies	**8,217,459**	6,858,626
Prepaid expenses	**14,998,600**	13,858,524
Total current assets	**689,363,400**	420,931,978
Other assets:		
Long-term investments	**49,793,027**	10,000,000
Restricted cash – bond	**117,944,563**	63,803,435
Total other assets	**167,737,590**	73,803,435
Capital assets:		
Land	**25,342,118**	25,482,118
Depreciable capital assets, net of accumulated depreciation	**334,498,638**	228,630,166
Total capital assets, net of accumulated depreciation	**359,840,756**	254,112,284
Total assets	**1,216,941,746**	748,847,697
Deferred outflows of resources		
Contributions made after measurement date	**26,299,277**	22,717,366
Difference between expected and actual experience	**8,300,275**	13,230,322
Changes in assumptions	**9,703,066**	–
Net difference between projected and actual investment earnings	**–**	2,186,958
Change in proportion and differences between employer contributions and proportionate share of contributions	**20,745,644**	–
Total deferred outflows of resources	**$ 65,048,262**	$ 38,134,646

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Statements of Net Position (continued)

	June 30	
	2019	**2018**
Liabilities and net position		
Current liabilities:		
Current maturities of long-term debt	**$ 38,638,652**	$ 39,094,422
Accounts payable	**47,187,750**	38,902,495
Accrued payroll and expenses	**26,306,854**	23,018,452
Risk claims payable	**2,650,000**	3,010,000
Overpayments from third-party payors	**10,799,859**	9,960,114
Other current liabilities	**37,699,463**	27,190,592
Total current liabilities	**163,282,578**	141,176,075
Risk claims payable less current portion	**11,177,826**	10,032,177
Net pension and OPEB liability	**300,585,929**	304,258,185
Other long term liabilities	**–**	7,963,326
Long-term debt	**501,163,873**	76,300,266
Total liabilities	**976,210,206**	539,730,029
Deferred inflows of resources		
Difference between expected and actual experience	**2,379,274**	9,134,174
Change in assumptions	**26,620,261**	9,108,668
Difference between projected and actual investment earnings	**8,896,932**	1,316,113
Change in proportion and differences between employer contributions and proportionate share of contributions	**9,631,979**	20,525,047
Total deferred inflows of resources	**47,528,446**	40,084,002
Net position:		
Unrestricted deficit	**(128,763,175)**	(100,932,414)
Net investment in capital assets	**212,962,293**	201,174,379
Restricted for bonds	**171,579,684**	104,203,956
Restricted for grants	**2,472,554**	2,722,391
Total net position	**$ 258,251,356**	$ 207,168,312

See accompanying notes.

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Statements of Revenues, Expenses and Changes in Net Position

	June 30	
	2019	**2018**
Operating revenues:		
Net patient service revenue	**$ 427,301,404**	$ 437,158,739
AHCCCS medical education revenue	**38,607,817**	39,721,412
Other revenue	**41,904,850**	33,438,311
Total operating revenues	**507,814,071**	510,318,462
Operating expenses:		
Salaries and wages	**242,211,381**	224,211,477
Employee benefits	**48,286,608**	40,103,682
Purchased services	**122,387,122**	122,003,416
Other expenses	**52,736,053**	49,315,987
Supplies	**79,134,622**	74,594,191
Depreciation	**27,902,991**	24,703,577
Total operating expenses	**572,658,777**	534,932,330
Operating loss	**(64,844,706)**	(24,613,868)
Nonoperating revenues (expenses):		
Property tax receipts	**119,074,910**	113,702,828
Noncapital grants	**12,466,739**	12,770,173
Noncapital subsidies from State	**3,547,896**	3,547,896
Other nonoperating expenses	**(16,009,627)**	(12,352,080)
Investment income	**10,325,302**	2,231,612
Interest expense	**(13,477,470)**	(1,939,102)
Total nonoperating revenues, net	**115,927,750**	117,961,327
Increase in net position	**51,083,044**	93,347,459
Net position, beginning of year	**207,168,312**	113,820,853
Net position, end of year	**$ 258,251,356**	$ 207,168,312

See accompanying notes.

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Statements of Cash Flows

	Year Ended June 30	
	2019	**2018**
Operating activities		
Receipts from and on behalf of patients	**$ 414,308,113**	$ 426,743,225
Payments to suppliers and contractors	**(248,831,451)**	(238,616,559)
Payments to employees	**(310,351,015)**	(285,486,412)
Other operating receipts	**83,957,296**	97,629,687
Other operating payments	**(8,313,797)**	(12,437,456)
Net cash used in operating activities	**(69,230,854)**	(12,167,515)
Noncapital financing activities		
Property tax receipts supporting operations	**76,921,021**	73,820,558
Noncapital contributions and grants received	**12,466,739**	12,770,173
Noncapital subsidies and other nonoperating payments	**(12,461,731)**	(8,804,184)
Net cash provided by noncapital financing activities	**76,926,029**	77,786,547
Capital and related financing activities		
Property tax receipts for debt service	**42,153,889**	39,882,270
Principal payments on long-term debt and capital leases	**(39,133,926)**	(43,415,220)
Purchase of capital assets	**(133,631,463)**	(54,469,779)
Bond proceeds	**463,541,763**	75,000,000
Interest paid on long-term debt	**(1,472,479)**	(1,939,102)
Net cash provided by capital and related financing activities	**331,457,784**	15,058,169
Investing activities		
Proceeds from sale of investments	**470,070,257**	41,560,680
Purchases of investments	**(798,197,445)**	(113,506,599)
Interest from investments	**10,325,302**	2,231,612
Net cash used in investing activities	**(317,801,886)**	(69,714,307)
Increase in cash and cash equivalents	**21,351,073**	10,962,894
Cash and cash equivalents including restricted cash, beginning of year	**228,049,192**	217,086,298
Cash and cash equivalents including restricted cash, end of year	**$ 249,400,265**	$ 228,049,192

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Statements of Cash Flows (continued)

	Year Ended June 30	
	2019	**2018**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (64,844,706)**	$ (24,613,868)
Depreciation	**27,902,991**	24,703,577
Changes in operating assets and liabilities:		
Patient, other accounts receivable, and other assets	**(10,628,400)**	7,688,675
Due from related parties	**239,993**	(1,640,152)
Supplies and prepaid expenses	**(2,498,909)**	(3,937,424)
Overpayments from third-party payors	**839,745**	(2,205,544)
Risk claims payable	**785,649**	1,781,469
Accounts payable and accrued expenses	**(21,027,217)**	(13,944,248)
Net cash used in operating activities	**$ (69,230,854)**	$ (12,167,515)

See accompanying notes.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District or MIHS) is a health care district and political subdivision of the state of Arizona. The District is located in Phoenix, Arizona, and is governed by a five-member Board of Directors elected by voters within the District.

The District was created in November 2003 by an election of the voters of Maricopa County, Arizona (the County). In November 2004, the voters first elected the District's governing board. An Intergovernmental Agreement (IGA) between the District and the County was entered into in November 2004, which, among other things, specified the terms by which the County transferred essentially all of the assets, liabilities, and financial responsibility of MIHS to the District effective January 1, 2005. MIHS operates a medical center facility (the Medical Center), which was formerly owned and operated by the County; freestanding inpatient behavioral health facilities located on the Medical Center campus and in Mesa, Arizona; a specialty clinic located on the Medical Center campus; and various outpatient health centers throughout Maricopa County. The District has the authority to levy ad valorem taxes. The District had no significant operations prior to January 1, 2005. In conjunction with the IGA, the County and the District entered into a 20-year lease for the Medical Center real estate.

On September 3, 2013, a second Amended and Restated Intergovernmental Agreement (the Amended IGA) was entered into by the District whereby all the land and real property located at the Maricopa Medical Center and Desert Vista campuses (the Property) subject to the prior 20-year lease were donated to the District. The Property was recorded at its fair value at date of donation, determined by a third-party valuation services firm, totaling $117,075,000. The Property donated consisted of land of $9,000,000, buildings of $104,375,000 and land improvements of $3,700,000.

The Amended IGA also provided for the District's purchase of supplies from the County and the sublease of certain space to the County, and for the County to be able to purchase supplies and utilize the District's services, among other items.

If the Property is not used for county hospital purposes, the Property shall (at the election of the County) revert to the County.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Effective October 1, 2005, the District assumed the operations and financial responsibility for the Maricopa Health Plan (MHP), a managed care plan previously operated by the County. MHP contracted with the Arizona Health Care Cost Containment System (AHCCCS) to arrange and provide health care services to Medicaid-eligible clients. In September 2013, the Centers for Medicare & Medicaid Services (CMS) approved a contract with the District to operate Maricopa Care Advantage (MCA) for one year effective January 1, 2014, with renewals for successive one-year periods in accordance with the terms of the agreement. MHP and MCA are operating divisions of the District.

In May 2016, the District awarded the transfer of membership of MHP and MCA to United Health care Community Plan of Arizona. AHCCCS approved the transfer of membership in October 2016.

In April 2014, Mercy Maricopa Integrated Care (MMIC) began operations. MMIC was formed to respond to a legal solicitation issued jointly by the Arizona Department of Health Services (ADHS) and AHCCCS. The purpose of the solicitation was to award a contract to the successful bidder to become the Maricopa County Regional Behavioral Health Authority (RBHA). The RBHA provides integrated health care services, both medical and behavioral health, to Medicaid-eligible adults with serious mental illnesses. ADHS awarded the contract to MMIC on March 25, 2013. On July 2, 2018, the District sold its 15% ownership in the MMIC joint venture. The District's capital contribution of $10,000,000 was returned.

Basis of Accounting and Presentation

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated and voluntary non-exchange transactions (principally federal and state grants and appropriations from the County) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available. The District primarily earns revenues by providing inpatient and outpatient medical services.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents and Restricted Cash

For purposes of the statements of cash flows, the District considers all liquid investments, including restricted assets with original maturities of three months or less, to be cash equivalents. At June 30, 2019 and 2018, the District had approximately $249,400,000 and $228,049,000, respectively, of cash and cash equivalents and restricted cash. Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately $53,635,000 and $40,401,000 as of June 30, 2019 and 2018, respectively, of tax proceeds restricted for debt service on the general obligation bonds and approximately $117,945,000 and $63,803,000 as of June 30, 2019 and 2018, respectively, of bond proceeds restricted for use under the bond agreement. A portion of the restricted cash has been classified as a long-term asset as the funds will be used to purchase long-term assets.

Investments

The District records its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application.*

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles in the United States (U.S. GAAP). These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Unadjusted quoted prices for identical investments in active markets
- Level 2: Observable inputs other than quoted market prices
- Level 3: Unobservable inputs

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries; medical malpractice; and natural disasters. The District participated in the County's self-insurance program through December 3, 2012. The IGA between the District and County was amended to reflect that the District would no longer participate in the County's self-insurance program effective December 4, 2012, except for workers' compensation claims. The Amended IGA also stipulated that the County would provide a mutually agreed-upon amount to fund estimated outstanding losses and estimated future claim payments for the period January 1, 2005, through December 3, 2012. In return, the District accepted responsibility for the payment and management of these claims on an ongoing basis.

The District, through its Risk Management Department, is now responsible for identifying and resolving exposures and claims that arise from employee work-related injury, third-party liability, property damage, regulatory compliance, and other exposures arising from the District's operations. Effective December 4, 2012, the District's Board of Directors approved and implemented risk management, self-insurance, and purchased insurance programs under the Maricopa Integrated Health System Risk Management Insurance and Self-Insurance Plan (the Insurance Plan). As authorized under the Insurance Plan, the District purchases excess insurance over the District's self-insured program to maintain adequate protection against the District's exposures and claims filed against the District. It is the District's policy to record the expense and related liability for professional liability, including medical malpractice and workers' compensation, based upon annual actuarial estimates.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at estimated net realizable amounts due from third-party payors, patients, and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. The District bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off based on individual credit evaluation and specific circumstances of the account.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Supplies

Supplies inventories are stated at the lower of cost or market, determined using the first-in, first-out method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. The dollar threshold to capitalize capital assets is $2,500. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or the assets' respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	2–25 years
Buildings and leasehold improvements	5–40 years
Equipment	3–20 years

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits (personal leave) that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as personal leave benefits and are earned whether the employee is expected to realize the benefit as time off or as a cash payment. Employees may accumulate up to 240 hours of personal leave, depending on years of service, but any personal leave hours in excess of the maximum amount that are unused by the calendar year-end are converted to the employee's extended illness bank (EIB). Generally, EIB benefits are used by employees for extended illness or injury, or to care for an immediate family member with an extended illness or injury. EIB benefits are cumulative but do not vest and, therefore, are not accrued. However, upon retirement, employees with accumulated EIB in excess of 1,000 hours are entitled to a $3,000 bonus. The total compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes, computed using rates in effect at that date.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Net Position

Net position of the District is classified into three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors, or donors external to the District. Unrestricted net position consists of the remaining assets plus deferred outflows of resources less remaining liabilities plus deferred inflows of resources that do not meet the definition of net investment in capital assets, or restricted net position.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known. The District participates in the Federally Qualified Health Center (FQHC) program and receives supplemental payments from AHCCCS. The payments are made based on information filed with AHCCCS on the Annual Reconciliation and Rebase Data (ARRD) report. The District is currently in contact with AHCCCS regarding the FFY18 ARRD report filing and payment reconciliation. AHCCCS had made some changes in the reconciliation process between AHCCCS, the health plans and the providers. AHCCCS final decision is not expected until mid-December 2019.

Charity Care

The District provides services at amounts less than its established rates to patients who meet the criteria of its charity care policy. The criteria for charity care take into consideration the patient's family size and income in relation to federal poverty guidelines and type of service rendered. The total net cost of charity care provided was approximately $38,027,000 and $29,475,000 for the years ended June 30, 2019 and 2018, respectively. Charity care cost is based on the percentage of total direct operating expenses less other operating revenue divided by the total gross revenue for

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

the Medical Center. This percentage is applied to the amount written off as charity care to determine the total charity care cost. The net cost of charity care is total charity care cost less any payments received. Payments received were approximately $14,284,000 and $6,293,000 for the years ended June 30, 2019 and 2018, respectively.

Property Taxes

On or before the third Monday in August, the County levies real property taxes and commercial personal property taxes on behalf of the District, which become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

The County also levies mobile home personal property taxes on behalf of the District that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later. A lien assessed against real and personal property attaches on the first day of January preceding assessment and levy.

Proposition 480 allows the County to levy additional property taxes for principal and interest debt service related to general obligation bonds (see Note 10).

Income Taxes

The District is a health district and political subdivision of the state of Arizona and is exempt from federal and state income taxes.

Pension and Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net pension and OPEB liability, deferred outflows of resources and deferred inflows of resources related to pension and OPEB, and pension and OPEB expense, information about the fiduciary net position of the Arizona State Retirement System (ASRS) and additions to/deductions from ASRS's fiduciary net position have been determined on the same basis as they are reported by ASRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit plan terms. Investments are reported at fair value.

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. The standard establishes criteria for identifying fiduciary activities of all state and local governments. The standard identifies four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The standard is effective for the District as of July 1, 2019. The District is evaluating the impact of adopting the accounting standard.

The GASB issued Statement No. 87, *Leases*, in June 2017. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The guidance establishes a single model for lease accounting based on the principle that leases are financing the right to use an underlying asset. The standard is effective for the District as of July 1, 2020. The District is evaluating the impact of adopting the accounting standard.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in June 2018. The standard requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The standard is effective for the District as of July 1, 2020. The District is evaluating the impact of adopting the accounting standard.

Reclassifications

Certain amounts in the District's 2018 financial statements have been reclassified to conform with the presentation of its 2019 financial statements. These reclassifications had no impact on previously reported revenues, expenses, or changes in net position.

2. Net Patient Service Revenue

Net patient service revenue is presented net of provision for uncollectible accounts of approximately $42,397,000 and $33,388,000 for the years ended June 30, 2019 and 2018, respectively.

2. Net Patient Service Revenue (continued)

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. These payment arrangements include the following:

- Medicare – Inpatient acute care services, certain inpatient non-acute care services, and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity, and other factors. Inpatient psychiatric services are paid based on a blended cost reimbursement methodology and prospectively determined rates. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited the District's cost reports through June 30, 2016.

- AHCCCS – Inpatient acute services are paid at prospectively determined rates. Inpatient psychiatric services are paid on a per diem basis. Outpatient services rendered to AHCCCS program beneficiaries are primarily reimbursed under prospectively determined rates.

- The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Approximately 56% and 51% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2019 and 2018, respectively. Laws and regulations governing the Medicare and AHCCCS programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Net patient service revenue increased by approximately $495,000 and $566,000 in 2019 and 2018, respectively, due to changes in estimates related to final settlements with the Medicare program and cost reports that are no longer subject to audits, reviews, or investigations.

3. AHCCCS Safety Net Care Pool

The District participated in the AHCCCS Safety Net Care Pool (SNCP) program that provided reimbursement to Safety Net Hospitals for uncompensated cost incurred in providing services to Medicaid and uninsured/underinsured patients. The program was terminated by AHCCCS effective December 31, 2013. Amounts recorded under the SNCP program are subject to final settlement by AHCCCS, and the District does not expect final settlement until fiscal 2020. The District has established a reserve for potential overpayment, totaling approximately $1,317,000 at June 30, 2019 and 2018. Upon final settlement, amounts previously recorded could change by material amounts. Management believes amounts reserved related to the SNCP program are adequate.

4. Deposits and Investments

The District's deposits are held by the County in separate accounts, and the District can draw them upon demand. A compensating balance is maintained in these accounts at a sufficient amount so that earnings on these accounts offset the fees charged for services. Any amounts above the compensating balance are swept daily overnight into a commercial paper investment account.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the inputs used in valuation and gives the highest priority to unadjusted quoted prices in active markets and requires that observable inputs be used in the valuation when available. The disclosure of fair value estimates in the hierarchy is based on whether the significant inputs into the valuations are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest level, Level 1, is given to unadjusted quoted prices in active markets and the lowest level, Level 3, to unobservable inputs.

4. Deposits and Investments (continued)

In instances where inputs used to measure fair value fall into different levels, fair value measurements in their entirety are categorized based on the lowest level of input that is significant to the valuation. The District's assessment of the significance of particular inputs to these measurements requires judgment and considers factors specific to each investment. The table below shows the fair value leveling of the District's investments as of:

	June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Government agencies	**$ –**	**$ 26,114,305**	**$ –**	**$ 26,114,305**
Government bonds	**–**	**215,506,747**	**–**	**215,506,747**
Corporate bonds	**–**	**24,235,902**	**–**	**24,235,902**
Short-term bills and notes – US agencies	**179,449,925**	**–**	**–**	**179,449,925**
	$ 179,449,925	**$ 265,856,954**	**$ –**	**$ 445,306,879**

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Government agencies	$ –	$ 25,684,262	$ –	$ 25,684,262
Short-term bills and notes – US agencies	81,495,429	–	–	81,495,429
	$ 81,495,429	$ 25,684,262	$ –	$ 107,179,691

Long-term investments also include investment in MMIC of $10,000,000 as of June 30, 2018, accounted for under the cost-method of accounting.

4. Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2019, the District's funds were held in cash and cash equivalents and carrying value equates to fair value.

The District had the following investments with the respective weighted-average maturity in years:

	June 30, 2019	
	Fair Value	**Weighted-Average Maturity**
Government agencies	**$ 26,114,305**	**0.11**
Government bonds	**215,506,747**	**0.40**
Corporate bonds	**24,235,902**	**0.11**
Short-term bills and notes – U.S. agencies	**179,449,925**	**0.34**
	$ 445,306,879	**0.96**

	June 30, 2018	
	Fair Value	**Weighted-Average Maturity**
Government agencies	$ 25,684,262	0.36
Short-term bills and notes – U.S. agencies	81,495,429	0.41
	$ 107,179,691	0.77

4. Deposits and Investments (continued)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligation. At June 30, 2019, the District's funds were held by Northern Trust Bank. The District has adopted an investment policy that authorizes the following instruments for investment: (1) negotiable direct obligations of, or obligations the principal and interest of which are unconditionally guaranteed by, the United States government; (2) obligations of federal agencies and instrumentalities; (3) interest-bearing notes, bonds, debentures, and other such evidence of indebtedness with a fixed maturity of any domestic listed corporation within the United States that when purchased carry ratings in one of the three highest classifications of at least two nationally recognized debt rating agencies; and (4) municipal bond investments that carry ratings in one of the top two classifications of at least two nationally recognized rating agencies or secured by bond insurance.

The District's investment securities have the following credit ratings as shown below:

	June 30, 2019	
	Fair Value	**Credit Rating***
Government agencies	$ 26,114,305	Aaa
Government bonds	215,506,747	Aaa
Corporate bonds	8,501,172	Aa2
Corporate bonds	15,734,730	A1
Short-term bills and notes – US agencies	179,449,925	Aaa
	$ 445,306,879	

	June 30, 2018	
	Fair Value	**Credit Rating***
Government agencies	$ 25,684,262	Aaa
Short-term bills and notes – US agencies	81,495,429	Aaa
	$ 107,179,691	

*Moody's ratings

5. Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable is presented net of allowance for uncollectible accounts of $53,639,000 and $39,275,000 for the years ended June 30, 2019 and 2018, respectively.

6. Other Receivables

At June 30, 2019 and 2018, significant components of other receivables included amounts due from District Medical Group of approximately $1,343,000 and $2,813,000, respectively, amounts receivable related to the 340B program of approximately $1,820,000 and $1,615,000, respectively, and amounts receivable related to HomeAssist Health of approximately $1,000,000 and $2,000,000, respectively.

7. Receivables from AHCCCS for Medical Education

During the years ended June 30, 2019 and 2018, MIHS entered into intergovernmental agreements with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2019 and 2018, available funds from CMS for medical education totaled approximately $55,288,000 and $56,967,000, respectively. At June 30, 2019 and 2018, the amount due to MIHS is approximately $38,608,000, which is net of the $16,680,000 matching funds provided by MIHS, and $39,721,000, which is net of the $17,246,000 matching funds provided by MIHS, respectively.

8. Capital Assets

Capital assets activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Adjustments	Ending Balance
Capital assets not being depreciated:						
Construction-in-progress	$ 54,745,770	$ 133,691,789	$ –	$ (75,210,103)	$ –	$ 113,227,456
Capitalized software-in-progress	330,119	–	–	–	–	330,119
Land	25,482,118	–	(140,000)	–	–	25,342,118
Capital assets being depreciated:						
Buildings and leasehold improvements	207,089,031	–	–	36,589,401	–	243,678,432
Capitalized software	49,516,241	–	–	–	–	49,516,241
Equipment	149,197,462	79,674	–	38,620,702	–	187,897,838
Total capital assets	486,360,741	133,771,463	(140,000)	–	–	619,992,204
Less accumulated depreciation:						
Buildings and leasehold improvements	75,622,375	11,638,673	–	–	–	87,261,048
Capitalized software	44,473,935	2,384,340	–	–	–	46,858,275
Equipment	112,152,147	13,879,978	–	–	–	126,032,125
Total accumulated depreciation	232,248,457	27,902,991	–	–	–	260,151,448
Capital assets, net	$ 254,112,284	$ 105,868,472	$ (140,000)	$ –	$ –	$ 359,840,756

8. Capital Assets (continued)

Capital assets activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Adjustments	Ending Balance
Capital assets not being depreciated:						
Construction-in-progress	$ 32,806,545	$ 42,090,819	$ –	$ (20,151,594)	$ –	$ 54,745,770
Capitalized software-in-progress	330,119	–	–	–	–	330,119
Land	13,090,000	12,392,118	–	–	–	25,482,118
Capital assets being depreciated:						
Buildings and leasehold improvements	202,181,034	–	–	4,907,997	–	207,089,031
Capitalized software	49,516,241	–	–	–	–	49,516,241
Equipment	133,940,364	13,276	–	15,243,597	225	149,197,462
Total capital assets	431,864,303	54,496,213	–	–	225	486,360,741
Less accumulated depreciation:						
Buildings and leasehold improvements	64,486,575	11,135,800	–	–	–	75,622,375
Capitalized software	40,791,452	3,682,258	–	–	225	44,473,935
Equipment	102,266,628	9,885,519	–	–	–	112,152,147
Total accumulated depreciation	207,544,655	24,703,577	–	–	225	232,248,457
Capital assets, net	$ 224,319,648	$ 29,792,636	$ –	$ –	$ –	$ 254,112,284

9. Risk Claims Payable

The District maintains insurance through a combination of programs utilizing purchased commercial insurance and self-insurance for professional liability claims, including medical malpractice and workers' compensation claims. The District is self-insured for workers' compensation in Arizona. In connection with the aforementioned programs, the District has accrued estimates for asserted and incurred but not reported claims. The actuarially determined claims payable is approximately $13,828,000 and $13,042,000, of which $2,650,000 and $3,010,000 has been recorded as a current liability and approximately $11,178,000 and $10,032,000 has been recorded as a noncurrent liability on the accompanying statements of net position as of June 30, 2019 and 2018, respectively. Risk claims payable are undiscounted.

9. Risk Claims Payable (continued)

As of June 30, 2019, the District maintained commercial insurance as follows:

Insurance	**Limits**	**Self-Insured Retention/Deductible**
Workers' compensation	Statutory	$500,000 each claim
Medical malpractice	$25,000,000 each incident – first layer	
	Additional $10,000,000 – second excess layer	$2,000,000 each incident

The insurance policies listed above became effective December 1, 2012 and remain current through June 30, 2019.

The following is a reconciliation of the risk claims payable as for the years ended June 30:

	2019	**2018**	**2017**
Beginning balance	**$ 13,042,177**	$ 11,260,708	$ 15,611,737
Total incurred	**4,793,547**	6,424,780	5,167,506
Total paid	**(4,007,898)**	(4,643,311)	(9,518,535)
Ending balance	**$ 13,827,826**	$ 13,042,177	$ 11,260,708

10. Long-Term Debt and Capital Leases

The following is a summary of long-term debt transactions for the District for the years ended June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2019					
General obligation bonds	**$ –**	**$ 464,994,983**	**$ (1,453,220)**	**$ 463,541,763**	**$ –**
Direct placement general obligation bonds	**112,000,000**	**–**	**(37,000,000)**	**75,000,000**	**38,000,000**
Note payable and credit facility, Maricopa County	**1,414,970**	**–**	**(1,414,970)**	**–**	**–**
Capital lease obligations	**1,979,718**	**79,674**	**(798,630)**	**1,260,762**	**638,652**
Total long-term debt	**$ 115,394,688**	**$ 465,074,657**	**$ (40,666,820)**	**$ 539,802,525**	**$ 38,638,652**
2018					
Direct placement general obligation bonds	$ 73,000,000	$ 75,000,000	$ (36,000,000)	$ 112,000,000	$ 37,000,000
Note payable and credit facility, Maricopa County	7,024,026	–	(5,609,056)	1,414,970	1,414,970
Capital lease obligations	3,759,448	26,434	(1,806,164)	1,979,718	679,450
Total long-term debt	$ 83,783,474	$ 75,026,434	$ (43,415,220)	$ 115,394,688	$ 39,094,422

General Obligation Bonds

On November 4, 2014, the voters of Maricopa County approved Proposition 480. Proposition 480 allows the District to issue up to $935,000,000 in general obligation bonds to be repaid over 30 years to fund outpatient health facilities, including improvement or replacement of existing outpatient health centers; construction of new outpatient health centers in northern, eastern, and/or western Maricopa County, behavioral health facilities, including construction of a new behavioral health hospital; and acute care facilities, including replacement of the District's public teaching hospital Maricopa Medical Center and its Level One Trauma Center and Arizona Burn Center, on the existing campus.

10. Long-Term Debt and Capital Leases (continued)

On August 6, 2015, the District closed its first offering of general obligation bonds in the amount of $106,000,000 in order to start various improvement projects on its existing outpatient health centers and behavioral health facilities. The bonds bear interest at the rate of 2.450% through maturity in fiscal year 2019. A portion of the $106,000,000 bond proceeds was also used to reimburse the District's general fund for prior capital asset purchases totaling $36,000,000.

On October 12, 2017, the District closed on its second offering of general obligation bonds in the amount of $75,000,000 in order to continue the various improvement projects. The bonds bear interest at the rate of 1.610% through maturity in fiscal 2022. Financing for the District's first and second offering were both private placements.

On October 30, 2018, the District closed on its third offering of general obligation bonds in the amount of $422,125,000 in order to continue the various improvement projects. The bond was issued at a premium of $42,870,000. The bonds bear coupon interest at the rate of 5.00% through maturity in fiscal 2038. Financing for the District's third offering were public placements.

Proposition 480 allows the County to levy additional property taxes for principal and interest debt service related to the general obligation bonds.

The bond purchase agreements also contain certain nonfinancial covenants, including the maintenance of property and annual reporting requirements. Management believes it is in compliance with these covenant requirements at June 30, 2019.

Note Payable and Credit Facility, Maricopa County

As part of the Amended IGA, the District issued a note payable to the County for $433,000, which was due in August 2015. This amount relates to the cost incurred by the County on behalf of the District in relation to the election held in November 2004. This note payable to the County was interest free for the first five years. The note bore interest at a rate of 1.52% through its original maturity in 2015.

The County agreed to extend the District a $15,000,000 credit facility in connection with the Amended IGA. Any amounts borrowed under the credit facility were previously payable to the County in their entirety in August 2015. Borrowings under this credit facility were $15,000,000 and were interest free for the first five years.

10. Long-Term Debt and Capital Leases (continued)

On October 7, 2015, the District and Maricopa County signed a third amendment to the original IGA dated August 10, 2005. The new agreement includes repayment of the original principal amount of $15,433,000 plus unpaid accrued interest of $1,152,000 plus accrued interest only on the principal sum of $15,433,000 beginning August 1, 2015. The payments are to be made in 12 equal installments of $1,414,000: the first installment was paid on November 30, 2015, and the 12th and final installment payment was made on August 31, 2018.

Scheduled maturities of long-term debt, excluding capital lease payments and a net premium of $41,417,000, for the years ending June 30 are as follows:

	General Obligation Bonds		Direct Placement General Obligation Bonds	
	Principal	**Interest**	**Principal**	**Interest**
2020	$ –	$ 23,920,694	$ 38,000,000	$ 901,600
2021	10,000,000	20,204,750	20,000,000	434,700
2022	15,500,000	19,567,250	17,000,000	136,850
2023	15,360,000	18,795,750	–	–
2024	16,130,000	18,008,500	–	–
2025-2019	72,995,000	63,343,875	–	–
2030-2034	113,750,000	56,113,500	–	–
2035-2039	178,390,000	24,724,600	–	–
	$ 422,125,000	$ 244,678,919	$ 75,000,000	$ 1,473,150

Capital Lease Obligations

The District is obligated under the leases for buildings, building improvements, and equipment, through 2020, which are accounted for as capital leases. Assets under capital leases at June 30, 2019 and 2018, had a total cost of $16,942,000 and $16,862,000, respectively, with accumulated depreciation of $14,376,000 and $13,692,000, respectively.

10. Long-Term Debt and Capital Leases (continued)

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at varying rates as of June 30, 2019:

	Principal	Interest
Year ending June 30:		
2020	$ 638,652	$ 58,817
2021	617,007	16,099
2022	5,103	42
	$ 1,260,762	$ 74,958

11. Restricted Net Position

Restricted net position at June 30, 2019 and June 30, 2018, consists of grant funds received for specific purposes that are expected to be expended during the following year in the amount of $2,473,000 and $2,722,000, respectively.

Restricted net position at June 30, 2019 and June 30, 2018, also consists of bond funds expected to be expended for specific purposes as defined in the bond agreement, in the amount of approximately $171,580,000 and $104,204,000, respectively.

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities

General Information About the Pension and OPEB Plans

Plan Description

The District contributes to a cost-sharing, multiple-employer, defined benefit pension plan and OPEB plans administered by the ASRS. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. ASRS is governed by the ASRS Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

ASRS issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained at www.azasrs.gov/content/annual-reports or by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, or by telephoning (602) 240-2000 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend contribution rates for active plan members and the District. For the years ended June 30, 2019 and 2018, active plan members and the District were required by statute to contribute at the actuarially determined rate of 11.80% (11.18% retirement, 0.46% health benefit supplement, and 0.16% long-term disability) and 11.50% (10.90% retirement, 0.44% health benefit supplement, and 0.16% long-term disability), respectively, of the members' annual covered payroll.

Benefits Provided

ASRS provides retirement, health care, and long-term disability benefits. The Defined Benefit Plan provides monthly retirement benefits, to members who have reached retirement eligibility criteria, terminated employment, and applied for retirement benefits. At retirement, members have seven different payment options to choose from, including a straight-life annuity that guarantees monthly payments only for the lifetime of the member, or term certain and joint and survivor annuities that will continue to make monthly payments to a beneficiary in the event of the member's death. The amount of a member's monthly benefit is calculated based on his or her age, his or her years of service, his or her salary at retirement, and the retirement option chosen. In the event a member dies before reaching retirement eligibility criteria, the defined benefit plan will pay a lump sum or annuity to the member's beneficiary(ies). The Retiree Health Benefit Supplement (also called Premium Benefit Supplement) provides health insurance coverage for retirees and a monthly health insurance premium benefit to offset the cost of retiree health insurance. Long Term Disability provides a monthly disability benefit to partially replace income lost as a result of disability.

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

Contributions

The contribution rate for the pension and OPEB plans are calculated by an independent actuary at the end of each fiscal year based on the amount of investment assets the ASRS has on hand to pay benefits, liabilities associated with the benefits members have accrued to date, projected investment returns, and projected future liabilities.

Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions and OPEB

At June 30, 2019, the District reported a liability of approximately $300,238,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, and was rolled forward using generally accepted actuarial procedures to June 30, 2018. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the state, as actuarially determined. At June 30, 2018 and 2017, the District's proportion was 2.15% and 1.96%, respectively.

At June 30, 2018, the District reported a liability of approximately $304,619,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, and was rolled forward using generally accepted actuarial procedures to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the state, as actuarially determined. At June 30, 2017, the District's proportion was 1.96%, which was a decrease of 0.15% from its proportion measured as of June 30, 2016.

At June 30, 2019, the District reported a liability of approximately $348,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, and was rolled forward using generally accepted actuarial procedures to June 30, 2018. The District's proportion of the net OPEB liability was based on a projection of the District's

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers and the state, as actuarially determined. At June 30, 2018, the District's proportion was 2.17%, which was a 0.20% change from its proportion measured as of June 30, 2017.

At June 30, 2018, the District reported an asset of approximately $361,000 for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2017. The total amount used to calculate the net OPEB asset was determined by an actuarial valuation as of June 30, 2016, and was rolled forward using generally accepted actuarial procedures to June 30, 2017. The District's proportion of the net OPEB asset was based on a projection of the District's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers and the state, as actuarially determined. At June 30, 2017, the District's proportion was 1.97%, which was a 0% change from its proportion measured as of June 30, 2016.

Within employee benefits, the District recorded pension expense/(gain) of $3,841,000 and $(5,583,000) for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 8,271,325**	**$ (1,655,165)**
Changes in assumptions	**7,944,858**	**(26,620,261)**
Net difference between projected and actual investment earnings	**–**	**(7,220,024)**
Changes in proportion and differences between district contributions and proportionate share of contributions	**20,662,665**	**(9,630,844)**
District contributions subsequent to the measurement date	**25,950,721**	**–**
Total	**$ 62,829,569**	**$ (45,126,294)**

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 13,230,322	$ (9,134,174)
Changes in assumptions	–	(9,108,668)
Net difference between projected and actual investments earnings	2,186,958	–
Changes in proportion and differences between district contributions and proportionate share of contributions	–	(20,523,628)
District contributions subsequent to the measurement date	22,402,719	–
Total	$ 37,819,999	$ (38,766,470)

Of the amount reported as deferred outflows of resources as of June 30, 2019, $25,950,721 related to pension results from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2020	$ 4,611,196
2021	1,331,504
2022	(10,952,244)
2023	(3,237,902)

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

Within employee benefits, the District recorded OPEB expense of $1,202,000 for the year ended June 30, 2019. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual expenses	**$ 28,950**	**$ (724,109)**
Changes in assumptions	**1,758,208**	**–**
Net difference between projected and actual investments earnings	**–**	**(1,676,908)**
Changes in proportion and differences between district contributions and proportionate share of contributions	**82,979**	**(1,135)**
District contributions subsequent to the measurement date	**348,556**	**–**
Total	**$ 2,218,693**	**$ (2,402,152)**

Within employee benefits, the District recorded OPEB expense of $1,009,000 for the year ended June 30, 2018. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ –	$ (1,316,113)
Changes in proportion and differences between district contributions and proportionate share of contributions	–	(1,419)
District contributions subsequent to the measurement date	314,647	–
Total	$ 314,647	$ (1,317,532)

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

Of the amount reported as deferred outflows of resources, $348,556 related to OPEB results from District contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2020	$ (288,392)
2021	(288,393)
2022	(288,393)
2023	74,888
2024	152,394
Thereafter	105,881

Actuarial Assumptions

The June 30, 2017, actuarial valuation of the total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	2.70% – 7.20% average, including inflation
Investment rate of return	7.5%

Mortality rates were based on the 2017 SRA Scale U-MP.

The June 30, 2016, actuarial valuation of the total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00% – 6.75% average, including inflation
Investment rate of return	8.00%

Mortality rates were based on the 1994 GAM, sex-distinct, projected to 2015 using Scale BB.

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

The June 30, 2017, actuarial valuation of the OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Investment rate of return	7.50%
Mortality rates	1994 GAM Scale BB
Health care trend rate	N/A

The June 30, 2016, actuarial valuation of the OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return	8.00%
Mortality rates	1994 GAM Scale BB
Health care trend rate	N/A

The benefits paid by the plan are not impacted by health care cost trend rates. As a result, changes in the health care cost trend rate assumption will have no impact on the net OPEB liability.

The actuarial assumptions used in the June 30, 2017 and 2016, pension and June 30, 2017 and 2016, OPEB valuations were based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2012. The ASRS Board adopted the experience study, which recommended changes, and those changes were effective as of the June 30, 2013, actuarial valuation.

The long-term expected rate of return on pension and OPEB plans' investments were determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

The target allocation and best estimates of geometric real rates of return for each major asset class for the pension plan measured as of June 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	2.75%
Fixed income	30	1.15
Commodities	–	–
Real estate	20	1.17
Multi-asset class	–	–
Total	100%	5.07%

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the pension plan measured as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.87%
Fixed income	25	0.91
Commodities	2	0.08
Real estate	10	0.42
Multi-asset class	5	0.17
Total	100%	5.45%
Inflation		3.25
Expected arithmetic nominal return		8.70%

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

The target allocation and best estimates of geometric real rates of return for each major asset class for the OPEB plan measured as of June 30, 2018, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	2.75%
Fixed income	30	1.15
Commodities	–	–
Real estate	20	1.17
Multi-asset class	–	–
Total	100%	5.07%

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the OPEB plan measured as of June 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.87%
Fixed income	25	0.91
Commodities	2	0.08
Real estate	10	0.42
Multi-asset class	5	0.17
Total	100%	5.45%
Inflation		3.25
Expected arithmetic nominal return		8.70%

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

Discount Rate

The discount rate used to measure the overall pension liability as of June 30, 2019 and 2018 was 7.5% and 8.0% respectively, and the OPEB liability/asset as of June 30, 2018 and 2017, was 7.5% and 8.0%, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, contributions from the District will be made at contractually required rates (actuarially determined), and contributions from the participating employers will be made at current statutorily required rates. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability and OPEB liability/asset.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability reported at June 30, 2019, using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1-Point Decrease (6.5%)	**Discount Rate (7.5%)**	**1-Point Increase (8.5%)**
District's proportionate share of the net pension liability	**$ 427,996,808**	**$ 300,238,443**	**$ 193,498,394**

The following presents the District's proportionate share of the net pension liability reported at June 30, 2018, using the discount rate of 8%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1-Point Decrease (7.0%)	**Discount Rate (8.0%)**	**1-Point Increase (9.0%)**
District's proportionate share of the net pension liability	$ 390,984,339	$ 304,619,435	$ 232,454,163

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (continued)

The following presents the District's proportionate share of the net OPEB liability reported at June 30, 2019, using the discount rate of 7.5%, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1-Point Decrease (6.5%)	Discount Rate (7.5%)	1-Point Increase (8.5%)
District's proportionate share of the net OPEB liability (asset)	$ 4,062,760	$ 347,486	$ (2,835,063)

The following presents the District's proportionate share of the net OPEB asset reported at June 30, 2018, using the discount rate of 8%, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1-Point Decrease (7.0%)	Discount Rate (8.0%)	1-Point Increase (9.0%)
District's proportionate share of the net OPEB liability (asset)	$ 2,636,351	$ (361,250)	$ (2,908,427)

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plans' fiduciary net positions are available in the separately issued ASRS Comprehensive Annual Financial Report.

13. Commitments and Contingencies

Operating Leases

The District leases various equipment and facilities under operating leases expiring at various dates through June 2020. Within supplies and other expenses the District recorded rental expense for operating leases of $5,186,907 and $4,373,933 for the years ended June 30, 2019 and 2018, respectively.

13. Commitments and Contingencies (continued)

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining noncancelable lease terms in excess of one year:

Year ending June 30:	
2020	$ 4,513,586
2021	4,042,154
2022	3,484,411
2023	1,401,999
2024	19,107

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the County's risk management program (see Note 1) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each allegation. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

14. Disproportionate Share Settlement

Section 1923 of the Social Security Act establishes federal requirements designed to aid entities that provide medical services to a disproportionate share of medically indigent patients. These requirements were met for the state fiscal years ended June 30, 2019 and 2018, through disproportionate share settlements established in Laws 2016 Second Regular Session Chapter 122 and Laws 2015 First Regular Session Chapter 14. AHCCCS was directed to distribute such settlements based on various qualifying criteria and allocation processes. The District recorded in other operating revenue approximately $3,196,000 and $4,684,000 in disproportionate share settlements for fiscal years 2019 and 2018, respectively.

15. Related-Party Transactions

During the years ended June 30, 2019 and 2018, net patient service revenues included approximately $4,883,000 and $4,417,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately $3,058,000 and $3,279,000 in grant funds were received from the Maricopa County Department of Public Health in fiscal years 2019 and 2018, respectively.

During the years ended June 30, 2019 and 2018, net patient service revenues also included approximately $16,459,000 (July 2018 through September 2018 only) and $49,617,000, respectively, of payments received from MMIC for medical and behavioral services rendered.

16. Subsequent Events

Effective July 1, 2019, the District elected to levy a secondary property tax on all taxable property in the defined surrounding area at the rate necessary to generate approximately $80,459,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2019, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of $20,567,000 and $613,000 for the second year principal and interest debt service, respectively, related to the $75,000,000 second bond offering.

Effective July 1, 2019, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of $10,284,000 and $31,380,000 for the first year principal and interest debt service, respectively, related to the $422,125,000 third bond offering.

In August 2019, Public Health Licensing Services, a division of the Arizona Department of Health Services, approved a total of 192 licensed beds for the District's Maryvale Hospital effective October 1, 2019.

Effective October 1, 2019, Maricopa Integrated Health System, as a part of the District's re-branding initiative, will now officially be called Valleywise Health.

In September 2019 the Federally Qualified Health Center (FQHC) became a Federal Awardee under Section 330 of the Public Health Service Act by successfully applying for and receiving a New Access Point (NAP) grant.

Required Supplementary Information

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Schedule of District's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years*

	2019	2018	2017	2016	2015
District's proportion or the net pension liability	**2.15%**	1.96%	2.11%	2.15%	2.25%
District's proportionate share of the net pension liability	**$ 300,238,443**	$ 304,619,435	$ 339,937,627	$ 334,641,881	$ 332,820,645
District's covered payroll	**$ 211,945,416**	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176
District's proportionate share of the net pension liability a percentage of its covered payroll	**141.66%**	161.30%	173.76%	170.32%	163.16%
Plan fiduciary net position as a percentage of the total pension liability	**73.40%**	69.92%	67.06%	68.35%	69.49%

*The amounts presented for each fiscal year were determined as of the end of the prior fiscal year. Ten years of information is not yet available.

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Schedule of District's Proportionate Share of the Net OPEB Liability (Asset)

Last 10 Fiscal Years*

	2019	2018
District's proportion or the net OPEB liability (asset)	**2.17%**	1.97%
District's proportionate share of the net OPEB liability (asset)	**$ 347,486**	$ (361,250)
District's covered payroll	**$ 221,945,416**	$ 188,850,966
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	**0.15%**	-0.19%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	**99.13%**	101.03%

*The amounts presented for each fiscal year were determined as of the end of the prior fiscal year. Ten years of information is not yet available.

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Schedule of Contributions — Pension Plan

Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	**$ 25,950,721**	$ 22,402,719	$ 20,360,215	$ 21,226,490	$ 21,396,442	$ 21,827,065	$ 20,672,347	$ 19,095,094	$ 16,554,642	$ 15,606,499
Contributions in relation to the contractually required contribution	**(25,950,721)**	(22,402,719)	(22,259,196)	(21,387,917)	(21,690,643)	(20,471,268)	(21,015,008)	(19,414,629)	(16,927,376)	(15,490,452)
Contribution deficiency (excess)	**$ –**	$ –	$ (1,898,981)	$ (161,427)	$ (294,201)	$ 1,355,797	$ (342,661)	$ (319,535)	$ (372,734)	$ 116,047
District's covered payroll	**$ 225,450,955**	$ 211,945,416	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176	$ 201,678,461	$ 193,644,075	$ 183,733,181	$ 187,120,954
Contributions as a percentage of covered payroll	**11.51%**	10.57%	10.78%	10.85%	10.89%	10.70%	10.25%	9.86%	9.01%	8.34%

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Schedule of Contributions — OPEB

Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	**$ 1,396,082**	$ 1,273,313	$ 1,321,018	$ 1,213,587	$ 1,395,848	$ 1,715,385	$ 1,796,348	$ 1,682,437	$ 1,544,408	$ 1,984,894
Contributions in relation to the contractually required contribution	**(1,396,082)**	(1,273,313)	(1,321,018)	(1,213,587)	(1,395,848)	(1,715,385)	(1,796,348)	(1,682,437)	(1,544,408)	(1,984,894)
Contribution deficiency (excess)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
District's covered payroll	**$ 225,450,955**	$ 211,945,416	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176	$ 201,678,461	$ 193,644,075	$ 183,733,181	$ 187,120,954
Contributions as a percentage of covered payroll	**0.62%**	0.60%	0.70%	0.62%	0.71%	0.84%	0.89%	0.87%	0.84%	1.06%

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

Note to Required Supplementary Information

For the Year Ended June 30, 2019

Changes of Assumptions

Amounts reported in 2019 reflect a change to include actual pay history in the calculation of expected benefits, incorporate losses from the normal cost of new entrants in the determination of the contribution rate, and incorporate the known one-year lag in the calculation of the contribution rate.

Ernst & Young LLP
101 E. Washington Street
Suite 910
Phoenix, AZ 85004

Tel: +1 602 322 3000
ey.com

Building a better working world

Report of Independent Auditors 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*

Management and the Board of Directors
Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System

We have audited, in accordance with auditing standards generally accepted in the United States 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 Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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.

EY
Building a better working world

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

December 13, 2019

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via ey.com/privacy. For more information about our organization, please visit ey.com.

ey.com