

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

Maricopa County Special Health Care District
d/b/a Valleywise Health
Years Ended June 30, 2020 and 2019
With Reports of Independent Auditors

Ernst & Young LLP



Maricopa County Special Health Care District
d/b/a Valleywise Health

Financial Statements and Required Supplementary Information

Years Ended June 30, 2020 and 2019

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Maricopa County Special Health Care District d/b/a Valleywise Health (the District), as of and for the year ended June 30, 2020 and 2019, 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 an opinion 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 opinion.

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, 2020 and 2019, 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 3–13, 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 9, 2020 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 and compliance.



December 9, 2020

Maricopa County Special Health Care District
d/b/a Valleywise Health

Management's Discussion and Analysis

Years Ended June 30, 2020 and 2019

The following discussion and analysis of the operational and financial performance of Maricopa County Special Health Care District d/b/a Valleywise Health (the District or VW) provides an overview of the financial position and activities for the years ended June 30, 2020 and 2019. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements, as well as the notes to the financial statements, which follow this section.

Organizational Overview

Founded in 1877, the District has served as Maricopa County's public teaching hospital and safety net system, filling critical gaps in care for underserved populations. In partnership with District Medical Group, the District provides care through the Arizona Burn Center, Level 1 trauma center, inpatient and behavioral health hospitals, specialty services, comprehensive health center, community health centers, and clinical education programs.

The District is an academic training center, a regional provider of primary and specialized medical services, and a leading provider of mental health services. It provides clinical rotations each year for allopathic and osteopathic medical students, nursing students, and allied health professionals. The District is one of four partners in the Creighton University – Arizona Health Education Alliance.

The District is comprised of Valleywise Health Medical Center, Valleywise Behavioral Health Center-Maryvale, Valleywise Behavioral Health Center-Mesa, Valleywise Comprehensive Health Center-Phoenix and 12 Valleywise Community Health Centers.

COVID-19

In 2020, the world was introduced to the Coronavirus Disease 2019 (COVID-19), creating a new historic public health crisis. The District met this challenge through many actions, including:

- Added Incident Decision Units to isolate and treat patients with the disease;
- Established protocols for addressing positive Behavioral Health patients;
- Forming rapid testing capabilities;
- Acquired personal protective equipment despite disrupted supply chains;
- Created telehealth visits for ambulatory care to provide safe patient access; and
- Implemented work-from-home options to provide social distancing for support staff.

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

These efforts required increased costs while revenue was lessened by fewer emergency department and ambulatory visits and cancelled or forgone elective procedures. Additionally, an Executive Order by the Governor of Arizona, declared a public health emergency and paused all non-essential or elective surgeries from March 21, 2020 through April 30, 2020.

Through the passage of the Families First Coronavirus Response Act (Families First) and the Coronavirus Aid, Relief and Economic Security (CARES) Act, Congress provided financial support to hospitals and health care providers during the pandemic for financial stabilization. Additional information related to the financial support are included in the District's financial statements (Note 16).

Financial Highlights

From a patient activity perspective, fiscal year 2020 total admissions grew by about 3.6% over fiscal year 2019 volumes while observation admissions increased by 7.1% over fiscal year 2019. The acute average length of stay increased slightly during the year to 5.0 days, driven by an increase in the case mix index to 1.72 from 1.68 in fiscal year 2019.

In the highly competitive Emergency Department and Ambulatory areas, fiscal year 2020 visits were up by 14.4% and 0.9%, respectively, from fiscal year 2019. Surgical case volumes in fiscal year 2020 were down by 5.1% from fiscal year 2019 partly due to the COVID-19 outbreak.

Care Reimagined

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, 2020, \$446,640,000 of the bond proceeds have been expended. During Fiscal Year 2020, the majority of project funds were expended on the Roosevelt campus for the construction of the new hospital scheduled to be complete in October 2023. The Comprehensive Health Center-Peoria (Peoria), project was substantially complete as of June 30, 2020, and its opening delayed to January 2021 due to COVID-19. Peoria will include an outpatient surgery center, endoscopy suites, dialysis services, primary and specialty clinics, and a family learning center.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Management's Discussion and Analysis (continued)

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, 2020, \$331,875,000 of the authorized amount remains unissued.

Proposition 449

In November 2020, Proposition 449 was approved by the voters of the County to authorize the District to continue the levy of a property tax for twenty years to support its operations. The tax will expire in August 2025 without prior voter approval.

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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Management's Discussion and Analysis (continued)

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, 2020, 2019, and 2018 was \$277,982,455, \$258,251,356, and \$207,168,312, respectively, as shown in Table 1.

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

	Year Ended June 30			
	2020	2019	Dollar Change	% Change
Assets				
Current assets	\$ 547,204,175	\$ 689,363,400	\$ (142,159,225)	(21)%
Other assets	175,203,778	167,737,590	7,466,188	4%
Capital assets	501,967,393	359,840,756	142,126,637	39%
Total assets	1,224,375,346	1,216,941,746	7,433,600	1%
Deferred outflows of resources	48,799,387	65,048,262	(16,248,875)	(25)%
Liabilities				
Current liabilities	185,465,444	163,282,578	22,182,866	14%
Risk claims payable, less current portion	10,660,315	11,177,826	(517,511)	(5)%
Net pension and OPEB liability	311,945,423	300,585,929	11,359,494	4%
Long-term debt	463,170,813	501,163,873	(37,993,060)	(8)%
Total liabilities	971,241,995	976,210,206	(4,968,211)	(1)%
Deferred inflows of resources	23,950,283	47,528,446	(23,578,163)	(50)%
Net position				
Unrestricted deficit	(213,062,448)	(128,763,175)	(84,299,273)	65%
Net investment in capital assets	242,926,918	212,962,293	29,964,625	14%
Restricted for bonds	245,576,963	171,579,684	73,997,279	43%
Restricted for grants	2,541,022	2,472,554	68,468	3%
Total net position	\$ 277,982,455	\$ 258,251,356	\$ 19,731,099	8%

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

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

	Year Ended June 30			
	2019	2018	Dollar Change	% Change
Assets				
Current assets	\$ 689,363,400	\$ 420,931,978	\$ 268,431,422	64%
Other assets	167,737,590	73,803,435	93,934,155	127%
Capital assets	359,840,756	254,112,284	105,728,472	42%
Total assets	1,216,941,746	748,847,697	468,094,049	63%
Deferred outflows of resources	65,048,262	38,134,646	26,913,616	71%
Liabilities				
Current liabilities	163,282,578	141,176,075	22,106,503	16%
Risk claims payable, less current portion	11,177,826	10,032,177	1,145,649	11%
Net pension and OPEB liability	300,585,929	304,258,185	(3,672,256)	(1)%
Long-term debt	501,163,873	76,300,266	424,863,607	557%
Other long-term liabilities	–	7,963,326	(7,963,326)	(100)%
Total liabilities	976,210,206	539,730,029	436,480,177	81%
Deferred inflows of resources	47,528,446	40,084,002	7,444,444	19%
Net position				
Unrestricted deficit	(128,763,175)	(100,932,414)	(27,830,761)	28%
Net investment in capital assets	212,962,293	201,174,379	11,787,914	6%
Restricted for bonds	171,579,684	104,203,956	67,375,728	65%
Restricted for grants	2,472,554	2,722,391	(249,837)	(9)%
Total net position	\$ 258,251,356	\$ 207,168,312	\$ 51,083,044	25%

The District's significant assets as of June 30, 2020, 2019, and 2018 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 decreased by \$142,159,225 or 21% from June 30, 2019 to June 30, 2020, primarily as a result of a decrease in total short-term investments of \$274,641,997, partially off-set by an increase in cash and restricted cash of \$148,965,737. The proceeds of investments sold or matured during the year were used to fund operations and capital purchases, with the remaining amount

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

increasing cash balances at June 30, 2020. The AHCCCS receivable also contributed to the decrease in the amount of \$28,409,442 as a result of an accelerated distribution of GME funds from AHCCCS. Current assets increased \$268,431,422 or 64% 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. Other assets increased \$7,466,188 or 4% during the year ended June 30, 2020 primarily in restricted cash-bonds, and \$93,934,155 or 127% from June 30, 2018 to June 30, 2019 mainly in restricted cash. Capital assets increased \$142,126,637 or 39% during the year ended June 30, 2020 and \$105,728,472 or 42% during the year ended June 30, 2019, 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.

Total current liabilities increased by \$22,182,866 or 14% primarily due to the receipt of the accelerated payments from Medicare. Long-term debt decreased \$37,993,060 or 8% from June 30, 2019 to June 30, 2020, primarily was a result of principal payments on the General Obligation Bonds. There was an increase in long-term debt of \$424,863,607 or 557% during the year ended June 30, 2019, which was due to a bond issuance, offset by principal payments. The net pension and OPEB liability increased \$11,359,494 or 4% during the year ended June 30, 2020 and decreased \$3,672,256 or 1% during the year ended June 30, 2019. The changes in the net pension and OPEB 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, 2020 and 2019, the District's net position increased by \$19,731,099 or 8% and \$51,083,044 or 25%, respectively. These are made up of several different components, as shown in Table 2.

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

Table 2: Operating Results and Changes in Net Position

	Year Ended June 30			
	2020	2019	Dollar Change	% Change
Operating revenues:				
Net patient service revenue	\$ 454,144,793	\$ 427,301,404	\$ 26,843,389	6%
AHCCCS medical education revenue	42,516,595	38,607,817	3,908,778	10%
Other	52,295,096	41,904,850	10,390,246	25%
Total operating revenues	548,956,484	507,814,071	41,142,413	8%
Operating expenses				
Salaries and wages	267,919,233	242,211,381	25,707,852	11%
Employee benefits	81,795,822	48,286,608	33,509,214	69%
Purchased services	138,223,397	122,387,122	15,836,275	13%
Medical claims and other expenses	59,751,185	52,736,053	7,015,132	13%
Supplies and other expenses	90,233,509	79,134,622	11,098,887	14%
Depreciation	31,806,516	27,902,991	3,903,525	14%
Total operating expenses	669,729,662	572,658,777	97,070,885	17%
Operating loss	(120,773,178)	(64,844,706)	(55,928,472)	86%
Nonoperating revenues (expenses)				
Property tax receipts	143,303,021	119,074,910	24,228,111	20%
Noncapital grants	11,915,514	12,466,739	(551,225)	(4)%
Noncapital subsidies from State	3,547,896	3,547,896	-	0%
Other nonoperating revenues and expenses, net	(12,868,425)	(16,009,627)	3,141,202	(20)%
Investment income, net	8,344,261	10,325,302	(1,981,041)	(19)%
Interest expense	(13,737,990)	(13,477,470)	(260,520)	2%
Total nonoperating revenues, net	140,504,277	115,927,750	24,576,527	21%
Increase in net position	19,731,099	51,083,044	(31,351,945)	(61)%
Net position, beginning of year	258,251,356	207,168,312	51,083,044	25%
Net position, end of year	\$ 277,982,455	\$ 258,251,356	\$ 19,731,099	8%

Maricopa County Special Health Care District
d/b/a Valleywise Health

Management's Discussion and Analysis (continued)

Table 2: Operating Results and Changes in Net Position (continued)

	Year Ended June 30			
	2019	2018	Dollar Change	% Change
Operating revenues:				
Net patient service revenue	\$ 427,301,404	\$ 437,158,739	\$ (9,857,335)	(2)%
AHCCCS medical education revenue	38,607,817	39,721,412	(1,113,595)	(3)%
Other	41,904,850	33,438,311	8,466,539	25%
Total operating revenues	507,814,071	510,318,462	(2,504,391)	0%
Operating expenses				
Salaries and wages	242,211,381	224,211,477	17,999,904	8%
Employee benefits	48,286,608	40,103,682	8,182,926	20%
Purchased services	122,387,122	122,003,416	383,706	0%
Medical claims and other expenses	52,736,053	49,315,987	3,420,066	7%
Supplies and other expenses	79,134,622	74,594,191	4,540,431	6%
Depreciation	27,902,991	24,703,577	3,199,414	13%
Total operating expenses	572,658,777	534,932,330	37,726,447	7%
Operating loss	(64,844,706)	(24,613,868)	(40,230,838)	163%
Nonoperating revenues (expenses)				
Property tax receipts	119,074,910	113,702,828	5,372,082	5%
Noncapital grants	12,466,739	12,770,173	(303,434)	(2)%
Noncapital subsidies from State	3,547,896	3,547,896	-	0%
Other nonoperating revenues and expenses, net	(16,009,627)	(12,352,080)	(3,657,547)	30%
Investment income, net	10,325,302	2,231,613	8,093,690	363%
Interest expense	(13,477,470)	(1,939,102)	(11,538,368)	595%
Total nonoperating revenues, net	115,927,750	117,961,327	(2,033,577)	(2)%
Increase in net position	51,083,044	93,347,459	(42,264,415)	(45)%
Net position, beginning of year	207,168,312	113,820,853	93,347,459	82%
Net position, end of year	\$ 258,251,356	\$ 207,168,312	\$ 51,083,044	25%

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

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, 2020, was \$454,144,793, which was an increase from the prior year net patient service revenue of \$427,301,404. Net patient service revenue increased \$26,843,389 or 6% in the year ended June 30, 2020, due to increased patient activity, improved payor mix, and continuous improvement in cash collections in the business office. Net patient service revenue was fairly consistent for the year ended June 30, 2019 compared to June 30, 2018, decreasing by \$9,857,335 or 2%.

Other operating revenues included four significant sources of income during the years ended June 30, 2020, 2019 and 2018: (1) the receipt of \$3,870,564, \$3,196,013, and \$4,683,635, 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 \$42,516,595, \$38,607,817, and \$39,721,412, respectively, from AHCCCS for medical education support, (3) the receipt of \$2,189,782, \$2,302,959, and \$2,423,157, respectively, from AHCCCS for trauma services, and (4) the receipt of \$20,580,000, \$17,417,472, and \$18,755,931, respectively, from our 340(b) program partnership with contracted pharmacies.

Total operating revenues in fiscal year 2020 were \$548,956,484 in comparison with the prior year of \$507,814,071, due in great part to the quality of gross revenue and improved payor mix as noted above.

Total operating expenses in fiscal year 2020 were \$669,729,662, which is an increase of \$97,070,885 (17%) over the prior year operating expenses of \$572,658,777. Of the total increase, \$59,217,066 or 61% of the increase is related to increased salaries and wages and employee benefits expense due to higher patient volumes, a higher case mix index and related additional patient days (18.9% increase). Depreciation increased by \$3,903,525 related to routine capital additions and renovation of the Maryvale Hospital.

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, \$8,087,429 or 21% is related to the opening of the Maryvale Hospital in April 2019. Additionally, salaries increased due to higher patient volumes, higher case mix index and related additional patient days (6.2% increase). Depreciation increased by \$3,199,414 related to routine capital

Maricopa County Special Health Care District
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Management's Discussion and Analysis (continued)

additions and the acquisition and renovation of the Maryvale Hospital. Total operating expenses decreased by \$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, bond debt service, and CARES Act funding. These amounts were \$80,459,388 and \$62,843,633, respectively, for the year ended June 30, 2020, \$76,921,021 and \$42,153,889, respectively, for the year ended June 30, 2019, and \$73,820,558 and \$39,882,270, respectively, for the year ended June 30, 2018. The increase in the property tax receipts of 20% and 5% for the years ended June 30, 2020 and 2019, respectively, was primarily due to additional tax levies to cover the increase in bond debt service costs. Also included in nonoperating revenues are noncapital grants and noncapital subsidies from the state. These amounts were \$11,915,514 and \$3,547,896, respectively, for the year ended June 30, 2020, \$12,466,739 and \$3,547,896, respectively, for the year ended June 30, 2019, and \$12,770,173 and \$3,547,896, respectively, for the year ended June 30, 2018. These noncapital grants were consistent year-over-year. Other nonoperating revenues and expenses for the year ended June 30, 2020 and 2019 consisted primarily of investment income, interest expense and other nonoperating expenses. Investment income and interest income for the year ended June 30, 2020 were consistent with the prior year. 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.

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, 2020, 2019, and 2018 was \$38,656,524, \$69,230,854, and \$12,167,515, respectively.

Capital Assets

As of June 30, 2020 and 2019, the District had \$501,967,393 and \$359,840,756, respectively, invested in capital assets, net of accumulated depreciation. For the years ended June 30, 2020, 2019, and 2018, the District purchased capital assets amounting to \$173,318,601, \$133,631,463, and \$54,496,214, respectively.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Management's Discussion and Analysis (continued)

Debt

As of June 30, 2020, 2019, and 2018, the District had bonds payable of \$493,170,813, \$538,541,763 and \$112,000,000, 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, the District had notes payable to Maricopa County in the amount of \$1,414,972. The District did not have any notes payable to Maricopa County at June 30, 2020 and 2019. For the years ended June 30, 2020, 2019, and 2018, the District had capital lease and other long-term obligations totaling \$507,041, \$1,260,762, and \$1,979,716, 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 Valleywise Health

Statements of Net Position

	June 30	
	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 210,048,255	\$ 77,820,581
Short-term investments	50,913,029	106,237,284
Restricted cash – bonds	70,373,184	53,635,121
Restricted short-term investments – bonds	69,958,826	289,276,568
Patient accounts receivable, net of allowances	91,656,453	88,602,464
Receivable from AHCCCS for medical education, net	10,198,375	38,607,817
Other receivables	17,912,959	10,287,323
Due from related parties	1,204,159	1,680,183
Supplies	8,837,983	8,217,459
Prepaid expenses	16,100,952	14,998,600
Total current assets	547,204,175	689,363,400
Other assets:		
Long-term investments	–	49,793,027
Restricted cash – bonds	175,203,778	117,944,563
Total other assets	175,203,778	167,737,590
Capital assets:		
Land	25,342,118	25,342,118
Depreciable capital assets, net of accumulated depreciation	476,625,275	334,498,638
Total capital assets, net of accumulated depreciation	501,967,393	359,840,756
Total assets	1,224,375,346	1,216,941,746
Deferred outflows of resources		
Contributions made after measurement date	29,900,925	26,299,277
Difference between expected and actual experience	5,787,664	8,300,275
Changes in assumptions	2,708,042	9,703,066
Change in proportion and differences between employer contributions and proportionate share of contributions	10,402,756	20,745,644
Total deferred outflows of resources	\$ 48,799,387	\$ 65,048,262

Maricopa County Special Health Care District
d/b/a Valleywise Health

Statements of Net Position (continued)

	June 30	
	2020	2019
Liabilities and net position		
Current liabilities:		
Current maturities of long-term debt	\$ 30,507,041	\$ 38,638,652
Accounts payable	51,920,034	47,187,750
Accrued payroll and expenses	32,597,614	26,306,854
Risk claims payable	1,484,931	2,650,000
Overpayments from third-party payors	33,783,500	10,799,859
Other current liabilities	35,172,324	37,699,463
Total current liabilities	185,465,444	163,282,578
Risk claims payable less current portion	10,660,315	11,177,826
Net pension and OPEB liability	311,945,423	300,585,929
Long-term debt	463,170,813	501,163,873
Total liabilities	971,241,995	976,210,206
Deferred inflows of resources		
Difference between expected and actual experience	776,644	2,379,274
Change in assumptions	12,389,925	26,620,261
Difference between projected and actual investment earnings	7,804,600	8,896,932
Change in proportion and differences between employer contributions and proportionate share of contributions	2,979,114	9,631,979
Total deferred inflows of resources	23,950,283	47,528,446
Net position:		
Unrestricted deficit	(213,062,448)	(128,763,175)
Net investment in capital assets	242,926,918	212,962,293
Restricted for bonds	245,576,963	171,579,684
Restricted for grants	2,541,022	2,472,554
Total net position	\$ 277,982,455	\$ 258,251,356

See accompanying notes.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Statements of Revenues, Expenses and Changes in Net Position

	June 30	
	2020	2019
Operating revenues:		
Net patient service revenue	\$ 454,144,793	\$ 427,301,404
AHCCCS medical education revenue	42,516,595	38,607,817
Other revenue	52,295,096	41,904,850
Total operating revenues	548,956,484	507,814,071
Operating expenses:		
Salaries and wages	267,919,233	242,211,381
Employee benefits	81,795,822	48,286,608
Purchased services	138,223,397	122,387,122
Other expenses	59,751,185	52,736,053
Supplies	90,233,509	79,134,622
Depreciation	31,806,516	27,902,991
Total operating expenses	669,729,662	572,658,777
Operating loss	(120,773,178)	(64,844,706)
Nonoperating revenues (expenses):		
Property tax receipts	143,303,021	119,074,910
Noncapital grants	11,915,514	12,466,739
Noncapital subsidies from State	3,547,896	3,547,896
Other nonoperating revenues and expenses, net	(12,868,425)	(16,009,627)
Investment income, net	8,344,261	10,325,302
Interest expense	(13,737,990)	(13,477,470)
Total nonoperating revenues, net	140,504,277	115,927,750
Increase in net position	19,731,099	51,083,044
Net position, beginning of year	258,251,356	207,168,312
Net position, end of year	\$ 277,982,455	\$ 258,251,356

See accompanying notes.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Statements of Cash Flows

	Year Ended June 30	
	2020	2019
Operating activities		
Receipts from and on behalf of patients	\$ 451,090,804	\$ 414,308,113
Payments to suppliers and contractors	(286,363,752)	(248,831,451)
Payments to employees	(315,815,926)	(310,351,015)
Other operating receipts	122,605,977	83,957,296
Other operating payments	(10,173,627)	(8,313,797)
Net cash used in operating activities	(38,656,524)	(69,230,854)
Noncapital financing activities		
Property tax receipts supporting operations	80,459,388	76,921,021
Noncapital contributions and grants received	11,915,514	12,466,739
Noncapital subsidies and other nonoperating payments	(9,320,529)	(12,461,731)
Net cash provided by noncapital financing activities	83,054,373	76,926,029
Capital and related financing activities		
Property tax receipts for debt service	62,843,633	42,153,889
Principal payments on long-term debt and capital leases	(46,124,672)	(39,133,926)
Purchase of capital assets	(173,933,153)	(133,631,463)
Bond proceeds	–	463,541,763
Interest paid on long-term debt	(13,737,990)	(1,472,479)
Net cash (used in) provided by capital and related financing activities	(170,952,182)	331,457,784
Investing activities		
Proceeds from sale of investments	324,435,024	470,070,257
Purchases of investments	–	(798,197,445)
Interest from investments	8,344,261	10,325,302
Net cash provided by (used in) investing activities	332,779,285	(317,801,886)
Increase in cash and cash equivalents including restricted cash	206,224,952	21,351,073
Cash and cash equivalents including restricted cash, beginning of year	249,400,265	228,049,192
Cash and cash equivalents including restricted cash, end of year	\$ 455,625,217	\$ 249,400,265

Maricopa County Special Health Care District
d/b/a Valleywise Health

Statements of Cash Flows (continued)

	Year Ended June 30	
	2020	2019
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (120,773,178)	\$ (64,844,706)
Depreciation	31,806,516	27,902,991
Changes in operating assets and liabilities:		
Patient, other accounts receivable, and other assets	17,729,816	(10,628,400)
Due from related parties	476,024	239,993
Supplies and prepaid expenses	(1,722,876)	(2,498,909)
Overpayments from third-party payors	22,983,641	839,745
Risk claims payable	(1,682,580)	785,649
Accounts payable and accrued expenses	12,526,113	(21,027,217)
Net cash used in operating activities	\$ (38,656,524)	\$ (69,230,854)

See accompanying notes.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements

June 30, 2020

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 Valleywise Health (the District or VW) 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 Maricopa County, Arizona (the County).

The District was created in November 2003 by an election of the voters of 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 the medical center facility to the District effective January 1, 2005. The District 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 Maryvale, Arizona and 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.

Effective October 1, 2019, as a part of a rebranding initiative, the District, which was formerly known as Maricopa Integrated Health System, is now officially called Valleywise Health.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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 its 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.

Cash and Cash Equivalents and Restricted Cash

For purposes of the statements of cash flows, the District considers all liquid investments, including those that are restricted, with original maturities of three months or less, to be cash equivalents. At June 30, 2020 and 2019, the District had approximately \$455,625,000 and \$249,400,000, respectively, of cash and cash equivalents and restricted cash. Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately \$70,373,000 and \$53,635,000 as of June 30, 2020 and 2019, respectively, of tax proceeds restricted for debt service on the general obligation bonds and approximately \$175,204,000 and \$117,945,000 as of June 30, 2020 and 2019, 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*.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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

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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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.

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 fair value at the date of donation if acquired by gift. The dollar threshold to capitalize capital assets is \$5,000. 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

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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.

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 Federal Fiscal Year (FFY) 2019 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 fiscal year 2021.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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 \$45,110,000 and \$38,027,000 for the years ended June 30, 2020 and 2019, 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 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 \$15,604,000 and \$14,284,000 for the years ended June 30, 2020 and 2019, 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 after 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

Pension and Postemployment Benefits Other than Pensions (OPEB)

The District participates in the Arizona State Retirement System (ASRS) pension plan for employees. 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 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.

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, 2020. 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, 2021. 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, 2021. The District is evaluating the impact of adopting the accounting standard.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*, in May 2020. The standard requires recognition of certain subscription-based information technology arrangements (SBITAs) as intangible assets and corresponding subscription liabilities for SBITAs that previously were classified as operating arrangements. The guidance establishes a model based on the standards established in Statement No. 87, *Leases*, to treat SBITAs as financing the right to use an underlying subscription asset. The standard is effective for the District as of July 1, 2022. The District is evaluating the impact of adopting the accounting standard.

2. Net Patient Service Revenue

Net patient service revenue is presented net of provision for uncollectible accounts of approximately \$39,137,000 and \$42,397,000 for the years ended June 30, 2020 and 2019, respectively.

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, 2017.
- 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

2. Net Patient Service Revenue (continued)

Approximately 55% and 56% of net patient service revenues were from participation in the Medicare and state sponsored AHCCCS programs for the years ended June 30, 2020 and 2019, 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.

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.

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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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:

		June 30, 2020				
		Level 1	Level 2	Level 3	Total	
Government agencies	\$	–	\$ 26,290,367	\$	–	\$ 26,290,367
Government bonds		–	34,604,183		–	34,604,183
Corporate bonds		–	24,622,662		–	24,622,662
Short-term bills and notes – U.S. agencies		35,354,643	–		–	35,354,643
		\$ 35,354,643	\$ 85,517,212	\$	–	\$ 120,871,855

		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 – U.S. agencies		179,449,925	–		–	179,449,925
		\$ 179,449,925	\$ 265,856,954	\$	–	\$ 445,306,879

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2020, the District's funds were held in cash, cash equivalents, and restricted cash and carrying value equates to fair value.

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

	June 30, 2020	
	Fair Value	Weighted-Average Maturity
Government agencies	\$ 26,290,367	0.42
Government bonds	34,604,183	0.19
Corporate bonds	24,622,662	0.41
Short-term bills and notes – U.S. agencies	35,354,643	0.19
	\$ 120,871,855	1.21

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligation. At June 30, 2020, 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

4. Deposits and Investments (continued)

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

	June 30, 2020	
	Fair Value	Credit Rating*
Government agencies	\$ 26,290,367	Aaa
Government bonds	34,604,183	Aaa
Corporate bonds	8,630,205	Aa2
Corporate bonds	15,992,457	A1
Short-term bills and notes – U.S. agencies	35,354,643	Aaa
	\$ 120,871,855	

*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 \$60,481,000 and \$53,639,000 for the years ended June 30, 2020 and 2019, respectively.

6. Other Receivables

At June 30, 2020 and 2019, significant components of other receivables included amounts due from third party payors, such as:

	2020	2019
Due from District Medical Group	\$ 1,698,000	\$ 1,343,000
340B program	1,266,000	1,820,000
Home Assist Health	1,008,000	1,000,000
Disproportionate Share Receivable	4,352,000	–
Other	9,588,959	6,124,323
Total other receivables	\$ 17,912,959	\$ 10,287,323

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

7. Receivables from AHCCCS for Medical Education

During the years ended June 30, 2020 and 2019, the District entered into intergovernmental agreements with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2020 and 2019, available funds from CMS for medical education totaled approximately \$13,957,000 and \$55,288,000, respectively. At June 30, 2020 and 2019, the amount due to the District is approximately \$10,198,000, which is net of the \$3,759,000 matching funds provided by the District, and \$38,608,000, which is net of the \$16,680,000 matching funds provided by the District, respectively.

8. Capital Assets

Capital assets activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Adjustments	Ending Balance
Capital assets not being depreciated:						
Construction-in-progress	\$ 113,227,456	\$ 173,933,153	\$ -	\$ (116,408,634)	\$ -	\$ 170,751,975
Capitalized software-in-progress	330,119	-	-	-	-	330,119
Land	25,342,118	-	-	-	-	25,342,118
Capital assets being depreciated:						
Buildings and leasehold improvements	243,678,432	-	(589,580)	75,939,976	-	319,028,828
Capitalized software	49,516,241	-	-	-	-	49,516,241
Equipment	187,897,838	-	(24,973)	40,468,658	-	228,341,523
Total capital assets	<u>619,992,204</u>	<u>173,933,153</u>	<u>(614,553)</u>	<u>-</u>	<u>-</u>	<u>793,310,804</u>
Less accumulated depreciation:						
Buildings and leasehold improvements	87,261,048	14,385,110	(589,580)	-	-	101,056,578
Capitalized software	46,858,275	-	-	-	(87,631)	46,770,644
Equipment	126,032,125	17,509,037	(24,973)	-	-	143,516,189
Total accumulated depreciation	<u>260,151,448</u>	<u>31,894,147</u>	<u>(614,553)</u>	<u>-</u>	<u>(87,631)</u>	<u>291,343,411</u>
Capital assets, net	<u>\$ 359,840,756</u>	<u>\$ 142,039,006</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (87,631)</u>	<u>\$ 501,967,393</u>

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

8. Capital Assets (continued)

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

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 \$12,145,000 and \$13,828,000, of which \$1,485,000 and \$2,650,000 has been recorded as a current liability and approximately \$10,660,000 and \$11,178,000 has been recorded as a noncurrent liability on the accompanying statements of net position as of June 30, 2020 and 2019, respectively. Risk claims payable are undiscounted.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

9. Risk Claims Payable (continued)

As of June 30, 2020, 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
	Additional \$15,000,000 – third excess layer	Additional \$1,000,000 one claim layer buffer

The insurance policies listed above became effective December 1, 2012 and remain current through June 30, 2020.

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

	2020	2019	2018
Beginning balance	\$ 13,827,826	\$ 13,042,177	\$ 11,260,708
Total incurred	4,320,165	4,793,547	6,424,780
Total paid	(6,002,745)	(4,007,898)	(4,643,311)
Ending balance	<u>\$ 12,145,246</u>	<u>\$ 13,827,826</u>	<u>\$ 13,042,177</u>

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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
2020					
General obligation bonds	\$ 463,541,763	\$ -	\$ (7,370,950)	\$ 456,170,813	\$ 10,000,000
Direct placement general obligation bonds	75,000,000	-	(38,000,000)	37,000,000	20,000,000
Note payable and credit facility, Maricopa County	-	-	-	-	-
Capital lease obligations	1,260,762	-	(753,721)	507,041	507,041
Total long-term debt	\$ 539,802,525	\$ -	\$ (46,124,671)	\$ 493,677,854	\$ 30,507,041
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

General Obligation Bonds

On November 4, 2014, the voters of the 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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. These bonds were paid off in full during fiscal year 2019.

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 year 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 year 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, 2020.

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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

On October 7, 2015, the District and the 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.

On June 25, 2020, the County agreed to extend the District a \$30,000,000 line of credit through its credit facility as a respond to the COVID-19 pandemic crisis. The District does not have any outstanding borrowings on the line of credit at June 30, 2020.

Scheduled maturities of long-term debt, excluding capital lease payments and a net premium of \$34,046,000, for the years ending June 30 are as follows:

	General Obligation Bonds		Direct Placement General Obligation Bonds	
	Principal	Interest	Principal	Interest
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	16,935,000	17,181,875		
2026-2030	98,260,000	71,988,750		
2031-2035	125,410,000	44,162,500		
2036-2039	124,530,000	10,848,850		
	<u>\$ 422,125,000</u>	<u>\$ 220,758,225</u>	<u>\$ 37,000,000</u>	<u>\$ 571,550</u>

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, 2020 and 2019, had a total cost of \$16,942,000 and \$16,942,000, respectively, with accumulated depreciation of \$15,056,000 and \$14,376,000, respectively.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2020:

	Principal	Interest
Year ending June 30:		
2021	\$ 502,748	\$ 13,543
2022	4,293	35
2023	—	—
	\$ 507,041	\$ 13,578

11. Restricted Net Position

Restricted net position at June 30, 2020 and June 30, 2019, consists of grant funds received for specific purposes that are expected to be expended during the following year in the amount of \$2,541,000 and \$2,473,000, respectively.

Restricted net position at June 30, 2020 and June 30, 2019, also consists of bond funds expected to be expended for specific purposes as defined in the bond agreement, in the amount of approximately \$245,577,000 and \$171,580,000, 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, including the District. For the years ended June 30, 2020 and 2019, active plan members, including the District were required by statute to contribute at the actuarially determined rate of 12.11% (11.45% retirement, 0.49% health benefit supplement, and 0.17% long-term disability) and 11.80% (11.18% retirement, 0.46% 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2020, the District reported a liability of approximately \$311,133,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018, and was rolled forward using generally accepted actuarial procedures to June 30, 2019. 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, 2019 and 2018, the District's proportion was 2.14% and 2.15%, respectively.

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, 2020, the District reported a liability of approximately \$812,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018, and was rolled forward using generally accepted actuarial procedures to June 30, 2019. The District's proportion of the net OPEB liability was based on a projection of the District's

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2019, the District's proportion was 2.17%, which represents no change from its proportion measured as of June 30, 2018.

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 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.

Within employee benefits, the District recorded pension expense of \$33,010,000 and \$3,841,000 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020, 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
Contributions made after measurement date	\$ 28,321,668	\$ —
Differences between expected and actual experience	5,620,699	(58,496)
Changes in assumptions	1,315,169	(12,389,925)
Difference between projected and actual investment earnings	—	(6,993,194)
Change in proportion and differences between employer contributions and proportionate share of contributions	10,331,332	(2,977,503)
Total	\$ 45,588,868	\$ (22,419,118)

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

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
Contributions made after measurement date	\$ 25,950,721	\$ —
Differences between expected and actual experience	8,271,325	(1,655,165)
Changes in assumptions	7,944,858	(26,620,261)
Difference between projected and actual investment earnings	—	(7,220,024)
Change in proportion and differences between employer contributions and proportionate share of contributions	20,662,665	(9,630,844)
Total	\$ 62,829,569	\$ (45,126,294)

Of the amount reported as deferred outflows of resources as of June 30, 2020, \$28,322,000 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year ending June 30:	
2021	\$ 3,290,908
2022	(8,972,804)
2023	(1,342,990)
2024	1,872,968

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

Within employee benefits, the District recorded OPEB expense of \$1,579,000 for the year ended June 30, 2020. At June 30, 2020, 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
Contributions made after measurement date	\$ 1,579,257	\$ –
Differences between expected and actual expenses	166,965	(718,148)
Changes in assumptions	1,392,873	–
Difference between projected and actual investments earnings	–	(811,406)
Change in proportion and differences between employer contributions and proportionate share of contributions	71,424	(1,611)
Total	\$ 3,210,519	\$ (1,531,165)

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
Contributions made after measurement date	\$ 348,556	\$ –
Differences between expected and actual expenses	28,950	(724,109)
Changes in assumptions	1,758,208	–
Difference between projected and actual investments earnings	–	(1,676,908)
Change in proportion and differences between employer contributions and proportionate share of contributions	82,979	(1,135)
Total	\$ 2,218,693	\$ (2,402,152)

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

Of the amount reported as deferred outflows of resources, \$399,000 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:	
2021	\$ (213,703)
2022	(213,703)
2023	148,873
2024	226,223
2025	50,955
Thereafter	101,452

Actuarial Assumptions

The June 30, 2018, 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, 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 1994 GAM, sex-distinct, projected to 2015 using Scale BB.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

The June 30, 2018, 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, 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 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, 2018 and 2017, pension and 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.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	3.05%
Fixed income	30	1.23
Real estate	20	1.17
Total	<u>100%</u>	<u>5.45%</u>

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, 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
Real estate	20	1.17
Total	<u>100%</u>	<u>5.07%</u>

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2019, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	3.05%
Fixed income	30	1.23
Real estate	20	1.17
Total	<u>100%</u>	<u>5.45%</u>

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
Real estate	20	1.17
Total	<u>100%</u>	<u>5.07%</u>

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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, 2020 and 2019 was 7.5% and the OPEB liability as of June 30, 2020 and 2019, was 7.5%. 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, 2020, 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	\$ 442,814,295	\$ 311,132,978	\$ 201,081,287

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

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

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

The following presents the District's proportionate share of the net OPEB liability (asset) reported at June 30, 2020, 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)	\$ 4,607,215	\$ 812,445	\$ (2,438,631)

The following presents the District's proportionate share of the net OPEB liability (asset) 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)

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 other expenses, the District recorded rental expense for operating leases of \$5,800,794 and \$5,186,907 for the years ended June 30, 2020 and 2019, respectively.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

13. Commitments and Contingencies (continued)

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2020, that have initial or remaining noncancelable lease terms in excess of one year:

Year ending June 30:	
2021	\$ 5,617,274
2022	2,774,222
2023	1,651,916
2024	371,929
2025	223,413

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, 2020 and 2019, 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 \$3,871,000 and \$3,196,000 in disproportionate share settlements for fiscal years 2020 and 2019, respectively.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

15. Related-Party Transactions

During the years ended June 30, 2020 and 2019, net patient service revenues included approximately \$4,077,000 and \$4,883,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately \$2,671,000 and \$3,058,000 in grant funds were received from the Maricopa County Department of Public Health in fiscal years 2020 and 2019, respectively.

16. COVID-19

The outbreak of a novel strain of the coronavirus disease 2019 (COVID-19) continues to be a concern both in the United States and globally. The District is following the guidance of state and local governments and the Centers for Disease Control and Prevention. For acute care facilities, the State of Arizona, in accordance with Federal guidelines, recommended rescheduling elective surgeries as a means of preserving the supply of protective personal equipment, limiting visitors, and identifying additional space for patient care in preparation for a potential surge. At various points during the past several months, the District engaged in these practices. As of the date of this report, the District continues to be impacted by this ongoing state of emergency.

Through the passage of the Families First Coronavirus Response Act (Families First) and the Coronavirus Aid, Relief and Economic Security (CARES) Act, Congress provided financial support to hospitals and health care providers during the pandemic for financial stabilization. This allowed for the following financial support to the District in fiscal year 2020:

- The District has attested to the receipt of distributions totaling \$8,600,000 under the Provider General Distribution Relief Fund of the CARES Act and the amount is recorded in other nonoperating revenue for the year ended June 30, 2020. Subsequent to the end of the fiscal year, an additional distribution of \$12,100,000 was received and attested, under the High Impact Area Relief Fund of the CARES Act. This amount was recorded in the subsequent fiscal year. These distributions will be used to offset expenses to prevent, prepare for, and respond to the coronavirus, or lost revenues that are attributable to COVID-19.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

16. COVID-19 (continued)

- The District has elected to defer applicable payroll taxes from April 5, 2020 through December 31, 2020. The deferred amount was and will be accrued when earned and repayment will be due in two equal installments on December 31, 2021 and December 31, 2022. The deferred amount was approximately \$3,500,000 at June 30, 2020 and was recorded under accrued expenses.
- During the month of April 2020, the District received \$23,366,000 through the Accelerated and Advance Payments Program under the CARES Act. An accelerated or advanced payment is a payment by CMS intended to provide necessary funds in circumstances such as national emergencies in order to accelerate cash flow to the impacted health care providers. Pursuant to the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment terms are as follows:
 - Repayment does not begin for one year starting from the date the accelerated or advance payment was issued.
 - Beginning at one year from the date the payment was issued and continuing for eleven months, Medicare payments owed will be recouped at a rate of 25%.
 - After eleven months end, Medicare payments owed will be recouped at a rate of 50% for another six months.
 - After the six months end, a letter for any remaining balance of the accelerated or advance payment will be issued.
 - This amount was recorded under unearned revenue.
- The District also received FQHC grants under the Families First and CARES Act totaling \$3,976,000. Of this total, \$720,000 has been recognized as nonoperating revenue in FY20.
- The District has submitted claims for uninsured patients with a COVID-19 primary diagnosis for COVID-19 testing or treatment through the Health Resources & Services Administration (HRSA), funded through the CARES Act. This program will reimburse eligible claims at Medicare rates, subject to available funding.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

16. COVID-19 (continued)

- The District has taken steps to apply for Federal Emergency Management Administration (FEMA) Public Assistance funding. The amount and timing of the expected financial assistance through FEMA is not known at this time.

Other aspects of the CARES Act continue to be reviewed and evaluated for their applicability to the District. While the District has received support from the Families First and CARES Act, there is continuing uncertainty surrounding the pandemic and the constantly changing and evolving regulations. The District will continue to monitor all regulatory changes and pursue all available opportunities for supplemental relief and or funding.

17. Subsequent Events

Effective July 1, 2020, 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 \$84,241,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2020, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$17,850,000 and \$287,000 for the second-year principal and interest debt service, respectively, related to the \$75,000,000 second bond offering.

Effective July 1, 2020, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$16,275,000 and \$20,953,000 for the first-year principal and interest debt service, respectively, related to the \$422,125,000 third bond offering.

In August 2020, the District opened a new Community Health Center in the South Phoenix/Laveen area, as part of the Care Reimagined project. The new health center will be offering primary care services within the surrounding community.

In September 2020, through the Arizona Health Education Alliance, the District started the family medicine residency program in the South Central Community Health Center.

In November 2020, the District opened another Community Health Center in the North Phoenix area, as part of the Care Reimagined project. The new health center offers primary care services within the surrounding community.

Maricopa County Special Health Care District
d/b/a Valleywise Health

Notes to Financial Statements (continued)

17. Subsequent Events (continued)

In November 2020, Proposition 449 was approved by the voters of the County to authorize the District to continue the levy of a property tax for twenty years to support its operations. The tax will expire in August 2025 without prior voter approval.

Required Supplementary Information

Maricopa County Special Health Care District
d/b/a Valleywise Health

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

Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015
District’s proportion or the net pension liability	2.14%	2.15%	1.96%	2.11%	2.15%	2.25%
District’s proportionate share of the net pension liability	\$ 311,132,978	\$ 300,238,443	\$ 304,619,435	\$ 339,937,627	\$ 334,641,881	\$ 332,820,645
District’s covered payroll	\$ 225,450,955	\$ 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	138.00%	141.66%	161.30%	173.76%	170.32%	163.16%
Plan fiduciary net position as a percentage of the total pension liability	73.24%	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 Valleywise Health

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

Last 10 Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion or the net OPEB liability	2.17%	2.17%	1.97%
District's proportionate share of the net OPEB liability	\$ 812,445	\$ 347,486	\$ (361,250)
District's covered payroll	\$ 225,450,955	\$ 211,945,416	\$ 188,850,966
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	0.36%	0.15%	-0.19%
Plan fiduciary net position as a percentage of the total OPEB liability	98.07%	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 Valleywise Health

Schedule of Contributions — Pension Plan

Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 29,501,737	\$ 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
Contributions in relation to the contractually required contribution	(29,501,737)	(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)
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ (1,898,981)	\$ (161,427)	\$ (294,201)	\$ 1,355,797	\$ (342,661)	\$ (319,535)	\$ (372,734)
District's covered payroll	\$ 236,809,991	\$ 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
Contributions as a percentage of covered payroll	12.46%	11.51%	10.57%	10.78%	10.85%	10.89%	10.70%	10.25%	9.86%	9.01%

Maricopa County Special Health Care District
d/b/a Valleywise Health

Schedule of Contributions — OPEB

Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 1,565,944	\$ 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
Contributions in relation to the contractually required contribution	(1,565,944)	(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)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 236,809,991	\$ 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
Contributions as a percentage of covered payroll	0.66%	0.62%	0.60%	0.70%	0.62%	0.71%	0.84%	0.89%	0.87%	0.84%

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 Valleywise Health

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 Valleywise Health (the District), which comprise the statement of net position as of June 30, 2020, and the related statement 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 9, 2020.

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) as a basis for designing 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.

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 effect on the financial statements. 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 9, 2020

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