

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

Maricopa County Special Health Care District
d/b/a Valleywise Health
Years Ended June 30, 2021 and 2020
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, 2021 and 2020

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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 years ended June 30, 2021 and 2020, 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, 2021 and 2020, and the respective changes in its financial position and its cash flows for the years 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 3–15, the Schedule of District’s Proportionate Share of the Net OPEB Liability on page 54, the Schedule of Contributions – Pension Plan on page 56, and the schedule of Contributions – OPEB Plan on page 57 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 November 19, 2021, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.



November 19, 2021

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

Management's Discussion and Analysis

Years Ended June 30, 2021 and 2020

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) provides an overview of the financial position and activities for the years ended June 30, 2021 and 2020. 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. The financial statements discussed in this section offer short-term and long-term financial information about the District's activities, including:

Statements of Net Position: This statement includes all of the District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position and provides information about the nature and amounts of investments in resources (assets) and the obligations of the District to creditors (liabilities). It also provides the basis for evaluating the capital structure, and assessing the liquidity and financial flexibility of the District.

Statements of Revenues, Expenses, and Changes in Net Position: This statement accounts for all of the current year's revenues and expenses, measures changes in operations over the past two years, and can be used to determine whether the District has been able to recover all of its costs through several revenue sources.

Statements of Cash Flows: The primary purpose of this statement is to answer questions such as where cash came from, what cash was used for, and what was the change in the cash balance during the reporting period.

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, an unrelated not-for-profit entity, the District provides care throughout Maricopa County.

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.

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

Management's Discussion and Analysis (continued)

Licensed for 758 beds, the District provides a full range of inpatient acute and intensive care, inpatient and outpatient behavioral health, and a full complement of ancillary, support, and ambulatory services. The facilities that are housed on the District's main campus include:

- Valleywise Health Medical Center
- Valleywise Health - Arizona Burn Center
- Valleywise Comprehensive Health Center - Phoenix
- Valleywise Behavioral Health Center - Phoenix

The facilities that are located external to the main campus include:

- Valleywise Behavioral Health Center - Maryvale
- Valleywise Behavioral Health Center - Mesa
- Valleywise Comprehensive Health Center - Peoria

Ambulatory care is also provided at ten Community Health Centers located throughout Maricopa County. In addition to ambulatory services, many of these locations offer outpatient behavioral health and dental services.

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 COVID-19 positive behavioral health patients;
- Formed rapid testing capabilities;
- Acquired personal protective equipment despite disrupted supply chain;
- Created telehealth visits for ambulatory care to provide safe patient access; and
- Implemented work-from-home options to provide social distancing for support staff.

These efforts required increased costs, while revenue was lessened by fewer emergency department and ambulatory visits and canceled or forgone elective procedures. Additionally, an

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

Executive Order by the Governor of Arizona declared a public health emergency and paused all nonessential 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).

Care Reimagined

On November 4, 2014, the voters of Maricopa County approved Proposition 480. Proposition 480 allows the District to issue up to \$935,000,000 in general obligation bonds to be repaid in 30 years to fund outpatient health facilities, including improvement or replacement of existing outpatient health centers, a behavioral health hospital, and the construction of a new acute medical center

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, 2021, \$534,027,000 of the bond proceeds have been expended. During fiscal year 2021, the majority of project funds were expended on the main campus for the construction of the new hospital scheduled to be complete in October 2023. The Comprehensive Health Center-Peoria (Peoria), project was substantially completed as of June 30, 2020, and its opening was delayed to January 2021 due to COVID-19. Peoria includes an outpatient surgery center, endoscopy suites, dialysis services, primary and specialty clinics, and a family learning center. Two new Community Health Centers, in South Phoenix/Laveen and North Phoenix, also opened during fiscal year 2021, replacing old clinics at 7th avenue, Glendale, and El Mirage locations.

In June 2021, the District issued the fourth bond tranche in the amount of \$244,070,000 General Obligation Bonds, Series D (2021). The District was authorized to issue \$935,000,000, in aggregate, principal amount toward the project. At June 30, 2021, all of the District's authorized amount has been issued.

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

Management's Discussion and Analysis (continued)

Proposition 449

In November 2020, Proposition 449 was approved by the voters of Maricopa County to authorize the District to continue the levy of property taxes for 20 years to support its operations.

Financial Highlights

Year Ended June 30, 2021, Compared to Year Ended June 30, 2020	Year Ended June 30, 2020, Compared to Year Ended June 30, 2019
<p>Net patient services revenue increased by \$35 million or 7.7% from the prior year 2020. Other operating revenue increased \$23.1 million, largely due to an increase in Graduate Medical Education (GME) revenue, contract pharmacy, and the new Arizona Health Care Cost Containment System (AHCCCS) program, HEALTHII.</p> <p>Operating expense increased from \$669.7 million in 2020 to \$755.1 million in 2021, a \$85.4 million or 12.8% increase from the prior year. This is largely due to the increase in salaries and benefits as a result of the higher cost of treating patients with COVID-19 and related illnesses as well as an increase in depreciation due to the accelerated depreciation expense related to the anticipated decommissioning of the current medical center building.</p>	<p>Net patient service revenue increased \$26.8 million or 6.3% in fiscal year 2020 as compared to fiscal year 2019. Other operating revenue increased \$14.3 million, largely due to the increase in GME revenue and contract pharmacy.</p> <p>Operating expense increased from \$572.6 million in fiscal year 2019 to \$669.7 million in fiscal year 2020, a \$97.1 million or 17.0% increase from the prior year. Most of the increase is in salaries, benefits and supplies especially during the last four months of FY2020 due to the COVID-19 pandemic. Increased usage of registry nurses and other clinical staff due to patient volume increase related to the pandemic also contributed to increases in expenses.</p>

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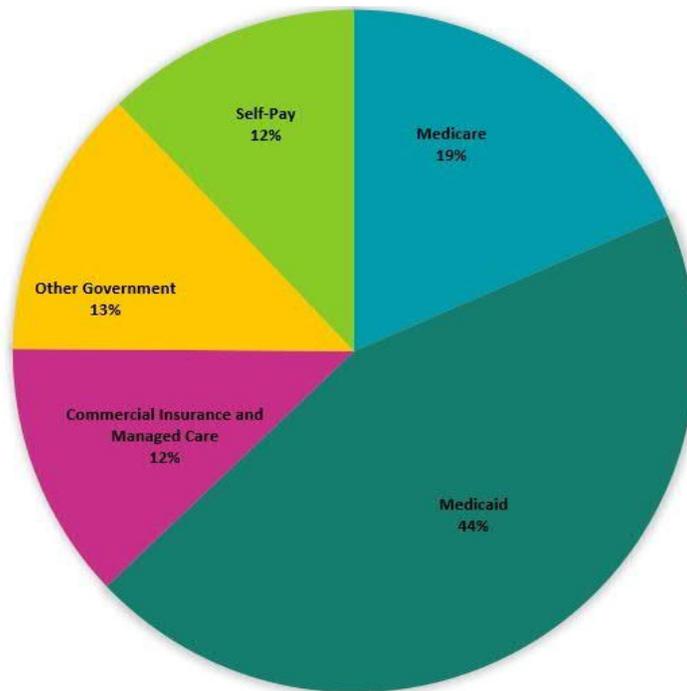
Management’s Discussion and Analysis (continued)

Gross charges by major payor financial class for fiscal years 2021, 2020, and 2019 are as follows:

	Year Ended June 30		
	2021	2020	2019
Medicare	18.5%	17.4%	16.4%
Medicaid	44.4	45.7	44.6
Commercial insurance and managed care	12.2	12.7	14.1
Other government	12.8	12.3	12.5
Self-pay	12.1	11.9	12.4
Total	100.0%	100.0%	100.0%

The District’s payor mix has stayed relatively stable over the past three years. The proportion of Medicare patients has increased as a result of the greater COVID-19 impact to the older population in fiscal year 2021.

Payor mix for fiscal year 2021:



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

Management's Discussion and Analysis (continued)

Financial Statements

Statements of Net Position

Condensed Statements of Net Position

	Year Ended June 30		
	2021	2020	2019
Assets			
Current assets	\$ 526,969,313	\$ 547,204,175	\$ 689,363,400
Other assets	400,889,608	175,203,778	167,737,590
Capital assets	594,155,126	501,967,393	359,840,756
Total assets	<u>1,522,014,047</u>	<u>1,224,375,346</u>	<u>1,216,941,746</u>
Deferred outflows of resources	89,357,989	48,799,387	65,048,262
Liabilities			
Current liabilities	198,571,207	185,465,444	163,282,578
Risk claims payable, less current portion	9,283,822	10,660,315	11,177,826
Net pension and OPEB liability	394,175,117	311,945,423	300,585,929
Long-term debt	736,110,659	463,170,813	501,163,873
Total liabilities	<u>1,338,140,805</u>	<u>971,241,995</u>	<u>976,210,206</u>
Deferred inflows of resources	3,972,294	23,950,283	47,528,446
Net position			
Unrestricted deficit	(510,048,594)	(213,062,448)	(128,763,175)
Net investment in capital assets	298,100,940	242,926,918	212,962,293
Restricted for bonds	477,027,521	245,576,963	171,579,684
Restricted for grants	4,179,070	2,541,022	2,472,554
Total net position	<u>\$ 269,258,937</u>	<u>\$ 277,982,455</u>	<u>\$ 258,251,356</u>

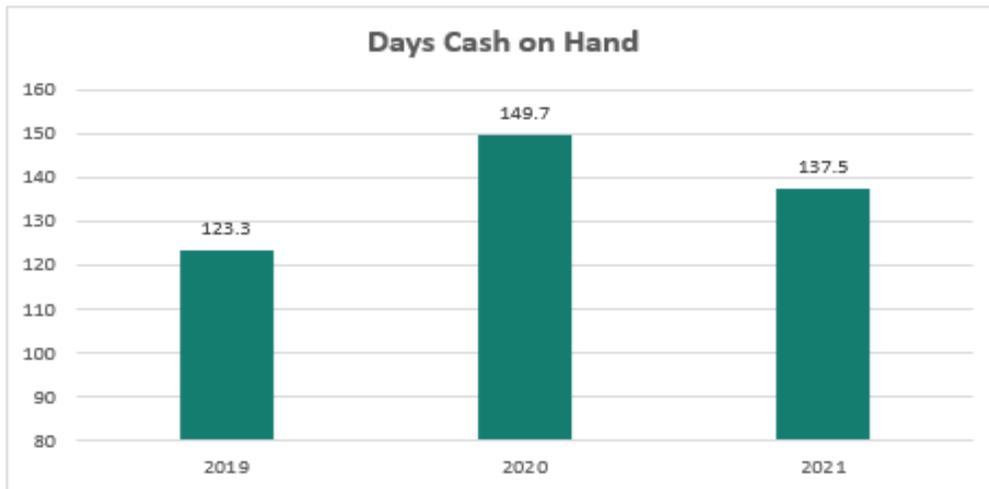
Maricopa County Special Health Care District
d/b/a Valleywise Health

Management’s Discussion and Analysis (continued)

Cash and Cash Equivalents

Unrestricted cash and cash equivalents for fiscal year 2021 were approximately \$262.2 million, an increase of approximately \$1.2 million from the \$261.0 million in fiscal year 2020. Days cash on hand decreased 12.2 days to 137.5 days in fiscal year 2021 from the fiscal year 2020 days of 149.7. The timing of Provider Relief Funds and Medicare Advanced Payments in late fiscal year 2020, coupled with increased operating expenses attributed to the COVID-19 pandemic, contributed to the decrease in days cash on hand. Unrestricted cash and cash equivalents for fiscal year 2020 were approximately \$261.0 million, an increase of approximately \$76.9 million from fiscal year 2019. Days cash on hand increased 26.4 days to 149.7 days in fiscal year 2020 from the fiscal year 2019 days of 123.3. Increased cash collections and the timing of Provider Relief Funding and Medicare Advanced Payments in late fiscal year 2020 contributed to the increase in days cash.

Days Cash on Hand

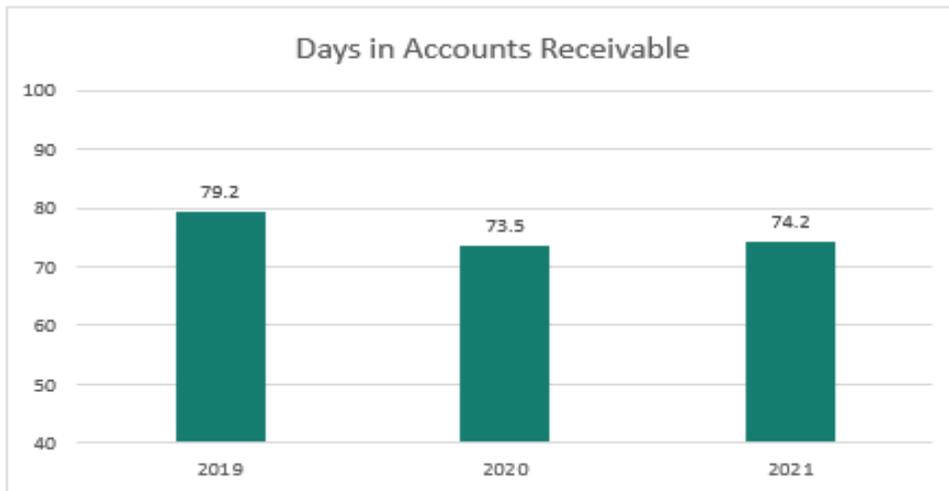


Maricopa County Special Health Care District
d/b/a Valleywise Health

Management’s Discussion and Analysis (continued)

Accounts Receivable – Days Outstanding

While net accounts receivable increased by approximately \$7.8 million, net days in accounts receivable increased from the prior year by approximately 0.4%, from 73.9 to 74.2 days. Increase in the amounts of charges in treating patients with COVID-19 related illness contributed to the increase in account receivable. Net account receivable in fiscal year 2020 decreased by \$1.6 million from fiscal year 2019 and net days also decreasing by 7.2% from 79.2 to 73.5 days. Increase cash collection contributed to the decrease in account receivable and number of days.



Capital Assets

As of June 30, 2021 and 2020, the District had \$594.2 million and \$502.0 million, respectively, invested in capital assets, net of accumulated depreciation. For the years ended June 30, 2021, 2020 and 2019, the District purchased capital assets amounting to \$151.3 million, \$173.9 million, and \$133.6 million, respectively. The organization has made significant investments in new facilities through the Care Reimagined project and plans to continue this investment within the coming years. These investments include:

- Valleywise Comprehensive Health Center – Peoria, which opened in January 2021 providing ambulatory care and outpatient surgery.
- Community Health Centers, which opened in August 2021 in South Phoenix Laveen and November 2021 in North Phoenix providing ambulatory care.

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

- New Community Health Centers will open in West Maryvale and Mesa in fiscal year 2022 to provide ambulatory care.
- New acute care hospital (Valleywise Health Medical Center), currently under construction and planned to be completed in October 2023.

Debt

As of June 30, 2021, 2020, and 2019, the District had bonds payable of \$763.0 million, \$493.1 million, and \$538.5 million, 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, \$36.0 million, was used to reimburse the District's general fund for prior capital asset purchases. For the year ended June 30, 2021, the District had no outstanding capital lease and other long-term obligations. For the years ended June 30, 2020 and 2019, the District had capital lease and other long-term obligations totaling \$0.5 million and \$1.3 million, respectively, to various other entities.

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

Management's Discussion and Analysis (continued)

Statements of Revenues, Expenses, and Changes in Net Position

The following table summarizes net operating revenues, operating expenses, and non-operating revenues (expenses) for the fiscal years ended June 30, 2021, 2020, and 2019.

	Year Ended June 30		
	2021	2020	2019
Operating revenues			
Net patient service revenue	\$ 489,209,495	\$ 454,144,793	\$ 427,301,404
AHCCCS medical education revenue	51,866,779	42,516,595	38,607,817
Other	66,022,660	52,295,096	41,904,850
Total operating revenues	607,098,934	548,956,484	507,814,071
Operating expenses			
Salaries and wages	278,443,621	267,919,233	242,211,381
Employee benefits	105,599,319	81,795,822	48,286,608
Purchased services	144,360,745	138,223,397	122,387,122
Medical claims and other expenses	72,572,408	59,751,185	52,736,053
Supplies and other expenses	95,262,465	90,233,509	79,134,622
Depreciation	58,845,414	31,806,516	27,902,991
Total operating expenses	755,083,972	669,729,662	572,658,777
Operating loss	(147,985,038)	(120,773,178)	(64,844,706)
Nonoperating revenues (expenses)			
Property tax receipts	139,606,198	143,303,021	119,074,910
Noncapital grants	5,890,625	11,915,514	12,466,739
Noncapital subsidies from State	3,547,896	3,547,896	3,547,896
Other nonoperating revenues (expenses), net	3,212,369	(12,868,425)	(16,009,627)
Investment income, net	2,031,886	8,344,261	10,325,302
Interest expense	(15,027,454)	(13,737,990)	(13,477,470)
Total nonoperating revenues	139,261,520	140,504,277	115,927,750
Increase (decrease) in net position	(8,723,518)	19,731,099	51,083,044
Net position, beginning of year	277,982,455	258,251,356	207,168,312
Net position, end of year	\$ 269,258,937	\$ 277,982,455	\$ 258,251,356

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

Management’s Discussion and Analysis (continued)

Revenues

Net Patient Services Revenue

Net patient service revenue is derived from inpatient, outpatient, ambulatory, and emergency services provided to patients. Net patient service revenue for the year ended June 30, 2021, was \$489.2 million, an increase from the prior year net patient service revenue of \$454.1 million. Net patient service revenue increased \$35.1 million or 7.7% in the year ended June 30, 2021, due to changes in payor mix, COVID-19 acute patient volume surges, and recovery from the elective case mandated pause experienced in late fiscal year 2020. Net patient service revenue saw an increase for the year ended June 30, 2020, compared to June 30, 2019, increasing by \$26.8 million or 6.3%. The increase in net patient service revenue was attributed to increased patient volume, mainly in our behavioral health services due to the opening of additional inpatient units and increase in our emergency room visits from 2019 to 2020.

	Year Ended June 30		
	2021	2020	Increase (Decrease)
Gross charges	\$ 2,336,814,373	\$ 2,251,575,862	3.8%
Contractual deductions	1,650,131,212	1,581,656,633	4.3%
As a percentage of gross charges	(70.6)%	(70.2)%	
Charity care	165,752,428	176,637,180	(6.2)%
As a percentage of gross charges	(7.1)%	(7.8)%	
Bad debt	56,976,701	39,137,256	45.6%
As a percentage of gross charges	(2.4)%	(1.7)%	
Net patient service revenue	\$ 489,209,495	\$ 454,144,793	7.7%
As a percentage of gross charges	20.9%	20.2%	

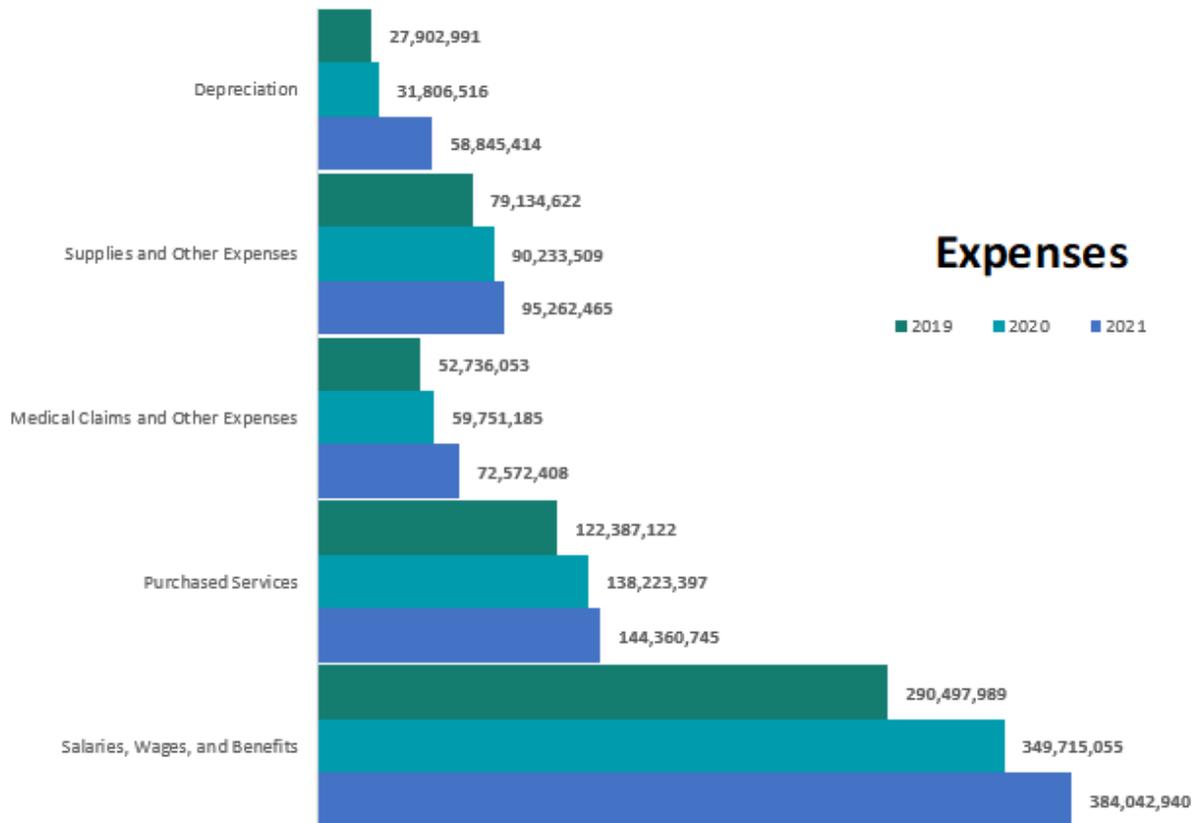
Total operating revenues in fiscal year 2021 were \$607.1 million in comparison with the prior year of \$549.0 million, due in great part to the quality of gross revenue and improved payor mix as noted above and increased other revenues, mainly in the Graduate Medical Education (GME) and the new AHCCCS program, HEALTHII.

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

Management’s Discussion and Analysis (continued)

Operating Expenses

Total operating expenses in fiscal year 2021 were \$755.1 million, which is an increase of \$85.4 million (12.8%) over the prior year operating expenses of \$669.7 million. Of the total increase, \$34.3 million or 9.8% of the increase is related to increased salaries and wages and employee benefits expense due to higher acuity of patients, and higher case mix index. Depreciation increased by \$27.0 million related to routine capital additions and the opening of new facilities, and also includes \$14.6 million in accelerated depreciation expenses due to the anticipated decommissioning of the current medical center building. Total operating expenses in fiscal year 2020 were \$669.7 million, which is an increase of \$97.1 million (17.0%) over fiscal year 2019 operating expenses of \$572.6 million.



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

Management's Discussion and Analysis (continued)

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 \$84,240,979 and \$55,365,219, respectively, for the year ended June 30, 2021, \$80,459,388 and \$62,843,633, respectively, for the year ended June 30, 2020, and \$76,921,021 and \$42,153,889, respectively, for the year ended June 30, 2019. The decrease in the property tax receipts of 3% for the years ended June 30, 2021 and 2020 respectively, was primarily due to the reduction in tax levies to cover the bond debt service costs. Also included in nonoperating revenues are noncapital grants and noncapital subsidies from the state. These amounts were \$5,890,625 and \$3,547,896, respectively, for the year ended June 30, 2021, \$11,915,514 and \$3,547,896, respectively, for the year ended June 30, 2020, and \$12,466,739 and \$3,547,896, respectively, for the year ended June 30, 2019. Other nonoperating revenues and expenses for the year ended June 30, 2021 and 2020 consisted primarily of investment income, interest expense and other nonoperating expenses. Investment income and interest income for the year ended June 30, 2021 were lower than the previous year due to maturities of investments held on behalf of the District. Investment income for the year ended June 30, 2021 decreased from the prior year by \$6,265,834. Interest expense for the year ended June 30, 2021 increased from the prior year by \$1,289,464, mostly related to general obligation bonds issued by the District.

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

	Year Ended June 30	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 262,238,041	\$ 210,048,255
Short-term investments	–	50,913,029
Restricted cash – bond	76,137,914	70,373,184
Restricted short-term investments – bond	–	69,958,826
Patient accounts receivable, net of allowances	99,414,043	91,656,453
Receivable from AHCCCS for medical education, net	51,866,779	10,198,375
Other receivables	12,161,962	17,912,959
Due from related parties	1,766,465	1,204,159
Supplies	9,812,194	8,837,983
Prepaid expenses	13,571,915	16,100,952
Total current assets	526,969,313	547,204,175
Other assets:		
Restricted cash – bond	400,889,608	175,203,778
Total other assets	400,889,608	175,203,778
Capital assets:		
Land	26,342,487	25,342,118
Depreciable capital assets, net of accumulated depreciation	567,812,639	476,625,275
Total capital assets, net of accumulated depreciation	594,155,126	501,967,393
Total assets	\$ 1,522,014,047	\$ 1,224,375,346
Deferred outflows of resources		
Employer contributions made after measurement date	\$ 31,099,745	\$ 29,900,925
Difference between expected and actual experience	3,717,510	5,787,664
Changes in assumptions	1,096,313	2,708,042
Net difference between projected and actual investment earnings	39,875,175	–
Change in proportion and differences between employer contributions and proportionate share of contributions	13,569,246	10,402,756
Total deferred outflows of resources	\$ 89,357,989	\$ 48,799,387

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

Statements of Net Position (continued)

	Year Ended June 30	
	2021	2020
Liabilities and net position		
Current liabilities:		
Current maturities of long-term debt	\$ 32,505,103	\$ 30,507,041
Accounts payable	48,614,945	51,920,034
Accrued payroll and expenses	43,855,191	32,597,614
Risk claims payable, current portion	1,747,762	1,484,931
Overpayments from third-party payors	42,445,374	33,783,500
Other current liabilities	35,051,110	35,172,324
Total current liabilities	204,219,485	185,465,444
Risk claims payable less current portion	9,283,822	10,660,315
Net pension and OPEB liability	394,175,117	311,945,423
Long-term debt	730,462,381	463,170,813
Total liabilities	1,338,140,805	971,241,995
Deferred inflows of resources		
Difference between expected and actual experience	3,270,330	776,644
Change in assumptions	—	12,389,925
Difference between projected and actual investment earnings	—	7,804,600
Change in proportion and differences between employer contributions and proportionate share of contributions	701,964	2,979,114
Total deferred inflows of resources	3,972,294	23,950,283
Net position:		
Unrestricted deficit	(510,048,594)	(213,062,448)
Net investment in capital assets	298,100,940	242,926,918
Restricted for bonds	477,027,521	245,576,963
Restricted for grants	4,179,070	2,541,022
Total net position	\$ 269,258,937	\$ 277,982,455

See accompanying notes.

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

Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2021	2020
Operating revenues:		
Net patient service revenue	\$ 489,209,495	\$ 454,144,793
AHCCCS medical education revenue	51,866,779	42,516,595
Other revenue	66,022,660	52,295,096
Total operating revenues	607,098,934	548,956,484
Operating expenses:		
Salaries and wages	278,443,621	267,919,233
Employee benefits	105,599,319	81,795,822
Purchased services	144,360,745	138,223,397
Other expenses	72,572,408	59,751,185
Supplies	95,262,465	90,233,509
Depreciation	58,845,414	31,806,516
Total operating expenses	755,083,972	669,729,662
Operating loss	(147,985,038)	(120,773,178)
Nonoperating revenues (expenses):		
Property tax receipts	139,606,198	143,303,021
Noncapital grants	5,890,625	11,915,514
Noncapital subsidies from State	3,547,896	3,547,896
Other nonoperating revenues (expenses), net	3,212,369	(12,868,425)
Investment income	2,031,886	8,344,261
Interest expense	(15,027,454)	(13,737,990)
Total nonoperating revenues, net	139,261,520	140,504,277
(Decrease) increase in net position	(8,723,518)	19,731,099
Net position, beginning of year	277,982,455	258,251,356
Net position, end of year	\$ 269,258,937	\$ 277,982,455

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2021	2020
Operating activities		
Receipts from and on behalf of patients	\$ 481,451,905	\$ 451,090,804
Payments to suppliers and contractors	(316,212,087)	(286,363,752)
Payments to employees	(331,114,271)	(315,815,926)
Other operating receipts	114,732,144	122,605,977
Other operating payments	(43,607,203)	(10,173,627)
Net cash used in operating activities	(94,749,512)	(38,656,524)
Noncapital financing activities		
Property tax receipts supporting operations	84,240,979	80,459,388
Noncapital contributions and grants received	5,890,625	11,915,514
Noncapital subsidies and other nonoperating receipts (payments)	6,760,265	(9,320,529)
Net cash provided by noncapital financing activities	96,891,869	83,054,373
Capital and related financing activities		
Property tax receipts for debt service	55,365,219	62,843,633
Principal payments on long-term debt and capital leases	(28,001,938)	(46,124,672)
Purchase of capital assets	(151,033,147)	(173,933,153)
Bond proceeds	297,291,568	-
Interest paid on long-term debt	(15,027,454)	(13,737,990)
Net cash provided by (used in) capital and related financing activities	158,594,247	(170,952,182)
Investing activities		
Proceeds from sale of investments	305,783,289	723,103,615
Purchases of investments	(184,911,434)	(398,668,591)
Interest from investments	2,031,886	8,344,261
Net cash provided by investing activities	122,903,741	332,779,285
Increase in cash and cash equivalents	283,640,345	206,224,952
Cash and cash equivalents, beginning of year	455,625,217	249,400,265
Cash and cash equivalents, end of year	\$ 739,265,563	\$ 455,625,217

See accompanying notes.

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

Statements of Cash Flows (continued)

	Year Ended June 30	
	2021	2020
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (147,985,038)	\$ (120,773,178)
Depreciation	58,845,414	31,806,516
Changes in operating assets and liabilities:		
Patient, other accounts receivable, and other assets	(43,674,997)	17,729,816
Due from related parties	(562,306)	476,024
Supplies and prepaid expenses	1,554,826	(1,722,876)
Overpayments from third-party payors	8,661,874	22,983,641
Risk claims payable	(1,113,662)	(1,682,580)
Accounts payable and accrued expenses	29,524,377	12,526,113
Net cash used in operating activities	\$ (94,749,512)	\$ (38,656,524)

See accompanying notes.

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

Notes to Financial Statements

June 30, 2021

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) 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, three 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, 2021 and 2020, the District had approximately \$739,266,000 and \$455,625,000, respectively, of cash and cash equivalents and restricted cash. Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately \$76,138,000 and \$70,373,000 as of June 30, 2021 and 2020, respectively, of tax proceeds restricted for debt service on the general obligation bonds and approximately \$400,890,000 and \$175,204,000 as of June 30, 2021 and 2020, 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 the process of reconciling with AHCCCS and various health plans regarding the federal fiscal year 2020 ARRD report.

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 \$43,936,000 and \$45,110,000 for the years ended June 30, 2021 and 2020, 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 \$12,239,000 and \$15,604,000 for the years ended June 30, 2021 and 2020, 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. There was not a material impact on the District.

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, 2021. 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 \$56,976,000 and \$63,650,000 for the years ended June 30, 2021 and 2020, 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 54% and 55% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2021 and 2020, 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. During fiscal year 2021, the District took into income, through net patient service revenue, the net settlement amount of \$1,316,000 related to the SNCP program for calendar years 2006 through 2013.

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. At the end of June 30, 2021, the District had no outstanding investments. The table below shows the fair value leveling of the District’s investments at the end of June 30, 2020.

	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

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, 2021, the District’s funds were held in cash, cash equivalents, and restricted cash, and the carrying value approximates to fair value. The District had no investments at June 30, 2021, that were subject to interest rate risk.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligation. The District has 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)

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 \$55,847,000 and \$60,481,000 for the years ended June 30, 2021 and 2020, respectively.

6. Other Receivables

At June 30, 2021 and 2020, significant components of other receivables included amounts due from third party payors, such as:

	2021	2020
Retail pharmacy accounts receivable	\$ 1,410,000	\$ 711,000
340B program	1,806,000	1,266,000
Home Assist Health	907,000	1,008,000
Disproportionate Share receivable	4,202,000	4,352,000
Other	3,836,962	10,575,959
Total other receivables	\$ 12,161,962	\$ 17,912,959

7. Receivables From AHCCCS for Medical Education

During the years ended June 30, 2021 and 2020, the District entered into intergovernmental agreements with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2021 and 2020, available funds from CMS for medical education totaled approximately \$68,055,000 and \$13,957,000, respectively. At June 30, 2021 and 2020, the amount due to the District is approximately \$51,867,000, which is net of the \$16,188,000 matching funds provided by the District, and \$10,198,000, which is net of the \$3,759,000 matching funds provided by the District, respectively.

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

Notes to Financial Statements (continued)

8. Capital Assets

Capital assets activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Adjustments	Ending Balance
Capital assets not being depreciated:						
Construction-in-progress	\$ 170,751,975	\$ 150,442,561	\$ -	\$ (83,632,612)	\$ 870,586	\$ 238,432,510
Capitalized software-in-progress	330,119	-	-	-	-	330,119
Land	25,342,118	-	(280,000)	1,280,369	-	26,342,487
Capital assets being depreciated:						
Buildings and leasehold improvements	319,028,828	-	(5,427,203)	80,135,796	-	393,737,421
Capitalized software	49,516,241	-	-	-	-	49,516,241
Equipment	228,341,523	-	(622,457)	2,216,447	-	229,935,513
Total capital assets	<u>793,310,804</u>	<u>150,442,561</u>	<u>(6,329,660)</u>	<u>-</u>	<u>870,586</u>	<u>938,294,291</u>
Less accumulated depreciation:						
Buildings and leasehold improvements	101,056,578	37,144,175	(5,427,203)	681,727	-	133,455,277
Capitalized software	46,770,644	(20,535)	-	-	-	46,750,109
Equipment	143,516,189	21,721,774	(622,457)	(681,727)	-	163,933,779
Total accumulated depreciation	<u>291,343,411</u>	<u>58,845,414</u>	<u>(6,049,660)</u>	<u>-</u>	<u>-</u>	<u>344,139,165</u>
Capital assets, net	<u>\$ 501,967,393</u>	<u>\$ 91,597,147</u>	<u>\$ (280,000)</u>	<u>\$ -</u>	<u>\$ 870,586</u>	<u>\$ 594,155,126</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, 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>

The District recognized \$13,978,000 in accelerated depreciation expenses as of June 30, 2021, due to the anticipated decommissioning of the current medical center building.

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 \$11,032,000 and \$12,145,000, of which \$1,748,000 and \$1,485,000 has been recorded as a current liability and approximately \$9,284,000 and \$10,660,000 has been recorded as a noncurrent liability on the accompanying statements of net position as of June 30, 2021 and 2020, 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, 2021, the District maintained commercial insurance as follows:

<u>Insurance</u>	<u>Limits</u>	<u>Self-Insured Retention/Deductible</u>
Workers' compensation	Statutory	\$500,000 each claim
Medical malpractice	\$15,000,000 each incident – first layer Additional \$15,000,000 – second excess layer Additional \$20,000,000 – third excess layer	\$2,000,000 each incident Additional \$1,000,000 one claim layer buffer

The insurance policies listed above became effective December 1, 2012, and remain current through June 30, 2021.

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 12,145,246	\$ 13,827,826	\$ 13,042,177
Total incurred	2,949,206	4,320,165	4,793,547
Total paid	(4,062,868)	(6,002,745)	(4,007,898)
Ending balance	<u>\$ 11,031,584</u>	<u>\$ 12,145,246</u>	<u>\$ 13,827,826</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
2021					
General obligation bonds, series C	\$ 456,170,813	\$ –	\$ (15,217,095)	\$ 440,953,718	\$ 15,500,000
General obligation bonds, series D	–	305,008,663	–	305,008,663	–
Direct placement general obligation bonds	37,000,000	–	(20,000,000)	17,000,000	17,000,000
Capital lease obligations	507,041	–	(501,938)	5,103	5,103
Total long-term debt	\$ 493,677,854	\$ 305,008,663	\$ (35,719,033)	\$ 762,967,484	\$ 32,505,103
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
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

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 Valleywise Health Medical Center and its Level One Trauma Center and Arizona Burn Center, on the existing campus. As of June 30, 2021, the District has issued \$935,000,000 in general obligation bonds.

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 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 1.61% 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 bonds were 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.

On June 10, 2021, the District closed on its fourth offering of general obligation bonds in the amount of \$244,070,000 in order to continue the various improvement projects. The bonds were issued at a premium of \$60,939,000. The bonds bear coupon interest at the rate of 5.00% through maturity in fiscal year 2035. Financing for the District's fourth offering were public placements.

Proposition 480 allows the County to levy 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, 2021.

Credit Facility, Maricopa County

On June 25, 2020, the County agreed to extend the District a \$30,000,000 line of credit through its credit facility in response to the COVID-19 pandemic crisis. The District did not have any outstanding borrowings on the line of credit at June 30, 2021 and 2020.

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

Notes to Financial Statements (continued)

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

Scheduled maturities of long-term debt, excluding capital lease payments and a net premium of \$89,767,000, for the years ending June 30 are as follows:

	General Obligation Bonds		Direct Placement General Obligation Bonds	
	Principal	Interest	Principal	Interest
2022	\$ 15,500,000	\$ 26,255,441	\$ 17,000,000	\$ 136,850
2023	40,360,000	31,857,366	—	—
2024	26,130,000	28,487,350	—	—
2025	30,070,000	27,082,350	—	—
2026	31,575,000	25,541,225	—	—
2027–2031	183,190,000	101,754,000	—	—
2032–2036	233,805,000	49,987,450	—	—
2037–2040	95,565,000	5,997,975	—	—
	<u>\$ 656,195,000</u>	<u>\$ 296,963,157</u>	<u>\$ 17,000,000</u>	<u>\$ 136,850</u>

Capital Lease Obligations

The District is obligated under the leases for buildings, building improvements, and equipment, through 2021, which are accounted for as capital leases. Assets under capital leases at June 30, 2021 and 2020, had a total cost of \$16,906,000 and \$16,942,000, respectively, with accumulated depreciation of \$15,648,000 and \$15,056,000, respectively.

11. Restricted Net Position

Restricted net position at June 30, 2021 and 2020, consists of grant funds received for specific purposes that are expected to be expended during the following year in the amount of \$4,179,000 and \$2,541,000, respectively.

Restricted net position at June 30, 2021 and 2020, also consists of bond funds expected to be expended for specific purposes as defined in the bond agreement, in the amount of approximately \$477,028,000 and \$245,577,000, respectively.

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

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.

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, 2021 and 2020, active plan members, including the District, were required by statute to contribute at the actuarially determined rate of 12.22% (11.65% retirement, 0.39% health benefit supplement, and 0.18% long-term disability) and 12.11% (11.45% retirement, 0.49% health benefit supplement, and 0.17% 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

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)

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.

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, 2021, the District reported a liability of approximately \$394,059,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, and was rolled forward using generally accepted actuarial procedures to June 30, 2020. 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, 2020 and 2019, the District's proportion was 2.27% and 2.14%, respectively.

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.

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, 2021, the District reported a liability of approximately \$116,000 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2020. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019, and was rolled forward using generally accepted actuarial procedures to June 30, 2020. 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, 2020, the District's proportion was 2.30%, which represents no change from its proportion measured as of June 30, 2019.

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 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.

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 pension expense of \$51,898,000 and \$33,010,000 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021, 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
	<hr/>	<hr/>
Employer contributions made after measurement date	\$ 29,724,443	\$ –
Differences between expected and actual experience	3,564,945	–
Changes in assumptions	–	–
Difference between projected and actual investment earnings	38,007,430	–
Change in proportion and differences between employer contributions and proportionate share of contributions	13,450,582	(684,469)
Total	<u>\$ 84,747,400</u>	<u>\$ (684,469)</u>

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
	<hr/>	<hr/>
Employer 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	<u>\$ 45,588,868</u>	<u>\$ (22,419,118)</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)

Of the amount reported as deferred outflows of resources as of June 30, 2021, \$29,724,000 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, 2022. 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:	
2022	\$ 10,809,399
2023	18,025,897
2024	13,747,693
2025	11,755,499

Within employee benefits, the District recorded OPEB expense of \$1,089,000 for the year ended June 30, 2021. At June 30, 2021, 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
Employer contributions made after measurement date	\$ 1,375,302	\$ -
Differences between expected and actual expenses	152,565	(3,270,330)
Changes in assumptions	1,096,313	-
Difference between projected and actual investments earnings	1,867,745	-
Change in proportion and differences between employer contributions and proportionate share of contributions	118,664	(17,495)
Total	<u>\$ 4,610,589</u>	<u>\$ (3,287,825)</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)

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
Employer 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)

Of the amount reported as deferred outflows of resources, \$1,375,000 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, 2021. 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:	
2022	\$ (250,902)
2023	134,735
2024	217,048
2025	30,719
2026	(224,062)
Thereafter	39,924

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)

Actuarial Assumptions

The June 30, 2019, 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	7.50%

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

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	7.50%

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

The June 30, 2019, 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	2017 SRA Scale U-MP
Health care trend rate	N/A

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	2017 SRA Scale U-MP
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, 2020 and 2019, pension and OPEB valuations were based on the results of an actuarial experience study for the period July 1, 2011–June 30, 2016. The ASRS Board adopted the experience study, which recommended changes, and those changes were effective as of the June 30, 2017, 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.

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, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	50%	3.20%
Fixed income	30	1.11
Real estate	20	1.17
Total	<u>100%</u>	<u>5.48%</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 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 geometric real rates of return for each major asset class for the OPEB plan measured as of June 30, 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	3.20%
Fixed income	30	1.11
Real estate	20	1.17
Total	<u>100%</u>	<u>5.48%</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>

Discount Rate

The discount rate used to measure the overall pension liability as of June 30, 2021 and 2020, was 7.5% and the OPEB liability as of June 30, 2021 and 2020, 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.

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)

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, 2021, 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 one percentage point lower 6.5% or one 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	\$ 538,870,032	\$ 394,058,778	\$ 273,004,009

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 one percentage point lower 6.5% or one 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 OPEB liability reported at June 30, 2021, 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 one percentage point lower 6.5% or one 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)	\$ 4,061,766	\$ 116,339	\$ (3,260,617)

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 one percentage point lower 6.5% or one 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)

Pension and OPEB Plans Fiduciary Net Position

Detailed information about the pension and OPEB plans’ fiduciary net position 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 2021. Within other expenses, the District recorded rental expense for operating leases of \$6,054,000 and \$5,801,000 for the years ended June 30, 2021 and 2020, respectively.

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2021, that have initial or remaining noncancelable lease terms in excess of one year:

Year ending June 30:	
2022	\$ 2,918,495
2023	1,739,816
2024	1,151,590
2025	984,097
2026	2,479,723

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

Notes to Financial Statements (continued)

13. Commitments and Contingencies (continued)

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, 2021 and 2020, 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 \$4,202,000 and \$3,871,000 in disproportionate share settlements for fiscal years 2021 and 2020, respectively.

15. Related-Party Transactions

During the years ended June 30, 2021 and 2020, net patient service revenues included approximately \$3,090,000 and \$4,077,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately \$1,735,000 and \$2,671,000 in grant funds were received from the Maricopa County Department of Public Health in fiscal years 2021 and 2020, respectively.

Also during the year ended June 30, 2021, nonoperating revenues included approximately \$252,000 in payments received from Maricopa County Industrial Development Authority (MCIDA) for program support in the District's Simulation and Training Center.

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

Notes to Financial Statements (continued)

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 the District has 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 years 2021 and 2020:

- The District has attested to the receipt of distributions totaling \$20,697,000 under the Provider Relief Fund of the CARES Act and recorded \$12,100,000 and \$8,597,000 in other nonoperating revenue for the years ended June 30, 2021 and 2020, respectively. These distributions have been used to offset expenses to prevent, prepare for, and respond to the COVID-19, or lost revenues that are attributable to COVID-19.
- The District has elected to defer applicable payroll taxes from April 5, 2020 through December 31, 2020. The deferred amount was accrued, and repayment will be due in two equal installments on December 31, 2021 and December 31, 2022. The deferred amounts were approximately \$11,297,000 and \$3,537,000 at June 30, 2021 and 2020, respectively and were recorded under accrued expenses.

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

Notes to Financial Statements (continued)

16. COVID-19 (continued)

- In 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.
 - Recoupments began in fiscal year 2021. The amounts outstanding of \$21,092,000 and \$23,366,000 as of June 30, 2021 and 2020, respectively, were recorded under other current liabilities.
- The District was awarded FQHC grants under the Families First and CARES Act totaling \$4,109,000. Of this total, \$1,855,000 has been received and recognized as nonoperating revenue in fiscal year 2021.
- 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.
- The District has applied 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.

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

Notes to Financial Statements (continued)

16. COVID-19 (continued)

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, 2021, 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 \$88,032,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2021, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$13,348,000 and \$19,132,000 for the second-year principal and interest debt service, respectively, related to the \$422,125,000 third bond offering.

Effective July 1, 2021, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$11,864,000 and \$12,646,000 for the first-year principal and interest debt service, respectively, related to the \$244,070,000 fourth bond offering.

In August 2021, the FQHC was awarded the Health Resources and Services Administration (HRSA) H8F grant through the American Rescue Plan Act. The total amount of the two-year grant award is \$16,890,000.

In November 2021, the District opened a new Community Health Center in the West Maryvale area, as part of the Care Reimagined project. The new health center offers primary care services within the surrounding community.

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*

	2021	2020	2019	2018	2017	2016	2015
District's proportion or the net pension liability	2.27%	2.14%	2.15%	1.96%	2.11%	2.15%	2.25%
District's proportionate share of the net pension liability	\$ 394,058,778	\$ 311,132,978	\$ 300,238,443	\$ 304,619,435	\$ 339,937,627	\$ 334,641,881	\$ 332,820,645
District's covered payroll	\$ 236,809,991	\$ 225,450,955	\$ 211,945,446	\$ 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	166.40%	138.00%	141.66%	161.30%	173.76%	170.32%	163.16%
Plan fiduciary net position as a percentage of the total pension liability	69.33%	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 (Asset)

Last 10 Fiscal Years*

	2021	2020	2019
District's proportion or the net OPEB liability (asset)	2.30%	2.17%	2.14%
District's proportionate share of the net OPEB liability (asset)	\$ 116,339	\$ 812,445	\$ 347,486
District's covered payroll	\$ 236,809,991	\$ 225,450,955	\$ 211,945,446
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	0.05%	0.36%	0.16%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	99.73%	98.07%	99.13%

*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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 29,724,443	\$ 28,321,667	\$ 25,950,721	\$ 22,402,719	\$ 20,360,215	\$ 21,226,490	\$ 21,396,442	\$ 21,827,065	\$ 20,672,347	\$ 19,095,094
Contributions in relation to the contractually required contribution	(29,724,443)	(28,321,667)	(25,950,721)	(22,402,719)	(22,259,196)	(21,387,917)	(21,690,643)	(20,471,268)	(21,015,008)	(19,414,629)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ (1,898,981)	\$ (161,427)	\$ (294,201)	\$ 1,355,797	\$ (342,661)	\$ (319,535)
District's covered payroll	\$ 252,938,151	\$ 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
Contributions as a percentage of covered payroll	11.75%	11.96%	11.51%	10.57%	10.78%	10.85%	10.89%	10.70%	10.25%	9.86%

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

Schedule of Contributions — OPEB

Last 10 Fiscal Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	\$ 1,375,302	\$ 1,579,258	\$ 1,396,082	\$ 1,273,313	\$ 1,321,018	\$ 1,213,587	\$ 1,395,848	\$ 1,715,385	\$ 1,796,348	\$ 1,682,437
Contributions in relation to the contractually required contribution	(1,375,302)	(1,579,258)	(1,396,082)	(1,273,313)	(1,321,018)	(1,213,587)	(1,395,848)	(1,715,385)	(1,796,348)	(1,682,437)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 252,938,151	\$ 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
Contributions as a percentage of covered payroll	0.54%	0.66%	0.62%	0.60%	0.70%	0.62%	0.71%	0.84%	0.89%	0.87%

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, 2021, 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 November 19, 2021.

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 and material 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

November 19, 2021

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