Financial Statements and Required Supplementary Information

Maricopa County Special Health Care District
d/b/a Valleywise Health
Years Ended June 30, 2023 and 2022
With Reports of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Financial Statements and Required Supplementary Information

Years Ended June 30, 2023 and 2022

Contents

2308-4316042

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Maricopa County Special Health Care District d/b/a Valleywise Health (the District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the District at June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of District's Proportionate Share of the Net Pension Liability, the Schedule of District's Share of the Net OPEB Liability (Asset), the Schedule of Contributions – Pension Plan, and the Schedule of Contributions – OPEB Plan be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 financial statements, and other knowledge we obtained during our audit of the 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 Information

Management is responsible for the other information included in the annual report. The other information comprises management's discussion and analysis but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Ernst & Young LLP

November 21, 2023

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, 2023 and 2022. 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.

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 nine Community Health Centers located throughout Maricopa County. In addition to ambulatory services, many of these locations offer outpatient behavioral health and dental services.

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; through June 30, 2023, $817,790,916 of the bond proceeds have been expended. During fiscal year 2023, the majority of project funds were expended on the main campus for the construction of the new hospital scheduled to be complete in April 2024. The Comprehensive Health Center-Peoria (Peoria) project has been completed and opened in January 2021. 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 Mesa and West Maryvale, opened during fiscal year 2022, replacing old clinics at Mesa and Maryvale locations.

The District was authorized to issue $935,000,000, in aggregate, principal amount toward the Care Reimagined project. Through June 30, 2023, all of the District's authorized amount has been issued.

Financial Highlights

Year Ended June 30, 2023, Compared to Year Ended June 30, 2022

Net patient services revenue increased by $14.7 million or 3.0% from the prior year 2022. Other operating revenue increased $56.0 million, largely due to an increase in the new Arizona Health Care Cost Containment System (AHCCCS) program, HEALTHII, GME, 340B and retail pharmacy sales, and grant program related revenues.

Operating expense increased from $815.3 million in 2022 to $878.5 million in 2023, a $63.2 million or 7.8% increase from the prior year. These are largely due to the increase in salaries and outside contract labor usage due to staffing shortage and increase usage of supplies as part of higher cost of treating patients and related illnesses.

Year Ended June 30, 2022, Compared to Year Ended June 30, 2021

Net patient services revenue increased by $5.4 million or 1.1% from the prior year 2021. Other operating revenue increased $3.5 million, largely due to an increase in the new Arizona Health Care Cost Containment System (AHCCCS) program, HEALTHII, and grant program related revenues.

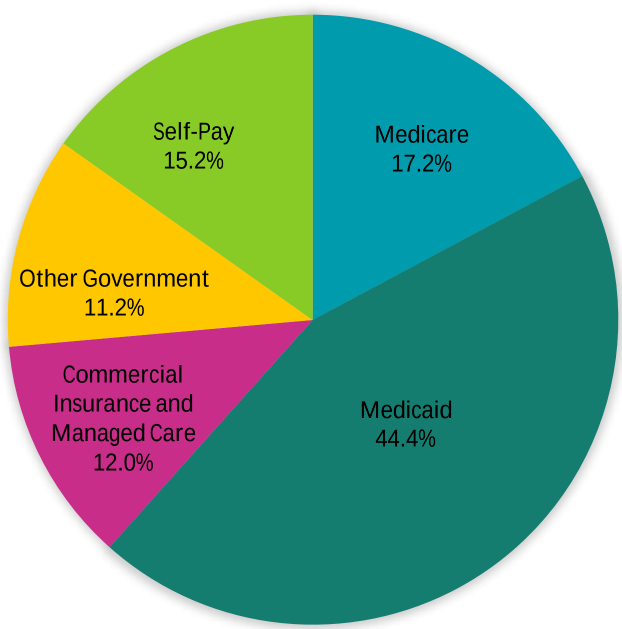
Operating expense increased from $755.1 million in 2021 to $815.3 million in 2022, a $60.2 million or 8.0% increase from the prior year. These are largely due to the increase in salaries and outside contract labor usage due to staffing shortage and increase usage of supplies as part of higher cost of treating patients with COVID-19 and related illnesses.

Gross charges by major payor financial class for fiscal years 2023, 2022, and 2021 are as follows:

	Year Ended June 30		
	2023	**2022**	**2021**
Medicare	17.2%	18.4%	18.5%
Medicaid	44.4	42.2	44.4
Commercial insurance and managed care	12.0	13.0	12.2
Other government	11.2	11.9	12.8
Self-pay	15.2	14.5	12.1
Total	100.0%	100.0%	100.0%

During fiscal year 2023, the District experienced an increase number of self pay/uninsured patients and significant decrease of Medicare patients. During fiscal year 2022, the District experienced an increased number of self pay/uninsured patients and significant decrease of Medicaid patients.

Year Ended June 30, 2023 Payor Mix

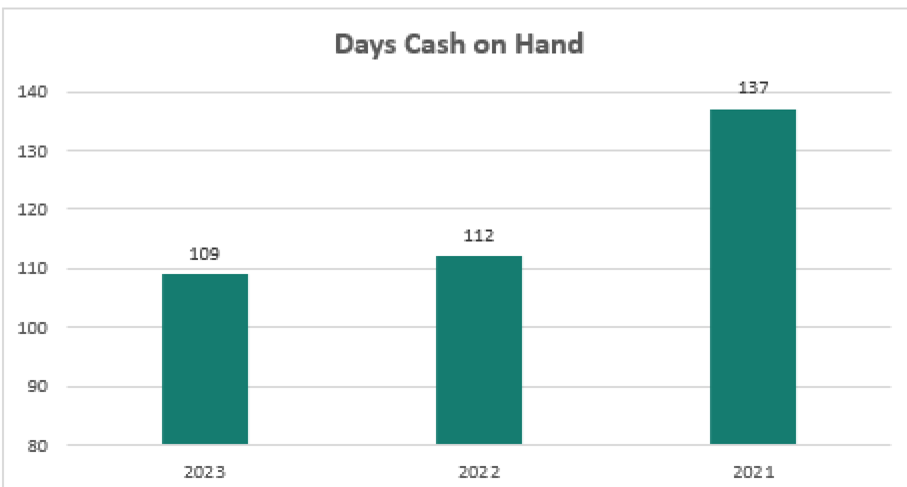


Condensed Statements of Net Position

	Year Ended June 30		
	2023	**2022**	**2021**
Assets			
Current assets	**$ 471,654,469**	$ 517,466,741	$ 526,969,313
Other assets	**125,536,461**	236,513,174	409,633,599
Capital assets	**796,596,154**	723,183,812	594,155,126
Total assets	**1,393,787,264**	1,477,163,727	1,530,758,038
Deferred outflows of resources	**56,462,313**	84,873,429	89,357,989
Liabilities			
Current liabilities	**232,589,943**	236,666,466	206,915,919
Risk claim payable, less current portion	**13,784,858**	12,512,090	9,283,822
Net pension and OPEB liability	**356,444,643**	287,090,884	394,175,117
Long-term debt	**645,751,295**	682,637,421	736,509,938
Total liabilities	**1,248,570,739**	1,218,906,861	1,346,884,796
Deferred inflows of resources	**18,778,412**	104,660,022	3,972,294
Net position			
Unrestricted deficit	**(307,808,207)**	(394,856,298)	(510,048,594)
Net investment in capital assets	**281,653,768**	296,238,100	298,100,940
Restricted for bonds	**166,504,192**	306,922,948	477,027,521
Restricted for grants	**42,550,673**	30,165,523	4,179,070
Total net position	**$ 182,900,426**	$ 238,470,273	$ 269,258,937

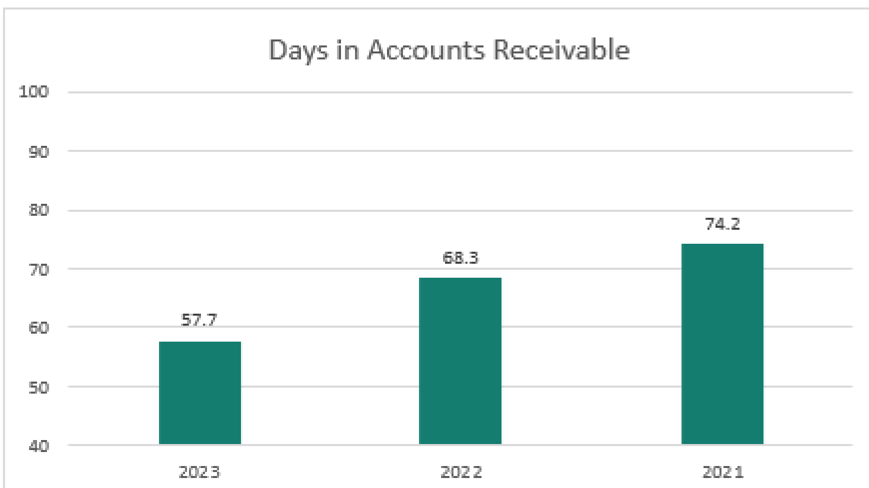
Cash and Cash Equivalents

Unrestricted cash and cash equivalents for fiscal year 2023 were approximately $241.2 million, an increase of approximately $7.8 million from the $233.4 million in fiscal year 2022. Days cash on hand decreased 2.5 days to 109.2 days in fiscal year 2023 from the fiscal year 2022 days of 111.7. This decrease in cash is due to increase in operating expenses specifically in salaries, wages, benefits, and purchased services. Unrestricted cash and cash equivalents for fiscal year 2022 were approximately $233.4 million, a decrease of approximately $28.8 million from fiscal year 2021. Days cash on hand decreased 25.8 days to 111.7 days in fiscal year 2022 from the fiscal year 2021 days of 137.5. Increased operating expenses primarily in labor costs contributed to the decrease in days cash on hand.



Accounts Receivable – Days Outstanding

While net accounts receivable decreased by approximately $6.9 million in fiscal year 2023 from fiscal year 2022, net days in accounts receivable decreased from the prior year by approximately 15.5%, from 68.3 to 57.7 days. Net account receivable in fiscal year 2022 decreased by $6.8 million from fiscal year 2021 and net days also decreased by 7.9% from 74.2 to 68.3 days. Increased cash collections contributed to the decrease in account receivable and number of days in fiscal year 2023 from fiscal year 2022 and the decrease in fiscal year 2022 from fiscal year 2021.



Capital Assets

As of June 30, 2023, 2022, and 2021 the District had $796.6 million , $723.2 million, and $594.2 million, respectively, and invested in capital assets, net of accumulated depreciation. For the years ended June 30, 2023, 2022 and 2021, the District purchased capital assets amounting to $129.3 million, $181.3 million, and $151.3 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:

- New Community Health Centers, which opened in 2022, providing ambulatory care in different cities of Maricopa County.
- New acute care hospital (Valleywise Health Medical Center), currently under construction and planned to be completed in April 2024.

Debt

As of June 30, 2023, 2022, and 2021, the District had bonds payable of $666.9 million $718.3 million, and $763.0 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.

The following table summarizes net operating revenues, operating expenses, and non-operating revenues (expenses) for the fiscal years ended June 30, 2023, 2022, and 2021.

	Year Ended June 30		
	2023	**2022**	**2021**
Operating revenues			
Net patient service revenue	**$ 509,398,504**	$ 494,650,061	$ 489,209,495
AHCCS medical education revenue	**50,659,492**	47,113,700	51,866,779
Other revenue	**126,703,335**	74,234,388	66,022,660
Total operating revenues	**686,761,331**	615,998,149	607,098,934
Operating expenses			
Salaries and wages	**296,737,796**	287,796,627	278,443,621
Employee benefits	**99,974,978**	82,744,342	105,599,319
Purchased services	**258,558,270**	209,273,236	144,360,745
Medical claims and other expenses	**68,529,325**	81,838,190	72,572,408
Supplies	**98,744,775**	101,359,687	92,262,465
Depreciation	**55,921,558**	52,241,569	58,845,414
Total operating expenses	**878,466,702**	815,253,651	755,083,972
Operating loss	**(191,705,371)**	(199,255,502)	(147,985,038)
Nonoperating revenues (expenses)			
Property tax receipts	**138,392,868**	147,491,236	139,606,198
Noncapital grants	**9,263,795**	5,930,243	5,890,625
Noncapital subsidies from State	**3,547,896**	3,547,896	3,547,896
Other nonoperating revenues (expenses), net	**(4,246,685)**	27,834,946	3,212,369
Interest income	**7,601,696**	3,731,217	2,031,886
Interest expense	**(18,424,046)**	(20,068,700)	(15,027,454)
Total nonoperating revenues	**136,135,254**	168,466,838	139,261,520
Decrease in net position	**(55,569,847)**	(30,788,664)	(8,723,518)
Net position, beginning of year	**238,470,273**	269,258,937	277,982,455
Net position, end of year	**$ 182,900,426**	$ 238,470,273	$ 269,258,937

Revenues

Net Patient Services Revenue

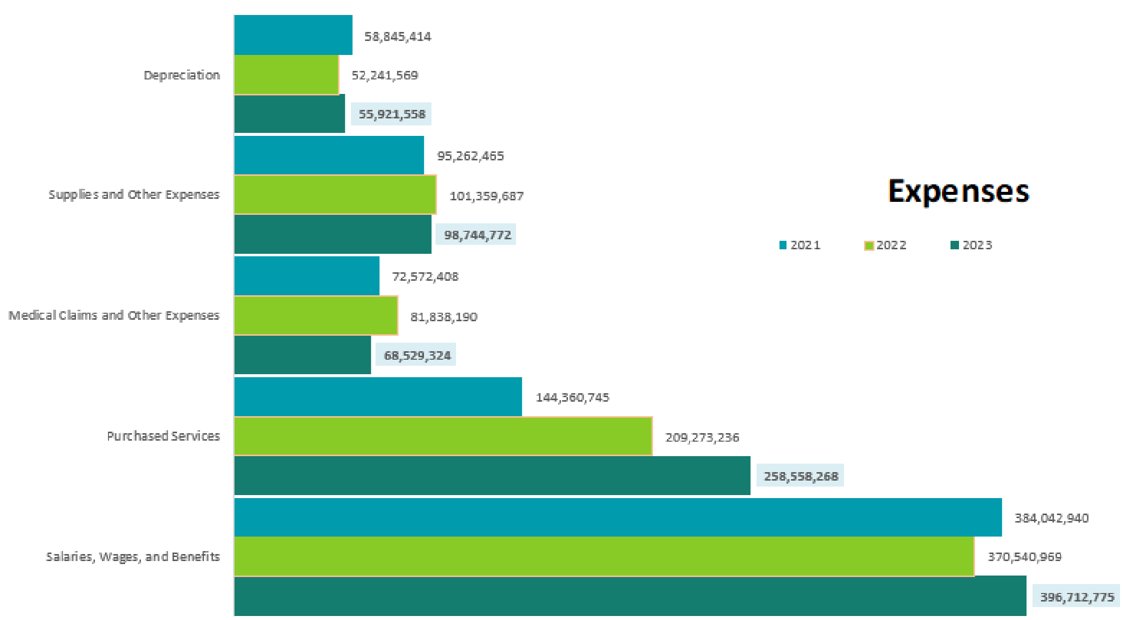
Net patient service revenue is derived from inpatient, outpatient, ambulatory, and emergency services provided to patients. Net patient service revenue for the year ended June 30, 2023, was $509.4 million, an increase from the prior year net patient service revenue of $494.7 million. Net patient service revenue increased $14.7 million or 3.0% in the year ended June 30, 2023, mainly due to changes in payor mix and volume increases in the ambulatory areas. Net patient service revenue for the year ended June 30, 2022, was $494.7 million, an increase from the prior year net patient service revenue of $489.2 million. Net patient service revenue increased $5.5 million or 1.1% in the year ended June 30, 2022, due to changes in payor mix.

	Year Ended June 30		
	2023	**2022**	**Increase (Decrease)**
Gross charges	**$ 2,617,939,822**	$ 2,562,415,380	2.2%
Contractual deductions	**1,873,553,660**	1,728,490,890	8.4%
As a percentage of gross charges	**(71.6)%**	(67.5)%	
Charity care	**209,374,248**	312,132,097	(32.9%)
As a percentage of gross charges	**(8.0)%**	(12.2)%	
Bad debt	**25,613,410**	27,142,332	(14.4%)
As a percentage of gross charges	**(1.0)%**	(1.1)%	
Net patient service revenue	**$ 509,398,504**	$ 494,560,061	3.0%
As a percentage of gross charges	**19.5%**	19.3%	

Total operating revenues in fiscal year 2023 were $686.8 million in comparison with the prior year of $616.0 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 new AHCCCS program, HEALTHII and increased grant programs related revenues.

Operating Expenses

Total operating expenses in fiscal year 2023 were $878.5 million, which is an increase of $63.2 million (7.8%) over the prior year operating expenses of $815.3 million. Total operating expenses in fiscal year 2022 were $815.3 million, which is an increase of $60.2 million (8.0%) over fiscal year 2021 operating expenses of $755.1 million. The primary driver of the year over year increases were driven by labor expenses, specifically contract labor.



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 $100.7 million, $37.7 million, and $0.4 million, respectively, for the year ended June 30, 2023, $89.5 million, $58.0 million, and $43.9 million respectively, for the year ended June 30, 2022, and $84.2 million, $55.4 million, and $18.2 million, respectively, for the year ended June 30, 2021. Also included in nonoperating revenues are noncapital grants and noncapital subsidies from the state. These amounts were $9.3 million and $3.5 million, respectively, for the year ended June 30, 2023, $5.9 million and $3.5 million, respectively, for the year ended June 30, 2022, and $5.9 million and $3.5 million, respectively, for the year ended June 30, 2021. Other nonoperating revenues and expenses consisted primarily of other revenue (expenses) from subsidies, interest income, and interest expense. These amounts were ($4.2) million, $7.6 million and ($18.4) million, respectively, for the year ended June 30, 2023, $27.8 million, $3.7 million and ($20.1) million, respectively, for the year ended June 30, 2022, and $3.2 million, $2.0 million and ($15.0) million, respectively, for the year ended June 30, 2021. A majority of the changes year over year in subsidies was due timing of payments received related to Provider Relief Funds. The year over year changes in interest income was due to changes in prevailing market conditions that influenced increase in interest rates. The interest expense year over year fluctuates based on the bond amortization schedule.

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	
	2023	**2022**
Assets		
Current assets:		
Cash and cash equivalents	**$ 241,214,127**	$ 233,412,109
Restricted cash – bond	**48,489,150**	77,286,783
Patient accounts receivable, net of allowances	**85,709,368**	92,605,989
Receivable from AHCCCS for medical education, net	**49,894,607**	46,875,590
Other receivables	**17,263,119**	39,377,126
Due from related parties	**3,376,279**	1,721,769
Supplies	**12,217,206**	11,730,777
Prepaid expenses	**13,490,793**	14,456,598
Total current assets	**471,654,649**	517,466,741
Other assets:		
Restricted cash – bond	**118,015,042**	229,636,165
Other assets	**7,521,419**	6,877,009
Total other assets	**125,536,461**	236,513,174
Capital assets:		
Land	**35,325,278**	35,615,279
Depreciable capital assets, net of accumulated depreciation	**761,270,876**	687,568,533
Total capital assets, net of accumulated depreciation	**796,596,154**	723,183,812
Total assets	**1,393,787,264**	1,477,163,727
Deferred outflows of resources		
Employer contributions made after measurement date	**34,467,520**	34,248,240
Difference between expected and actual experience	**3,256,622**	4,677,652
Changes in assumptions	**18,643,716**	39,477,696
Change in proportion and differences between employer contributions and proportionate share of contributions	**94,455**	6,469,841
Total deferred outflows of resources	**$ 56,462,313**	$ 84,873,429

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

Statements of Net Position (continued)

	Year Ended June 30	
	2023	**2022**
Liabilities and net position		
Current liabilities:		
Current maturities of long-term debt	**$ 26,130,000**	$ 40,351,007
Accounts payable	**79,974,978**	56,365,202
Accrued payroll and expenses	**28,158,703**	38,205,132
Risk claims payable, current portion	**513,856**	553,457
Overpayments from third-party payors	**10,506,859**	29,549,513
Other current liabilities	**87,305,547**	71,642,155
Total current liabilities	**232,589,943**	236,666,466
Risk claims payable, less current portion	**13,784,858**	12,512,090
Net pension and OPEB liability	**356,444,643**	287,090,884
Other liabilities	**5,005,017**	4,699,069
Long-term debt	**640,746,278**	677,938,352
Total liabilities	**1,248,570,739**	1,218,906,861
Deferred inflows of resources		
Difference between expected and actual experience	**6,758,096**	3,937,296
Change in assumptions	**874,912**	1,052,464
Difference between projected and actual investment earnings	**10,161,450**	98,870,631
Change in proportion and differences between employer contributions and proportionate share of contributions	**983,954**	799,631
Total deferred inflows of resources	**18,778,412**	104,660,022
Net position		
Unrestricted deficit	**(307,808,207)**	(394,856,298)
Net investment in capital assets	**281,653,768**	296,238,100
Restricted for bonds	**166,504,192**	306,922,948
Restricted for grants	**42,550,673**	30,165,523
Total net position	**$ 182,900,426**	$ 238,470,273

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	2023	**2022**
Operating revenues		
Net patient service revenue	**$ 509,398,504**	$ 494,650,061
AHCCCS medical education revenue	**50,659,492**	47,113,700
Other revenue	**126,703,335**	74,234,388
Total operating revenues	**686,761,331**	615,998,149
Operating expenses		
Salaries and wages	**296,737,796**	287,796,627
Employee benefits	**99,974,978**	82,744,342
Purchased services	**258,558,270**	209,273,236
Medical claims and other expenses	**68,529,325**	81,838,190
Supplies	**98,744,775**	101,359,687
Depreciation	**55,921,558**	52,241,569
Total operating expenses	**878,466,702**	815,253,651
Operating loss	**(191,705,371)**	(199,255,502)
Nonoperating revenues (expenses)		
Property tax receipts	**138,392,868**	147,491,236
Noncapital grants	**9,263,795**	5,930,243
Noncapital subsidies from State	**3,547,896**	3,547,896
Other nonoperating (expenses) revenues, net	**(4,246,685)**	27,834,946
Interest income	**7,601,696**	3,731,216
Interest expense	**(18,424,046)**	(20,068,700)
Total nonoperating revenues, net	**136,135,524**	168,466,838
Decrease in net position	**(55,569,847)**	(30,788,664)
Net position, beginning of year	**238,470,273**	269,258,937
Net position, end of year	**$ 182,900,426**	$ 238,470,273

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2023	**2022**
Operating activities		
Receipts from and on behalf of patients	**$ 516,295,125**	$ 501,458,115
Payments to suppliers and contractors	**(385,185,121)**	(388,718,427)
Payments to employees	**(394,875,938)**	(478,790,701)
Other operating receipts	**194,803,307**	237,497,910
Other operating payments	**(19,042,654)**	(12,895,861)
Net cash used in operating activities	**(88,005,281)**	(141,448,964)
Noncapital financing activities		
Property tax receipts supporting operations	**100,676,385**	89,530,796
Noncapital contributions and grants received	**9,263,795**	5,930,243
Noncapital subsidies and other nonoperating receipts	**(698,789)**	31,382,842
Net cash provided by noncapital financing activities	**109,241,391**	126,843,881
Capital and related financing activities		
Property tax receipts for debt service	**37,716,483**	57,960,440
Principal payments on long-term debt and capital leases	**(51,413,081)**	(44,678,125)
Purchase of capital assets	**(129,333,900)**	(181,270,255)
Interest paid on long-term debt	**(18,424,046)**	(20,068,700)
Net cash used in capital and related financing activities	**(161,454,544)**	(188,056,640)
Investing activities		
Interest from cash pool	**7,601,696**	3,731,217
Net cash provided by investing activities	**7,601,696**	3,731,217
Decrease in cash and cash equivalents	**(132,616,738)**	(198,930,506)
Cash and cash equivalents, beginning of year	**540,335,057**	739,265,563
Cash and cash equivalents, end of year	**$ 407,718,319**	$ 540,335,057

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

Statements of Cash Flows (continued)

	Year Ended June 30	
	2023	**2022**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (191,705,371)**	$ (199,255,502)
Depreciation	**55,921,558**	52,241,569
Changes in operating assets and liabilities:		
Patient and other accounts receivable, and other assets	**54,402,727**	(15,415,921)
Due from related parties	**(1,654,510)**	44,696
Supplies and prepaid expenses	**479,376**	(2,803,266)
Overpayments from third-party payors	**(19,042,654)**	(12,895,861)
Risk claims payable	**1,233,167**	2,033,963
Accounts payable and accrued liabilities	**12,360,426**	34,601,358
Net cash used in operating activities	**$ (88,005,281)**	$ (141,448,964)

See accompanying notes.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Maricopa County Special Health Care District d/b/a 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 the date of donation, determined by a third-party valuation services firm, totaling $117,075,000. The Property donated consisted of land of $9,000,000, buildings of $104,375,000 and land improvements of $3,700,000.

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

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

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

Effective October 1, 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.

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.

Use of Estimates

The preparation of these basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

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, 2023 and 2022, the District had approximately $407,718,000 and $540,335,000, respectively, of cash and cash equivalents and restricted cash. Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately $48,489,000 and $77,287,000 as of June 30, 2023 and 2022, respectively, of tax proceeds restricted

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

for debt service on the general obligation bonds and approximately $118,015,000 and $229,636,000 as of June 30, 2023 and 2022, 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.

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.

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 purchase, 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

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 Arizona Health Care Cost Containment System (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 2022 ARRD report.

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 $56,068,000 and $84,878,000 for the years ended June 30, 2023 and 2022, 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 $10,161,000 and $8,697,000 for the years ended June 30, 2023 and 2022, 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 9).

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.

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.

2. 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. 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, 2018.

- 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.

2. Net Patient Service Revenue (continued)

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

Approximately 55% and 56% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2023 and 2022, 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. Deposits, Pooled Funds, and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The District's deposits are held by Maricopa County (the County) in conjunction with other County funds and are reported as cash and cash equivalents. The County has represented to the District that there is sufficient collateral to cover all of the County's deposits, including the District's deposits. The County issues a Comprehensive Annual Financial Report. Further information regarding County deposits and investments are contained within the basic financial statement notes to the Comprehensive Annual Financial Report. The most recent report can be obtained by writing to Maricopa County Department of Finance, 301 W. Jefferson, Suite 960, Phoenix, Arizona 85003, or at www.maricopa.gov.

3. Deposits, Pooled Funds, and Investment Income (continued)

Pooled Funds

By state statute, the County is required to ensure that all County funds are either insured by the Federal Deposit Insurance Corporation, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The District's cash held by the County is pooled with the funds of other county agencies and then, in accordance with statutory limitations, placed in banks or invested as the County may determine. The District's pooled funds are reported as part of cash and cash equivalents, and restricted cash – bond and were approximately $380,036,000 and $501,815,000 as of June 30, 2023 and 2022, respectively.

4. 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 $57,580,000 and $54,585,000 for the years ended June 30, 2023 and 2022, respectively.

5. Receivables From AHCCCS for Medical Education

During the years ended June 30, 2023 and 2022, the District entered into intergovernmental agreements with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2023 and 2022, available funds from CMS for medical education totaled approximately $66,022,000 and $61,508,000, respectively. At June 30, 2023 and 2022, the amount due to the District is approximately $49,895,000, which is net of the $16,127,000 matching funds to be provided by the District, and $46,876,000, which is net of the $14,632,000 matching funds provided by the District, respectively.

6. Other Receivables

At June 30, 2023 and 2022, significant components of other receivables included amounts due from third party payors, such as:

	2023	2022
Retail pharmacy accounts receivable	**$ 2,263,000**	$ 1,763,000
340B program	**1,407,000**	786,000
Home Assist Health	**700,000**	806,000
Grants receivable	**5,739,000**	2,546,000
CARES Act – Provider Relief Funds	**–**	27,083,000
Other	**7,154,000**	6,393,000
Total other receivables	**$ 17,263,000**	$ 39,377,000

7. Capital Assets

Capital assets activity for the year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction-in-progress	**$ 369,061,921**	**$ 129,623,900**	**$ –**	**$ (54,248,424)**	**$ 444,437,397**
Capitalized software-in-progress	**330,119**	**–**	**–**	**–**	**330,119**
Land	**35,615,278**	**–**	**(290,000)**	**–**	**35,325,278**
Capital assets being depreciated:					
Buildings and leasehold improvements	**419,366,459**	**–**	**–**	**42,557,433**	**461,923,892**
Capitalized software	**49,516,241**	**–**	**–**	**–**	**49,516,241**
Equipment	**238,294,027**	**–**	**–**	**11,690,991**	**249,985,018**
Total capital assets	**1,112,184,045**	**129,623,900**	**(290,000)**	**–**	**1,241,517,945**
Accumulated depreciation	**389,000,233**	**55,921,558**	**–**	**–**	**444,921,791**
Capital assets, net	**$ 723,183,812**	**$ 73,702,342**	**$ (290,000)**	**$ –**	**$ 796,596,154**

7. Capital Assets (continued)

Capital assets activity for the year ended June 30, 2022, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction-in-progress	$ 238,432,510	$ 182,475,787	$ –	$ (51,846,376)	$ 369,061,921
Capitalized software-in-progress	330,119	–	–	–	330,119
Land	26,342,487	–	(380,000)	9,652,791	35,615,278
Capital assets being depreciated:					
Buildings and leasehold improvements	393,737,421	–	(7,903,574)	33,532,612	419,366,459
Capitalized software	49,516,241	–	–	–	49,516,241
Equipment	229,935,513	–	(302,459)	8,660,973	238,294,027
Total capital assets	938,294,291	182,475,787	(8,586,033)	–	1,112,184,045
Accumulated depreciation	344,139,165	52,241,569	(7,380,501)	–	389,000,233
Capital assets, net	$ 594,155,126	$ 130,234,218	$ (1,205,532)	$ –	$ 723,183,812

The District recognized $10,484,000 in accelerated depreciation expenses during both years ended June 30, 2023 and 2022 due to the anticipated decommissioning of the current medical center building.

8. 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 $14,299,000 and $13,066,000, of which $514,000 and $553,000 has been recorded as a current liability and approximately $13,785,000 and $12,513,000 has been recorded as a noncurrent liability on the accompanying statements of net position as of June 30, 2023 and 2022, respectively. Risk claims payable are undiscounted.

8. Risk Claims Payable (continued)

As of June 30, 2023, the District maintained commercial insurance as follows:

Insurance	Limits	Self-Insured Retention/Deductible
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 $2,000,000 one claim layer buffer

The insurance policies listed above became effective December 1, 2012, and remain current through June 30, 2023.

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

	2023	2022	2021
Beginning balance	**$ 13,065,547**	$ 11,031,584	$ 12,145,246
Total incurred	**6,926,933**	6,191,156	2,949,206
Total paid	**(5,693,766)**	(4,157,193)	(4,062,868)
Ending balance	**$ 14,298,714**	$ 13,065,547	$ 11,031,584

9. Other Current Liabilities

At June 30, 2023 and 2022, significant components of other current liabilities included amounts such as:

	2023	2022
Interest payable	**$ 14,570,000**	$ 15,579,000
Deferred revenue – Grants & Research	**21,829,000**	19,364,000
Deferred revenue – Foundation	**21,873,000**	10,802,000
Other current liabilities	**29,034,000**	25,897,000
Total other current liabilities	**$ 87,306,000**	$ 71,642,000

The grants and research deferred revenue includes amounts received by the District as a sub-recipient of American Rescue Plan Act (ARPA) funds that were not recognized as revenue as of the year ended June 30, 2023 and 2022. The foundation deferred revenue includes amounts received by the District from the Valleywise Health Foundation to support the completion of the Care Reimagined project and were not recognized as revenue as of the year ended June 30, 2023 and 2022.

10. Long-Term Debt

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
2023					
General obligation bonds, series C	**$ 422,188,095**	**$ –**	**$ (19,134,289)**	**$ 403,053,806**	**$ 16,130,000**
General obligation bonds, series D	**296,101,264**	**–**	**(32,278,792)**	**263,822,472**	**10,000,000**
Total long-term debt	**$ 718,289,359**	**$ –**	**$ (51,413,081)**	**$ 666,876,278**	**$ 26,130,000**

10. Long-Term Debt (continued)

2022					
General obligation bonds, series C	$ 440,953,718	$ –	$ (18,765,623)	$ 422,188,095	$ 15,351,007
General obligation bonds, series D	305,008,663	–	(8,907,399)	296,101,264	25,000,000
Direct placement general obligation bonds	17,000,000	–	(17,000,000)	–	–
Total long-term debt	$ 762,962,381	$ –	$ (44,664,028)	$ 718,289,359	$ 40,351,007

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. Through June 30, 2023, the District has issued $935,000,000 in general obligation bonds.

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.

10. Long-Term Debt (continued)

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, 2023.

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, 2023 and 2022.

Scheduled maturities of long-term debt, excluding a net premium of $66,541,000 as of June 30, 2023, for the years ending June 30 are as follows:

	General Obligation Bonds	
	Principal	**Interest**
2024	$ 26,130,000	$ 28,487,350
2025	30,070,000	27,082,350
2026	31,575,000	25,541,225
2027	33,150,000	23,923,100
2028	34,810,000	22,224,100
2029–2033	201,975,000	82,507,125
2034–2038	209,410,000	28,420,800
2039–2041	33,215,000	664,300
	$ 600,335,000	$ 238,850,350

11. Restricted Net Position

Restricted net position at June 30, 2023 and 2022, consists of grant funds received for specific purposes that are expected to be expended as defined on the agreement, in the amount of approximately $42,551,000 and $30,166,000, respectively.

Restricted net position at June 30, 2023 and 2022, also consists of bond funds expected to be expended for specific purposes as defined in the bond agreement, in the amount of approximately $166,504,000 and $306,923,000, respectively.

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

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, 2023 and 2022, active plan members, including the District, were required by statute to contribute at the actuarially determined rate of 12.17% (11.92% retirement, 0.11% health benefit supplement, and 0.14% long-term disability) and 12.41% (12.01% retirement, 0.21% health benefit supplement, and 0.19% long-term disability), respectively, of the members’ annual covered payroll.

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

Benefits Provided

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

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.

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

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

At June 30, 2023, the District reported a liability of approximately $369,080,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, and was rolled forward using generally accepted actuarial procedures to June 30, 2022. 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, 2022, the District’s proportion was 2.26%, which represents a slight change from its proportion measured as of June 30, 2021.

At June 30, 2022, the District reported a liability of approximately $297,858,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2020, and was rolled forward using generally accepted actuarial procedures to June 30, 2021. 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, 2021, the District’s proportion was 2.27%, which represents no change from its proportion measured as of June 30, 2020.

At June 30, 2023, the District reported a net (asset) of approximately ($12,635,000) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2022. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2021, and was rolled forward using generally accepted actuarial procedures to June 30, 2022. 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, 2022 and 2021, the District’s proportion was 2.30% and 2.31%, respectively.

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

At June 30, 2022, the District reported a net (asset) of approximately ($10,767,000) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2020, and was rolled forward using generally accepted actuarial procedures to June 30, 2021. 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, 2021 and 2020, the District's proportion was 2.31% and 2.30%, respectively.

Within employee benefits, the District recorded pension expense of $47,306,000 and $33,298,000 for the years ended June 30, 2023 and 2022, respectively. At June 30, 2023, 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
Employer contributions made after measurement date	$ 33,719,162	$ –
Differences between expected and actual experience	3,144,779	–
Changes in assumptions	18,318,139	–
Difference between projected and actual investment earnings	–	(9,721,916)
Change in proportion and differences between employer contributions and proportionate share of contributions	–	(969,137)
Total	$ 55,182,080	$ (10,691,053)

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

At June 30, 2022, 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
Employer contributions made after measurement date	$ 32,711,475	$ –
Differences between expected and actual experience	4,540,570	–
Changes in assumptions	38,768,596	–
Difference between projected and actual investment earnings	–	(94,371,882)
Change in proportion and differences between employer contributions and proportionate share of contributions	6,371,328	(779,921)
Total	$ 82,391,969	$ (95,151,803)

Of the amount reported as deferred outflows of resources as of June 30, 2023, $748,000 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, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense (benefit) as follows:

Year ending June 30:	
2024	$ 16,797,286
2025	(4,706,275)
2026	(16,879,531)
2027	15,560,385

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

Within employee benefits, the District recorded OPEB (benefit) of ($1,793,000) for the year ended June 30, 2023. At June 30, 2023, 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	**$ 748,358**	**$ –**
Differences between expected and actual expenses	**111,843**	**(6,758,096)**
Changes in assumptions	**325,577**	**(874,912)**
Difference between projected and actual investments earnings	**–**	**(439,534)**
Change in proportion and differences between employer contributions and proportionate share of contributions	**94,455**	**(14,817)**
Total	**$ 1,280,233**	**$ (8,087,359)**

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

Within employee benefits, the District recorded OPEB (benefit) of ($926,000) for the year ended June 30, 2022. At June 30, 2022, 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	$ 1,536,765	$ –
Differences between expected and actual expenses	137,082	(3,937,296)
Changes in assumptions	709,100	(1,052,464)
Difference between projected and actual investments earnings	–	(4,498,749)
Change in proportion and differences between employer contributions and proportionate share of contributions	98,513	(19,710)
Total	$ 2,481,460	$ (9,508,219)

Of the amount reported as deferred outflows of resources, $1,537,000 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB (benefit) as follows:

Year ending June 30:	
2024	$ (1,988,873)
2025	(2,174,578)
2026	(2,428,854)
2027	(352,442)
2028	(439,054)
Thereafter	(171,683)

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

Actuarial Assumptions

The June 30, 2021 and 2020 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	2.90% – 8.40% average, including inflation
Discount rate	7.00%

Rates are based on the 2017 State Retirees of Arizona (SRA) mortality table. Generational mortality improvements in accordance with the Ultimate MP scales (beginning in 2020) and projected from the year 2017.

The June 30, 2021 and June 30, 2020 actuarial valuation of the OPEB (asset) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Investment rate of return	7.00%
Mortality rates	2017 SRA Scale U-MP
Health care trend rate	N/A

Rates are based on the 2017 State Retirees of Arizona (SRA) mortality table. Generational mortality improvements in accordance with the Ultimate MP scales (beginning in 2020) and projected from the year 2017.

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

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 (asset).

The actuarial assumptions used in the June 30, 2021 pension and OPEB valuations were based on the results of an actuarial experience study for the period July 1, 2015–June 30, 2020. The ASRS Board adopted the experience study, which recommended changes, and those changes were effective as of the June 30, 2021, actuarial valuation. The actuarial assumptions used in the June 30, 2020 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 and OPEB plans measured as of June 30, 2022, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	1.95%
Fixed income	30	1.04
Real estate	20	1.20
Total	100%	4.19%

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

The target allocation and best estimates of geometric real rates of return for each major asset class for the pension and OPEB plans measured as of June 30, 2021, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	50%	2.45%
Fixed income	30	1.11
Real estate	20	1.14
Total	100%	4.70%

Discount Rate

The discount rate used to measure the overall pension liability as of June 30, 2023 and 2022, was 7.0%, and the OPEB (asset) as of June 30, 2023 and 2022, was 7.0%. 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 (asset).

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (Asset) (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, 2023, using the discount rate of 7.0% 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 6.0% or one percentage point higher 8.0% than the current rate:

	1-Point Decrease (6.0%)	Discount Rate (7.0%)	1-Point Increase (8.0%)
District's proportionate share of the net pension liability	**$ 544,566,115**	**$ 369,079,692**	**$ 222,751,434**

The following presents the District's proportionate share of the net pension liability reported at June 30, 2022, using the discount rate of 7.0% 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 6.0% or one percentage point higher 8.0% than the current rate:

	1-Point Decrease (6.0%)	Discount Rate (7.0%)	1-Point Increase (8.0%)
District's proportionate share of the net pension liability	$ 468,505,634	$ 297,857,967	$ 155,585,029

The following presents the District's proportionate share of the net OPEB (asset) reported at June 30, 2023, using the discount rate of 7.0% as well as what the District's proportionate share of the net OPEB (asset) would be if it were calculated using a discount rate that is one percentage point lower 6.0% or one percentage point higher 8.0% than the current rate:

	1-Point Decrease (6.0%)	Discount Rate (7.0%)	1-Point Increase (8.0%)
District's proportionate share of the net OPEB (asset)	**$ (8,883,591)**	**$ (12,635,048)**	**$ (15,835,147)**

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

The following presents the District's proportionate share of the net OPEB (asset) reported at June 30, 2022, using the discount rate of 7.0% as well as what the District's proportionate share of the net OPEB (asset) would be if it were calculated using a discount rate that is one percentage point lower 6.0% or one percentage point higher 8.0% than the current rate:

	1-Point Decrease (6.0%)	Discount Rate (7.0%)	1-Point Increase (8.0%)
District's proportionate share of the net OPEB (asset)	$ (6,825,194)	$ (10,767,083)	$ (14,135,798)

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

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, 2023 and 2022, 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 approximately $4,202,000 of disproportionate share settlements in other operating revenue in each of fiscal years 2023 and 2022.

15. Related-Party Transactions

During the years ended June 30, 2023 and 2022, net patient service revenues included approximately $3,776,000 and $3,037,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately $8,704,000 and $1,789,000, respectively, in grant funds from the Maricopa County Department of Public Health.

During the years ended June 30, 2023 and 2022, nonoperating revenues included approximately $334,000 and $952,000 in payments received from Maricopa County Industrial Development Authority (MCIDA) for program support in the District's Simulation and Training Center in fiscal years 2023 and 2022, respectively.

16. CARES Act

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 financial support to the District in fiscal year 2022 through the Provider Relief Fund.

The District has attested to the receipt of distributions of Provider Relief Funds under the CARES Act and recorded $0 and $39,376,000 in other nonoperating revenue for the years ended June 30, 2023 and 2022, respectively. These distributions were used to offset expenses to prevent, prepare for, and respond to the COVID-19, or lost revenues that are attributable to COVID-19.

17. Subsequent Events

Effective July 1, 2023, 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 $96,225,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2023, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of $13,849,000 and $18,684,000 for the fifth year principal and interest debt service, respectively, related to the $422,125,000 third bond offering.

Effective July 1, 2023, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of $9,816,000 and $10,855,000 for the third year principal and interest debt service, respectively, related to the $244,070,000 fourth bond offering.

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*

	2023	2022	2021	2020	2019	2018	2017	2016	2015
District's proportion or the net pension liability	**2.26%**	2.27%	2.27%	2.14%	2.15%	1.96%	2.11%	2.15%	2.25%
District's proportionate share of the net pension liability	**$ 369,079,692**	$ 297,857,967	$ 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	**$ 270,682,087**	$ 252,938,151	$ 236,809,991	$ 225,450,955	$ 211,945,416	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176
District's proportionate share of the net pension liability a percentage of its covered payroll	**136.35%**	117.76%	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	**74.26%**	78.58%	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*

	2023	2022	2021	2020	2019	2018
District's proportion or the net OPEB liability (asset)	**2.30%**	2.31%	2.30%	2.17%	2.14%	2.14%
District's proportionate share of the net OPEB liability (asset)	**$ (12,635,048)**	$ (10,767,083)	$ 116,339	$ 812,445	$ 347,486	$ (361,250)
District's covered payroll	**$ 270,682,087**	$ 252,938,151	$ 236,809,991	$ 225,450,955	$ 211,945,416	$ 188,850,966
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	**(4.67)%**	(4.26)%	0.05%	0.36%	0.16%	(0.19)%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	**132.71%**	125.56%	99.73%	98.07%	99.13%	101.03%

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

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

Schedule of Contributions – Pension Plan

Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	**$ 33,719,162**	$ 32,711,475	$ 29,724,443	$ 28,321,667	$ 25,950,721	$ 22,402,719	$ 20,360,215	$ 21,226,490	$ 21,396,442	$ 21,827,065
Contributions in relation to the contractually required contribution	**(33,719,162)**	(32,711,475)	(29,724,443)	(28,321,667)	(25,950,721)	(22,402,719)	(22,259,196)	(21,387,917)	(21,690,643)	(20,471,268)
Contribution deficiency (excess)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ (1,898,981)	$ (161,427)	$ (294,201)	$ 1,355,797
District's covered payroll	**$ 288,670,536**	$ 270,682,087	$ 252,938,151	$ 236,809,991	$ 225,450,955	$ 211,945,416	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176
Contributions as a percentage of covered payroll	**11.68%**	12.08%	11.75%	11.96%	11.51%	10.57%	10.78%	10.85%	10.89%	10.70%

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

Schedule of Contributions – OPEB

Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	**$ 748,358**	$ 1,536,765	$ 1,375,302	$ 1,579,258	$ 1,396,082	$ 1,273,313	$ 1,321,018	$ 1,213,587	$ 1,395,848	$ 1,715,385
Contributions in relation to the contractually required contribution	**(748,358)**	(1,536,765)	(1,375,302)	(1,579,258)	(1,396,082)	(1,273,313)	(1,321,018)	(1,213,587)	(1,395,848)	(1,715,385)
Contribution deficiency (excess)	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
District's covered payroll	**$ 288,670,536**	$ 270,682,087	$ 252,938,151	$ 236,809,991	$ 225,450,955	$ 211,945,416	$ 188,850,966	$ 195,634,317	$ 196,475,917	$ 203,989,176
Contributions as a percentage of covered payroll	**0.26%**	0.57%	0.54%	0.67%	0.62%	0.60%	0.70%	0.62%	0.71%	0.84%

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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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), 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, 2023, 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 (collectively referred to as the "financial statements"), and have issued our report thereon dated November 21, 2023.

Report on 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 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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 results 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 21, 2023

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