

FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION

Maricopa County Special Health Care District
d/b/a Valleywise Health
Years Ended June 30, 2024 and 2023
With Reports of Independent Auditors

Ernst & Young LLP



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

Financial Statements and Required Supplementary Information

Years Ended June 30, 2024 and 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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.

Restatement of 2023 Financial Statements

As discussed in Note 1 to the financial statements, the 2023 financial statements have been restated to correct a misclassification between amounts within net position. Our opinion is not modified with respect to this matter.

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 January 31, 2025 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.



January 31, 2025

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

Management's Discussion and Analysis

Years Ended June 30, 2024 and 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, 2024 and 2023. 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. The composition of net assets as of June 30, 2023 and 2022 within this Management's Discussion and Analysis have been reclassified to conform with the 2024 presentation. The District's previously issued financial statements as of June 30, 2023 and 2022 included a net position of \$42,550,673 and \$30,165,523, respectively, restricted for grants. Since unspent grant funds are recorded as a liability, this net position has been reclassified to unrestricted deficit in the restated June 30, 2023 and 2022 amounts herein. Additionally, \$46,551,483 and \$73,093,458, respectively, of restricted cash to pay bonds that was included in net investment in capital assets has been reclassified to unrestricted deficit in the restated June 30, 2023 and 2022 amounts herein. There was no change to total net position as of June 30, 2023 and 2022. See Note 1 to the financial statements for further discussion.

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.

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

Management's Discussion and Analysis (continued)

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 644 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.

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

Management's Discussion and Analysis (continued)

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. The District was authorized to issue \$935,000,000, in aggregate, principal amount toward the Care Reimagined project. Through May 2021, all of the District's authorized amount had been issued.

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 the 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 nearly complete; through June 30, 2024, \$908,836,370 of the bond proceeds have been expended. During fiscal year 2024, the majority of project funds were expended on the main campus for the construction of the new hospital which was opened in June 2024. In June 2023, the warehouse opened in the new Virginia G. Piper Charitable Trust Pavilion (Piper Pavilion). Throughout 2024, additional spaces within the Piper Pavilion opened including administrative offices, physician offices, conference space and the new medical simulation training center.

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

Management's Discussion and Analysis (continued)

Financial Highlights

**Year Ended June 30, 2024, Compared to
Year Ended June 30, 2023**

Net patient services revenue decreased by (\$7.4) million or (1.5%) from the prior year 2023. Other operating revenue increased \$200.3 million, largely due to the Safety Net Services Initiative (SNSI), a new Arizona Health Care Cost Containment System (AHCCCS) state directed payment program.

Operating expense increased from \$878.5 million in 2023 to \$950.1 million in 2024, a \$71.6 million or 8.2% increase from the prior year. These are largely due to the increases in labor costs and supplies. The increases are largely related to an increase in volumes, inflationary increases and costs associated with the opening of the new hospital tower.

**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 AHCCCS program, HEALTHII, as well as increases in 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.

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

Management’s Discussion and Analysis (continued)

Gross charges by major payor financial class for fiscal years 2024, 2023, and 2022 are as follows:

	Year Ended June 30		
	2024	2023	2022
Medicare	16.8%	17.2%	18.4%
Medicaid	39.4	44.4	42.2
Commercial Insurance and Managed Care	14.3	12.0	13.0
Other Government	11.7	11.2	11.9
Self-Pay	17.8	15.2	14.5
Total	100.0%	100.0%	100.0%

The District’s payor mix has stayed relatively stable over the past two years prior to 2024. During fiscal year 2024, the District experienced an increase in the proportion of self pay/uninsured patients and a significant decrease of Medicaid patients. This payer mix shift is mostly a result of the reinstatement in April 2023 of the AHCCCS regular renewal process for all Medicaid and KidsCare members.

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

Management's Discussion and Analysis (continued)

Condensed Statements of Net Position

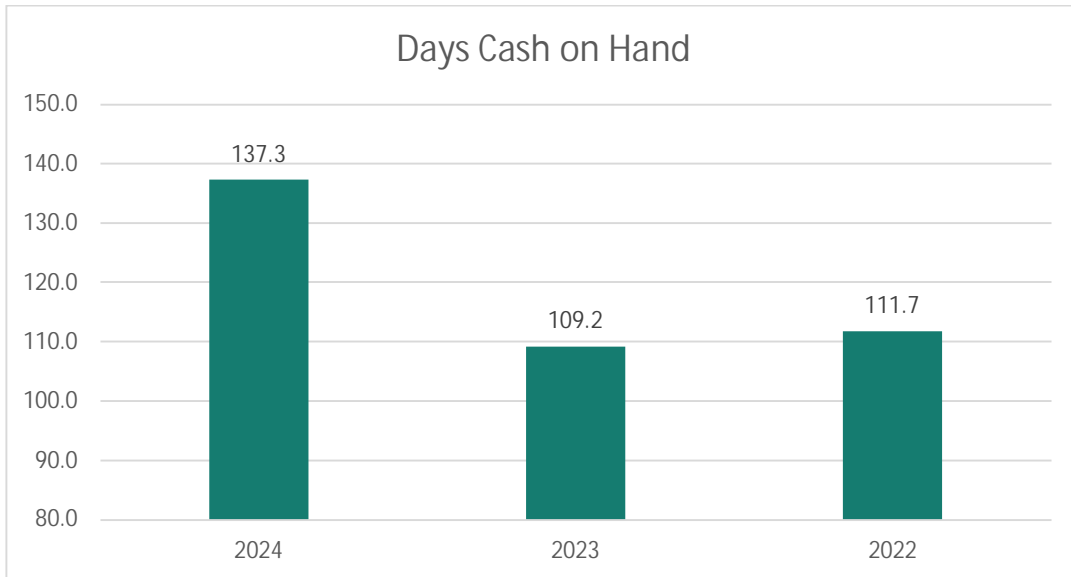
	Year Ended June 30		
	2024	2023	2022
Assets			
Current assets	\$ 609,201,917	\$ 471,654,649	\$ 517,466,741
Other assets	51,166,840	125,536,461	236,513,174
Capital assets	863,304,027	796,596,154	723,183,812
Total assets	1,523,672,784	1,393,787,264	1,477,163,727
Deferred outflows of resources	43,536,472	56,462,313	84,873,429
Liabilities			
Current liabilities	433,111,148	232,589,943	236,666,466
Risk claims payable, less current portion	14,034,905	13,784,858	12,512,090
Net pension and OPEB liability	346,300,050	356,444,643	287,090,884
Long-term debt	618,630,623	645,751,295	682,637,421
Total liabilities	1,412,076,726	1,248,570,739	1,218,906,861
Deferred inflows of resources	23,778,839	18,778,412	104,660,022
Net position (restated)			
Unrestricted deficit	(178,339,033)	(218,706,051)	(291,597,318)
Net investment in capital assets	232,673,830	235,102,285	223,144,642
Restricted for bonds	77,018,894	166,504,192	306,922,949
Total net position	\$ 131,353,691	\$ 182,900,426	\$ 238,470,273

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

Management’s Discussion and Analysis (continued)

Cash and Cash Equivalents

Unrestricted cash and cash equivalents as of June 30, 2024, were approximately \$334.2 million, an increase of approximately \$93.0 million from the \$241.2 million as of June 30, 2023. Days cash on hand increased 28.1 days to 137.3 days in fiscal year 2024 from the fiscal year 2023 days of 109.2. This increase in cash is due to an increase in other operating revenue (SNSI). Unrestricted cash and cash equivalents for fiscal year 2023 were approximately \$241.2 million, an increase of approximately \$7.8 million from 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.

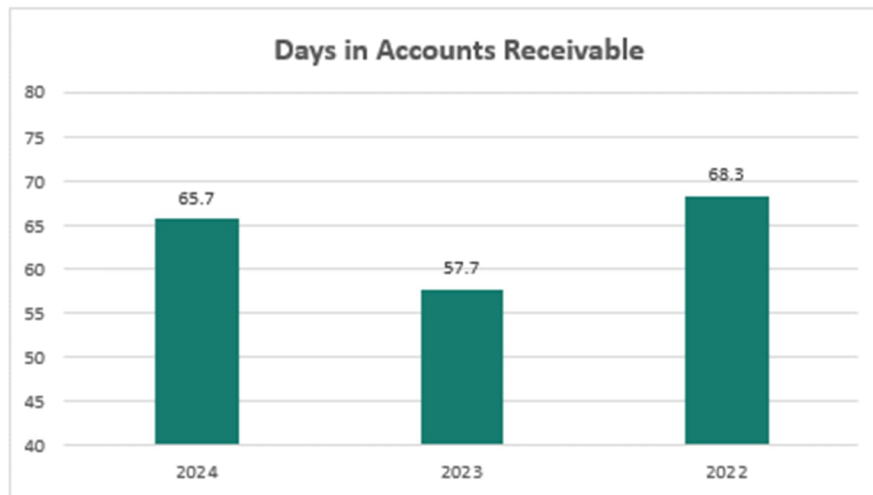


Maricopa County Special Health Care District
d/b/a Valleywise Health

Management’s Discussion and Analysis (continued)

Accounts Receivable – Days Outstanding

Net accounts receivable increased from the prior year by approximately \$4.4 million, net days in accounts receivable increased from the prior year by approximately 13.9%, from 57.7 to 65.7 days. Net accounts receivable in fiscal year 2023 decreased by \$6.9 million from fiscal year 2022 and net days also decreased by 15.5% from 68.3 to 57.7 days.



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

Management's Discussion and Analysis (continued)

Capital Assets

As of June 30, 2024 and 2023, the District had \$863.3 million and \$796.6 million, respectively, invested in capital assets, net of accumulated depreciation. For the years ended June 30, 2024, 2023 and 2022, the District purchased capital assets amounting to \$111.6 million, \$129.3 million, and \$181.3 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:

- Valleywise Comprehensive Health Center – Peoria, which opened in January 2021 providing ambulatory care and outpatient surgery.
- New Community Health Centers providing ambulatory care in different cities of Maricopa County.
- New acute care hospital (Valleywise Health Medical Center) was opened in June 2024.

Debt

As of June 30, 2024, 2023, and 2022, the District had bonds payable of \$629.7 million, \$666.9 million, and \$718.3 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.

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

Management's Discussion and Analysis (continued)

The following table summarizes net operating revenues, operating expenses, and non-operating revenues (expenses) for the fiscal years ended June 30, 2024, 2023, and 2022.

	Year Ended June 30		
	2024	2023	2022
Operating revenues:			
Net patient service revenue	\$ 501,982,011	\$ 509,398,504	\$ 494,650,061
AHCCCS medical education revenue	53,206,789	50,659,492	47,113,700
Other revenue	326,971,834	126,703,335	74,234,388
Total operating revenues	882,160,634	686,761,331	615,998,149
Operating expenses			
Salaries and wages	332,412,178	296,737,796	287,796,627
Employee benefits	110,761,738	99,974,978	82,744,342
Purchased services	261,844,402	258,558,270	209,273,236
Medical claims and other expenses	66,635,153	68,529,325	81,838,190
Supplies	119,042,983	98,744,775	101,359,687
Depreciation	59,374,902	55,921,558	52,241,569
Total operating expenses	950,071,356	878,466,702	815,253,651
Operating loss	(67,910,722)	(191,705,371)	(199,255,502)
Nonoperating revenues (expenses)			
Property tax receipts	138,728,906	138,392,868	147,491,236
Noncapital grants	11,415,618	9,263,795	5,930,243
Noncapital subsidies from State	3,547,896	3,547,896	3,547,896
Other nonoperating revenues (expenses), net	(127,649,734)	(4,246,685)	27,834,946
Investment income	7,865,697	7,601,696	3,731,217
Interest expense	(17,544,396)	(18,424,046)	(20,068,700)
Total nonoperating revenues, net	16,363,987	136,135,524	168,466,838
Decrease in net position	(51,546,735)	(55,569,847)	(30,788,664)
Net position, beginning of year	182,900,426	238,470,273	269,258,937
Net position, end of year	\$ 131,353,691	\$ 182,900,426	\$ 238,470,273

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

Management’s Discussion and Analysis (continued)

Revenues

Net Patient Services Revenue

Net patient service revenue is derived from inpatient, outpatient, ambulatory, and emergency services provided to patients. Net patient service revenue for the year ended June 30, 2024, was \$502.0 million, a decrease from the prior year net patient service revenue of \$509.4 million. Net patient service revenue decreased \$7.4 million or 1.5% in the year ended June 30, 2024, mainly due to changes in the payor mix and some related to the opening of the new hospital tower. Elective admissions and procedures were slowed in preparation for the June 13th, 2024, opening. 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.

	Year Ended June 30		Increase (Decrease)
	2024	2023	
Gross charges	\$ 2,791,576,153	\$ 2,617,939,822	6.6%
Contractual deductions	1,812,757,861	1,873,553,660	(3.2)%
As a percentage of gross charges	(64.9)%	(71.6)%	
Charity care	422,126,099	209,374,248	101.6%
As a percentage of gross charges	(15.1)%	(8.0)%	
Bad debt	54,710,182	25,613,410	113.6%
As a percentage of gross charges	(2.0)%	(1.0)%	
Net patient service revenue	\$ 501,982,011	\$ 509,398,504	(1.5)%
As a percentage of gross charges	18.0%	19.5%	

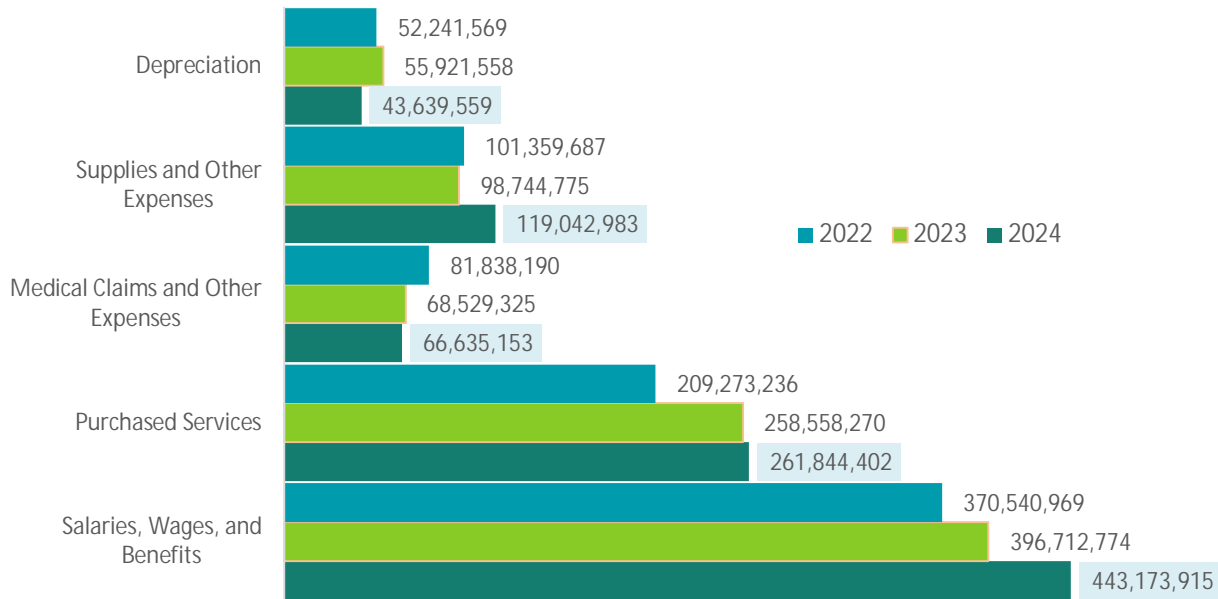
Total operating revenues in fiscal year 2024 were \$882.2 million in comparison with the prior year of \$686.8 million, due mainly to the new SNSI state directed payment program.

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

Management’s Discussion and Analysis (continued)

Operating Expenses

Total operating expenses in fiscal year 2024 were \$950.1 million, which is an increase of \$71.6 million (8.2%) over the prior year operating expenses of \$878.5 million. Total operating expenses in fiscal year 2023 were \$878.5 million, which is an increase of \$63.2 million (7.8%) over fiscal year 2022 operating expenses of \$815.3 million. The primary driver of the year over year increases were driven by labor expenses, specifically salaries and wages.



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

Management's Discussion and Analysis (continued)

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property tax receipts, both for maintenance and operation, and bond debt service. These amounts were \$79.6 million and \$59.1 million, respectively, for the year ended June 30, 2024, \$100.7 million and \$37.7 million, respectively, for the year ended June 30, 2023, and \$89.5 million and \$58.0 million, respectively, for the year ended June 30, 2022. Also included in nonoperating revenues are noncapital grants and noncapital subsidies from the state. These amounts were \$11.4 million and \$3.5 million, respectively, for the year ended June 30, 2024, \$9.3 million and \$3.5 million, respectively, for the year ended June 30, 2023, and \$5.9 million and \$3.5 million, respectively, for the year ended June 30, 2022. Other nonoperating revenues and expenses consisted primarily of other revenue (expenses) from subsidies, interest income, and interest expense. These amounts were (\$127.6) million, \$7.9 million and (\$17.5) million, respectively, for the year ended June 30, 2024, (\$4.2) million, \$7.6 million and (\$18.4) million, respectively, for the year ended June 30, 2023, and \$27.8 million, \$3.7 million and (\$20.1) million, respectively, for the year ended June 30, 2022. 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	
	2024	2023
Assets		<i>(Restated)</i>
Current assets:		
Cash and cash equivalents	\$ 334,246,529	\$ 241,214,127
Restricted cash – bond	50,855,264	48,489,150
Patient accounts receivable, net of allowances	90,089,005	85,709,368
Receivable from AHCCCS for medical education, net	54,606,789	49,894,607
Other receivables	33,494,492	17,263,119
Due from related parties	–	3,376,279
Supplies	12,498,828	12,217,206
Prepaid expenses	33,411,010	13,490,793
Total current assets	609,201,917	471,654,649
Other assets:		
Restricted cash – bond	26,163,630	118,015,042
Right-to-use assets	25,003,210	7,521,419
Total other assets	51,166,840	125,536,461
Capital assets:		
Land	35,038,821	35,325,278
Depreciable capital assets, net of accumulated depreciation	828,265,206	761,270,876
Total capital assets, net of accumulated depreciation	863,304,027	796,596,154
Total assets	1,523,672,784	1,393,787,264
Deferred outflows of resources		
Employer contributions made after measurement date	34,418,535	34,467,520
Difference between expected and actual experience	8,869,136	3,256,622
Changes in assumptions	76,773	18,643,716
Change in proportion and differences between employer contributions and proportionate share of contributions	172,028	94,455
Total deferred outflows of resources	\$ 43,536,472	\$ 56,462,313

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

Statements of Net Position (continued)

	Year Ended June 30	
	2024	2023
Liabilities and net position		<i>(Restated)</i>
Current liabilities:		
Current maturities of long-term debt	\$ 30,070,000	\$ 26,130,000
Current portion of lease liabilities	6,568,725	2,516,402
Accounts payable	188,182,319	79,974,978
Accrued payroll and expenses	34,473,079	28,158,703
Risk claims payable, current portion	353,308	513,856
Due to related parties	6,738,377	
Overpayments from third-party payors	12,648,717	10,506,859
Other current liabilities	154,076,623	84,789,145
Total current liabilities	433,111,148	232,589,943
Risk claims payable less current portion	14,034,905	13,784,858
Net pension and OPEB liability	346,300,050	356,444,643
Long-term lease liabilities	19,041,117	5,005,017
Long-term debt	599,589,506	640,746,278
Total liabilities	1,412,076,726	1,248,570,739
Deferred inflows of resources		
Difference between expected and actual experience	4,699,360	6,758,096
Change in assumptions	665,488	874,912
Difference between projected and actual investment earnings	13,229,892	10,161,450
Change in proportion and differences between employer contributions and proportionate share of contributions	5,184,099	983,954
Total deferred inflows of resources	23,778,839	18,778,412
Net position		
Unrestricted deficit	(178,339,033)	(218,706,051)
Net investment in capital assets	232,673,830	235,102,285
Restricted for bonds	77,018,894	166,504,192
Total net position	\$ 131,353,691	\$ 182,900,426

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	
	2024	2023
Operating revenues		
Net patient service revenue	\$ 501,982,011	\$ 509,398,504
AHCCCS medical education revenue	53,206,789	50,659,492
Other revenue	326,971,834	126,703,335
Total operating revenues	882,160,634	686,761,331
Operating expenses		
Salaries and wages	332,412,178	296,737,796
Employee benefits	110,761,738	99,974,978
Purchased services	261,844,402	258,558,270
Medical claims and other expenses	66,635,153	68,529,325
Supplies	119,042,983	98,744,775
Depreciation	59,374,902	55,921,558
Total operating expenses	950,071,356	878,466,702
Operating loss	(67,910,722)	(191,705,371)
Nonoperating revenues (expenses)		
Property tax receipts	138,728,906	138,392,868
Noncapital grants	11,415,618	9,263,795
Noncapital subsidies from State	3,547,896	3,547,896
Other nonoperating expenses, net	(127,649,734)	(4,246,685)
Interest income	7,865,697	7,601,696
Interest expense	(17,544,396)	(18,424,046)
Total nonoperating revenues, net	16,363,987	136,135,524
Decrease in net position	(51,546,735)	(55,569,847)
Net position, beginning of year	182,900,426	238,470,273
Net position, end of year	\$ 131,353,691	\$ 182,900,426

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2024	2023
Operating activities		
Receipts from and on behalf of patients	\$ 497,602,374	\$ 516,295,125
Payments to suppliers and contractors	(298,314,201)	(385,185,121)
Payments to employees	(429,077,865)	(394,875,938)
Other operating receipts	371,491,582	194,803,307
Other operating payments	(5,720,913)	(19,042,654)
Net cash provided by (used in) operating activities	135,980,977	(88,005,281)
Noncapital financing activities		
Property tax receipts supporting operations	79,610,414	100,676,385
Noncapital contributions and grants received	11,415,618	9,263,795
Noncapital subsidies and other nonoperating payments	(124,101,838)	(698,789)
Net cash (used in) provided by noncapital financing activities	(33,075,806)	109,241,391
Capital and related financing activities		
Property tax receipts for debt service	59,118,492	37,716,483
Principal payments on long-term debt and capital leases	(37,216,772)	(51,413,081)
Purchase of capital assets	(111,581,088)	(129,333,900)
Interest paid on long-term debt	(17,544,396)	(18,424,046)
Net cash used in capital and related financing activities	(107,223,764)	(161,454,544)
Investing activities		
Interest from investments	7,865,697	7,601,696
Net cash provided by investing activities	7,865,697	7,601,696
Increase (decrease) in cash and cash equivalents	3,547,104	(132,616,738)
Cash and cash equivalents, beginning of year	407,718,319	540,335,057
Cash and cash equivalents, end of year	\$ 411,265,423	\$ 407,718,319

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

Statements of Cash Flows (continued)

	Year Ended June 30	
	2024	2023
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (67,910,722)	\$ (191,705,371)
Depreciation	59,374,902	55,921,558
Changes in operating assets and liabilities:		
Patient and other accounts receivable, and other assets	(12,397,351)	54,402,727
Due to (from) related parties	10,114,656	(1,654,510)
Supplies and prepaid expenses	(20,201,839)	479,376
Overpayments from third-party payors	2,141,858	(19,042,654)
Right to use	606,632	-
Risk claims payable	89,499	1,233,167
Accounts payable and accrued expenses	164,163,342	12,360,426
Net cash provided by (used in) operating activities	\$ 135,980,977	\$ (88,005,281)

See accompanying notes.

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

Notes to Financial Statements

June 30, 2024

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.

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

Notes to Financial Statements (continued)

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

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, 2024 and 2023, the District had approximately \$411,265,000 and \$407,718,000, respectively, of cash and cash equivalents and restricted cash. Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately \$50,855,000 and \$48,489,000 as of June 30, 2024 and 2023, respectively, of tax proceeds restricted

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

Notes to Financial Statements (continued)

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

for debt service on the general obligation bonds and approximately \$26,164,000 and \$118,015,000 as of June 30, 2024 and 2023, 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.

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

Notes to Financial Statements (continued)

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

Patient Accounts Receivable

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

Supplies

Supplies inventories are stated at the lower of cost or market value, 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

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

Notes to Financial Statements (continued)

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

leave hours in excess of the maximum amount that are unused by the calendar year-end are converted to the employee's extended illness bank (EIB). Generally, EIB benefits are used by employees for extended illness or injury, or to care for an immediate family member with an extended illness or injury. EIB benefits are cumulative but do not vest and, therefore, are not accrued. However, upon retirement, employees with accumulated EIB in excess of 1,000 hours are entitled to a \$3,000 bonus. The total compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes, computed using rates in effect at that date.

Net Position (Restated)

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.

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

Notes to Financial Statements (continued)

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

The District’s previously issued financial statements as of June 30, 2023 included a net position of \$42,550,673 restricted for grants. Since unspent grant funds are recorded as a liability, this net position has been reclassified to unrestricted deficit in the restated June 30, 2023 amounts herein. Additionally, \$46,551,483 of restricted cash to pay bonds that was included in net investment in capital assets has been reclassified to unrestricted deficit. There was no change to total net position as of June 30, 2023. The effects of these reclassifications as are reflected in the table below:

	As of June 30, 2023		
	As Previously Reported	Reclassifications	As Restated
Unrestricted deficit	\$ (307,808,207)	\$ 89,102,156	\$ (218,706,051)
Net investment in capital assets	281,653,768	(46,551,483)	235,102,285
Restricted for bonds	166,504,192	–	166,504,192
Restricted for grants	42,550,673	(42,550,673)	–
Total net position	\$ 182,900,426	\$ –	\$ 182,900,426

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 2023 ARRD report.

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

Notes to Financial Statements (continued)

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

Charity Care

The District provides services at amounts less than its established rates to patients who meet the criteria of its charity care policy. The criteria for charity care take into consideration the patient's family size and income in relation to federal poverty guidelines and type of service rendered. The total net cost of charity care provided was approximately \$50,986,000 and \$56,068,000 for the years ended June 30, 2024 and 2023, 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 \$11,770,000 and \$10,161,000 for the years ended June 30, 2024 and 2023, 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.

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

Notes to Financial Statements (continued)

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

Pension and Postemployment Benefits Other Than Pensions (OPEB)

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

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, 2019.
- AHCCCS – Inpatient acute services are paid at prospectively determined rates. Inpatient psychiatric services are paid on a per diem basis. Outpatient services rendered to AHCCCS program beneficiaries are primarily reimbursed under prospectively determined rates.
- The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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

Notes to Financial Statements (continued)

2. Net Patient Service Revenue (continued)

Approximately 54% and 55% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2024 and 2023, 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.

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 \$397,593,155 and \$380,036,000 as of June 30, 2024 and 2023, respectively.

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

Notes to Financial Statements (continued)

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 \$69,483,000 and \$57,580,000 for the years ended June 30, 2024 and 2023, respectively.

5. Receivables From AHCCCS for Medical Education

During the years ended June 30, 2024 and 2023, the District entered into intergovernmental agreements with AHCCCS such that AHCCCS provided available medical education funds from the Centers for Medicare & Medicaid Services (CMS). At June 30, 2024 and 2023, available funds from CMS for medical education totaled approximately \$79,522,000 and \$66,022,000, respectively. At June 30, 2024 and 2023, the amount due to the District is approximately \$54,607,000, which is net of the \$24,915,000 matching funds to be provided by the District, and \$49,895,000, which is net of the \$16,127,000 matching funds provided by the District, respectively.

6. Other Receivables

At June 30, 2024 and 2023, significant components of other receivables included amounts due from third party payors, such as:

	2024	2023
Retail pharmacy accounts receivable	\$ 553,000	\$ 2,263,000
340B program	3,174,000	1,407,000
Home Assist Health	4,000	700,000
Grants receivable	10,152,000	5,739,000
Other	19,612,000	7,154,000
Total other receivables	\$ 33,495,000	\$ 17,263,000

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

Notes to Financial Statements (continued)

7. Capital Assets

Capital assets activity for the year ended June 30, 2024, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction-in-progress	\$ 444,437,397	\$ 126,343,848	\$ –	\$ (532,492,233)	\$ 38,289,012
Capitalized software-in-progress	330,119	–	–	–	330,119
Land	35,325,278	–	(370,000)	83,543	35,038,821
Capital assets being depreciated:					
Buildings and leasehold improvements	461,923,892	108,927	(35,052,943)	498,450,076	925,429,952
Capitalized software	49,516,241	–	(49,494,532)	–	21,709
Equipment	249,985,018	–	(116,902,959)	33,958,614	167,040,673
Total capital assets	<u>1,241,517,945</u>	<u>126,452,775</u>	<u>(201,820,434)</u>	<u>–</u>	<u>1,166,150,286</u>
Accumulated depreciation	<u>444,921,791</u>	<u>59,374,902</u>	<u>(201,450,434)</u>	<u>–</u>	<u>302,846,259</u>
Capital assets, net	<u>\$ 796,596,154</u>	<u>\$ 67,077,873</u>	<u>\$ (370,000)</u>	<u>\$ –</u>	<u>\$ 863,304,027</u>

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	<u>1,112,184,045</u>	<u>129,623,900</u>	<u>(290,000)</u>	<u>–</u>	<u>1,241,517,945</u>
Accumulated depreciation	<u>389,000,233</u>	<u>55,921,558</u>	<u>–</u>	<u>–</u>	<u>444,921,791</u>
Capital assets, net	<u>\$ 723,183,812</u>	<u>\$ 73,702,342</u>	<u>\$ (290,000)</u>	<u>\$ –</u>	<u>\$ 796,596,154</u>

The District recognized \$1,548,000 and \$10,484,000 in accelerated depreciation expenses during the years ended June 30, 2024 and 2023, respectively, achieving full depreciation on the former or legacy medical center, administration building and physician office building. On June 13, 2024, all patients were transferred from the former or legacy hospital tower to the new hospital tower. The legacy medical center was closed the following day and is in process of decommissioning.

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

Notes to Financial Statements (continued)

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 \$14,388,000 and \$14,299,000, of which \$353,000 and \$514,000 has been recorded as a current liability and approximately \$14,035,000 and \$13,785,000 has been recorded as a noncurrent liability on the accompanying statements of net position as of June 30, 2024 and 2023, respectively. Risk claims payable are undiscounted.

As of June 30, 2024, the District maintained commercial insurance as follows:

<u>Insurance</u>	<u>Limits</u>	<u>Self-Insured Retention/Deductible</u>
Workers' compensation	Statutory	\$500,000 each claim
Medical malpractice	\$15,000,000 each incident – first layer	\$2,000,000 each incident
	Additional \$15,000,000 – second excess layer	Additional \$2,000,000 one
	Additional \$10,000,000 – third excess layer	claim layer buffer
	Additional \$10,000,000 – fourth excess layer	

The insurance policies listed above became effective December 1, 2012, and remain current through June 30, 2024.

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

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 14,298,714	\$ 13,065,547
Total incurred	6,752,031	6,926,933
Total paid	(6,662,532)	(5,693,766)
Ending balance	<u>\$ 14,388,213</u>	<u>\$ 14,298,714</u>

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

Notes to Financial Statements (continued)

9. Other Current Liabilities

At June 30, 2024 and 2023, significant components of other current liabilities included amounts such as:

	2024	2023
Interest payable	\$ 13,917,000	\$ 14,570,000
Deferred revenue – Grants & Research	9,669,000	21,829,000
Deferred revenue – Foundation	24,958,000	21,873,000
Other current liabilities	105,532,000	26,517,000
Total other current liabilities	\$ 154,076,000	\$ 84,789,000

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, 2024 and 2023. 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 years ended June 30, 2024 and 2023.

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
2024					
General obligation bonds, series C	\$ 403,053,806	\$ –	\$ (19,635,093)	\$ 383,418,713	\$ 16,935,000
General obligation bonds, series D	263,822,472	–	(17,581,679)	246,240,792	13,135,000
Total long-term debt	\$ 666,876,278	\$ –	\$ (37,216,772)	\$ 629,659,506	\$ 30,070,000
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

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

Notes to Financial Statements (continued)

10. Long-Term Debt (continued)

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, 2024, 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.

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, 2024.

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

Notes to Financial Statements (continued)

10. Long-Term Debt (continued)

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, 2024 and 2023.

Scheduled maturities of long-term debt, excluding a net premium of \$55,454,506 as of June 30, 2024, for the years ending June 30 are as follows:

	General Obligation Bonds	
	Principal	Interest
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	36,550,000	20,440,100
2030–2034	212,075,000	72,155,875
2035–2039	195,975,000	18,996,250
	\$ 574,205,000	\$ 210,363,000

11. Restricted Net Position (Restated)

Restricted net position at June 30, 2024 and 2023, consists of bond funds expected to be expended for specific purposes as defined in the bond agreement, in the amount of approximately \$77,019,000 and \$166,504,000, respectively.

As disclosed in Note 1, Net Position (Restated), amounts previously classified as restricted for grants have been reclassified to unrestricted deficit as of June 30, 2023.

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

Notes to Financial Statements (continued)

12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (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, 2024 and 2023, active plan members, including the District, were required by statute to contribute at the actuarially determined rate of 12.29% (12.03% retirement, 0.11% health benefit supplement, and 0.15% long-term disability) and 12.17% (11.92% retirement, 0.11% health benefit supplement, and 0.14% long-term disability), respectively, of the members' annual covered payroll.

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

Notes to Financial Statements (continued)

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

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

Notes to Financial Statements (continued)

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

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

At June 30, 2024, the District reported a liability of approximately \$358,171,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2022, and was rolled forward using generally accepted actuarial procedures to June 30, 2023. 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, 2023, the District's proportion was 2.21%, which represents a slight change from its proportion measured as of June 30, 2022.

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, 2024, the District reported a net (asset) of approximately (\$11,871,000) for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2023. The total amount used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022, and was rolled forward using generally accepted actuarial procedures to June 30, 2023. 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, 2023 and 2022, the District's proportion was 2.25% and 2.30%, respectively.

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

Notes to Financial Statements (continued)

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

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.

Within employee benefits, the District recorded pension expense of \$44,029,000 and \$47,306,000 for the years ended June 30, 2024 and 2023, respectively. At June 30, 2024, 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	\$ 33,660,989	\$ –
Differences between expected and actual experience	8,093,245	–
Changes in assumptions	–	–
Difference between projected and actual investment earnings	–	(12,672,416)
Change in proportion and differences between employer contributions and proportionate share of contributions	–	(5,144,614)
Total	\$ 41,754,234	\$ (17,817,030)

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

Notes to Financial Statements (continued)

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

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)

Of the amount reported as deferred outflows of resources as of June 30, 2024, \$757,546 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, 2024. 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:	
2025	\$ (4,810,209)
2026	(16,995,947)
2027	13,657,118
2028	(1,574,747)

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

Notes to Financial Statements (continued)

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

Within employee benefits, the District recorded OPEB (benefit) of (\$1,137,273) for the year ended June 30, 2024. At June 30, 2024, 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	\$ 757,546	\$ –
Differences between expected and actual expenses	775,891	(4,699,360)
Changes in assumptions	76,773	(665,488)
Difference between projected and actual investments earnings	–	(557,476)
Change in proportion and differences between employer contributions and proportionate share of contributions	172,028	(39,485)
Total	\$ 1,782,238	\$ (5,961,809)

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)

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

Notes to Financial Statements (continued)

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

Of the amount reported as deferred outflows of resources, (\$1,137,000) 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, 2023. 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:	
2025	\$ (2,030,072)
2026	(2,277,587)
2027	(248,520)
2028	(331,165)
2029	(32,671)
Thereafter	(17,102)

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

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

Notes to Financial Statements (continued)

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

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 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.

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

Notes to Financial Statements (continued)

**12. Pension Plan and Other Post Employment Benefit (OPEB) Liabilities (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, 2023, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	44%	1.54%
Credit	23	1.36
Real Estate	17	1.00
Private Equity	10	0.67
Interest Rate Sensitive	6	0.09
Total	<u>100%</u>	<u>4.66%</u>

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	<u>100%</u>	<u>4.19%</u>

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

Notes to Financial Statements (continued)

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

Discount Rate

The discount rate used to measure the overall pension liability as of June 30, 2024 and 2023, was 7.0%, and the OPEB (asset) as of June 30, 2024 and 2023, 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).

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, 2024, 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	\$ 536,488,197	\$ 358,171,429	\$ 209,486,789

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

Notes to Financial Statements (continued)

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

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 OPEB (asset) reported at June 30, 2024, 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)	\$ (8,075,499)	\$ (11,871,379)	\$ (15,115,047)

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)

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.

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

Notes to Financial Statements (continued)

13. Commitments and Contingencies

Leases

Right To Use Asset

The following is a summary of right-to-use assets for the District for the years ended June 30:

	Beginning Balance	Additions	Reductions	Ending Balance
2024				
Right to use asset	\$ 7,521,419	\$ 23,711,198	\$ (6,229,407)	\$ 25,003,210
2023				
Right to use asset	\$ 6,877,009	\$ 1,872,341	\$ (1,227,931)	\$ 7,521,419

Lease Liability

The following is a summary of lease liabilities for the District for the years ended June 30:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2024					
Lease liability	\$ 7,521,419	\$ 22,957,664	\$ (4,869,241)	\$ 25,609,842	\$ 6,568,725
2023					
Lease liability	\$ 6,877,009	\$ 1,872,341	\$ (1,227,931)	\$ 7,521,419	\$ 2,516,402

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

Notes to Financial Statements (continued)

13. Commitments and Contingencies (continued)

The following is a schedule, by year, of future minimum lease payments including interest at varying rates as of June 30, 2024:

	Principle	Interest
Year ending June 30:		
2025	\$ 6,568,725	\$ 1,006,458
2026	6,229,407	710,566
2027	5,522,845	435,764
2028	4,719,620	214,203
2029	2,329,856	39,906
2030-2031	239,389	10,611
	\$ 25,609,842	\$ 2,417,509

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.

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

Notes to Financial Statements (continued)

14. Safety Net Funding

The District is the principal safety-net provider for Maricopa County. Additionally, as the District is a Level I trauma center and home to the Arizona Burn Center, the primary burn center in the state, it also has patient volumes from outside of Maricopa County. The District's payor mix is heavily influenced by care to Medicaid, Medicare, uninsured and other governmental payor populations. In addition to Net Patient Service Revenue as described in Note 1, the financing of the District's care for this critical population is provided through these key sources:

- When Maricopa County voters approved the creation of the Special Health Care District in the November 2003 election, the approval included authority to impose a secondary property tax. This property tax revenue can be used to pay for any operating costs. In November 2020, this property tax was approved by the voters through the passage of Proposition 449. For fiscal years 2024 and 2023, the District Board of Directors approved this levy for \$100,651,000 and \$96,225,000, respectively. This levy requires annual approval by the District's Board of Directors.
- In March 2024, CMS approved Arizona's proposal for a delivery system and provider payment initiative under Medicaid managed care plan contracts which directly benefits the District as the only eligible provider. This program, titled Safety Net Services Initiative (SNSI), provides a uniform increase for services provided by the eligible public safety net hospital established by the state for the federal fiscal year October 2023 through September 2024, incorporated into the capitation rates through a separate payment term. Under an agreement with AHCCCS, the District contributes funds to be used by the state in the Medicaid program that are then supplemented by federal funds, the aggregate of which are often referred to as the consolidation dollars. The consolidation dollars are returned to the District as additional Medicaid reimbursement net of the required state Premium tax of 2%. The Premium tax is imposed pursuant to ARS 36-2905 and ARS 36-2944.01, and also included in AHCCCS Rule 304 on Premium Tax Reporting per the AHCCCS Contractor Operations Manual. These require the Premium tax on reimbursement to an AHCCCS Managed Care Organization (MCO) Contractor to be paid to the Arizona Department of Insurance and Financial Institutions. The net annual amount was paid to the District by the MCOs for SNSI in June 2024 for federal fiscal year 2024 totaling \$280,731,000, \$210,548,000 of which was recorded as other revenue and \$70,183,000 was recorded as deferred revenue within other current liabilities.

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

Notes to Financial Statements (continued)

14. Safety Net Funding (continued)

- In response to the 2020 enactment into law of HB2668, AHCCCS established the Health Care Investment Fund (HCIF). HCIF expanded the existing Hospital Assessment Fund (HAF) assessment that had been created to finance the non-federal share of Medicaid coverage for the Proposition 204 (Childless Adults). Since October 2020, HCIF has funded the non-federal share of the state directed payment for hospital under Medicaid managed care, called the HEALTHII payment program, along with other programs. The HCIF assessment revenue, when matched with federal funds, results in hospitals receiving quarterly directed payments named Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII). Starting in federal fiscal year 2023, the Public Acute Hospital assessment class, of which the District is the only member, is exempt from the from both HCIF and HAF assessments. In fiscal year 2024 and 2023, the District received \$37,268,000 and \$33,661,000 in HEALTHII payments, respectively.
- Medicaid disproportionate share hospital (DSH) payments are statutorily required payments to hospitals that serve a high share of Medicaid and low-income patients. DSH payments cannot exceed the hospitals' uncompensated care costs for both Medicaid-enrolled and uninsured patients. Certified Public Expenditures (CPE) are public hospital funds spent on Medicaid items or services that are eligible for federal matching funds in claiming Federal Financial Participation (FFP) for DSH payments. The District's CPE has historically allowed for annual DSH funds which are distributed as per state law with a maximum of \$4,202,300 to be distributed to the District and the remainder to the state general fund. In fiscal year 2023, \$4,202,300 of these DSH funds were distributed the District. Due to the AHCCCS funding to the District under the new SNSI state directed payment program, there wasn't eligible CPE for fiscal year 2024, so no DSH funds were to be distributed to the District for this fiscal year.

The SNSI and HEALTHII programs require annual approval by CMS. While AHCCCS has submitted to CMS for approval of these programs for federal fiscal year 2025, there can be no assurance that the specific funding levels associated with the District's future participation in these programs will be maintained at or near historical levels, or that the programs will not be ultimately be discontinued or materially modified.

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

Notes to Financial Statements (continued)

15. Related-Party Transactions

During the years ended June 30, 2024 and 2023, net patient service revenues included approximately \$4,193,000 and \$3,776,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately \$6,844,000 and \$8,704,000, respectively, in grant funds from the Maricopa County Department of Public Health.

During the years ended June 30, 2024 and 2023, nonoperating revenues included approximately \$1,327,000 and \$334,000 in payments received from Maricopa County Industrial Development Authority (MCIDA) for program support in the District's Simulation and Training Center in fiscal years 2024 and 2023, respectively.

16. Subsequent Events

Effective July 1, 2024, 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 \$100,651,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2024, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$16,195,000 and \$15,260,000 for the fifth year principal and interest debt service, respectively, related to the \$422,125,000 third bond offering.

Effective July 1, 2024, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of \$12,557,000 and \$8,716,000 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*

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
District's proportion or the net pension liability	2.21%	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	\$ 358,171,429	\$ 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	\$ 293,206,501	\$ 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	122.16%	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	75.47%	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.

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*

	2024	2023	2022	2021	2020	2019	2018
District’s proportion or the net OPEB liability (asset)	2.25%	2.30%	2.31%	2.30%	2.17%	2.14%	2.14%
District’s proportionate share of the net OPEB liability (asset)	\$ (11,871,379)	\$ (12,635,048)	\$ (10,767,083)	\$ 116,339	\$ 812,445	\$ 347,486	\$ (361,250)
District’s covered payroll	\$ 293,206,501	\$ 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	-4.05%	-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)	129.62%	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

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 33,660,989	\$ 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
Contributions in relation to the contractually required contribution	<u>(33,660,989)</u>	<u>(33,719,162)</u>	<u>(32,711,475)</u>	<u>(29,724,443)</u>	<u>(28,321,667)</u>	<u>(25,950,721)</u>	<u>(22,402,719)</u>	<u>(22,259,196)</u>	<u>(21,387,917)</u>	<u>(21,690,643)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,898,981)</u>	<u>\$ (161,427)</u>	<u>\$ (294,201)</u>	<u>\$ 1,355,797</u>
District’s covered payroll	\$ 315,629,627	\$ 293,206,501	\$ 270,682,087	\$ 252,938,151	\$ 236,809,991	\$ 225,450,955	\$ 211,945,416	\$ 188,850,966	\$ 195,634,317	\$ 196,475,917
Contributions as a percentage of covered payroll	10.66%	11.68%	12.08%	11.75%	11.96%	11.51%	10.57%	10.78%	10.85%	10.89%

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

Schedule of Contributions – OPEB

Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 1,598,603	\$ 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
Contributions in relation to the contractually required contribution	(1,598,603)	(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)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 315,629,627	\$ 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
Contributions as a percentage of covered payroll	0.51%	0.26%	0.57%	0.54%	0.67%	0.62%	0.60%	0.70%	0.62%	0.71%

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, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements (collectively referred to as the “financial statements”), and have issued our report thereon dated January 31, 2025.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings as item 2024-001 that we consider to be a material weakness. We also identified a certain deficiency in internal control described in the

accompanying schedule of findings as item 2024-002 that we consider to be a significant deficiency.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and as described above. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

January 31, 2025

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

Schedule of Findings

For the Year Ended June 30, 2024

Finding 2024-001

Components of Net Position

Criteria:

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. We consider the following deficiency in the District's internal control to be a material weakness.

Condition:

We identified reclassification misstatements that required adjustments to the 2024 and 2023 financial statements. Within net position, the District reclassified \$34,627,098 and \$42,550,673 from restricted for grants to unrestricted net position as of June 30, 2024 and 2023, respectively, since unspent grant funds are recorded as a liability. Also, the District reclassified \$48,248,036 and \$46,551,483 from net investment in capital assets to unrestricted net position as of June 30, 2024 and 2023, respectively, related to cash to pay bonds that had been included in net investment in capital assets. The 2023 reclassification was considered a restatement of previously issued financial statements. There was no change to total net position as of June 30, 2023.

Cause:

There were insufficient internal controls relating to the classification of the components of net position, specifically related to what should be reported as restricted and unrestricted, and in net investment in capital assets in accordance with applicable reporting guidelines.

Effect or potential effect:

As of June 30, 2023, restricted net position was overstated, net investment in capital assets was overstated, and unrestricted net position. There was no impact to total net position as of June 30, 2023. Without sufficient internal controls, other classification errors could occur in the future.

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

Schedule of Findings (continued)

For the Year Ended June 30, 2024

Recommendation:

We recommend that additional review and approvals controls be implemented to ensure the completeness and accuracy of the classification of restricted, unrestricted, and net investments in capital assets net positions.

Views of responsible official:

To prevent these errors in classification in net position from occurring in the future, management will design and implement controls to ensure the District is reporting net position in accordance with Government Accounting Standards Board reporting guidance on an annual basis.

Finding 2024-002

Accumulated depreciation and depreciation expense

Criteria:

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. We consider the following deficiency in the District's internal control to be a significant deficiency.

Condition:

We identified an error in the amount of accumulated depreciation loaded into a new fixed asset system, which was lower than the amount of accumulated depreciation that had been in the old fixed asset system. While the new fixed asset system correctly calculated depreciation expense based on the cost and useful lives, the ending accumulated depreciation as of June 30, 2024 was understated from the loading error. The general ledger was trued up to the fixed asset system, resulting in an incorrect reduction of accumulated depreciation and depreciation expense of approximately \$15.7 million. This amount has been corrected in the financial statements as of June 30, 2024 and for the year then ended.

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

Schedule of Findings (continued)

For the Year Ended June 30, 2024

Cause:

There were insufficient internal controls relating to the loading of accumulated depreciation in the new fixed asset system.

Effect or potential effect:

As of June 30, 2024, accumulated depreciation and depreciation expense were understated. Without sufficient internal controls, other errors could occur in the future.

Recommendation:

We recommend that additional review and approvals controls be implemented to ensure the completeness and accuracy of amounts in the fixed asset system to ensure no future errors occur.

Views of responsible official:

To prevent these errors from occurring in the future, management will design and implement controls to ensure the District is validating the accuracy of information in the fixed asset system, including a lookback to the initially loaded balances.

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