Financial Statements and Schedules of Required Supplementary Information

Maricopa County Special Health Care District
d/b/a Maricopa Integrated Health System
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Financial Statements and Schedules of
Required Supplementary Information

Years Ended June 30, 2016 and 2015

Contents

Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
Suite 2300
2 North Central Avenue
Phoenix, AZ 85004

Tel: +1 602 322 3000
Fax: +1 602 322 3023
ey.com

Report of Independent Auditors

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

We have audited the accompanying financial statements of the business-type activities of the Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System at June 30, 2016 and 2015, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*

As discussed in Note 1 to the financial statements, the District changed its method for accounting and recording of pension liability and pension expense as a result of the adoption of the Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* effective July l, 2014. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–12, the Schedule of District's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 19, 2016, on our consideration of the Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, contracts, grant agreements, and other matters. The purpose of that report is 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 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 Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System's internal control over compliance.

Ernst & Young LLP

December 19, 2016

Management's Discussion and Analysis

Years Ended June 30, 2016 and 2015

This management's discussion and analysis of the operational and financial performance of Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District or MIHS) provides an overview of the District's major activities for the years ended June 30, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the District. The financial activities of the District for the years ended June 30, 2016 and 2015, includes Maricopa Health Plan (MHP) and Maricopa Care Advantage (MCA), both divisions of the District.

The financial challenges presented to MIHS due to federal and state budget changes that reduced reimbursement and eliminated safety net supplemental revenue programs for healthcare services these past few years have been substantial, threatening its long-term viability. Beginning in fiscal year 2015 and continuing throughout fiscal year 2016, MIHS embarked on an aggressive margin improvement initiative entitled "100-Day Work Outs." Every one hundred days, leaders across the company implemented eight margin improvement ideas for revenue and expense improvements, essentially making two changes every month. Slowly but surely, as changes were implemented and the financial impact of those changes was realized, the draw down on cash slowed and the operating losses lessened. Five "Work Outs" later, MIHS has improved its margin from operations by over $50 million through the end of fiscal year 2016. And yet, the work does not stop here. The proposed 2017 operating budget is another carefully placed milestone on what continues to be a multi-year journey to sustainability. The cadence of the margin improvement efforts will continue in fiscal 2017 as the organization drives towards the goal of closing the funding gap for its services.

During the year, MIHS undertook a broad strategic re-examination of the issues and opportunities related to MIHS's mission, vision, and strategic plan and the future plans related to the Proposition 480 Bond support. Included in this examination was the strategic and financial value of both Maricopa Health Plan and Maricopa Care Advantage and whether to retain or sale these assets. MIHS senior management and the District Board agreed that the sale or joint venture of the health plans needed to be explored and released a Request for Proposal (RFP) to gauge investor interest. MIHS received multiple qualified bids and the District Board unanimously voted on May 25th 2016 to recommend the award of the RFP to UnitedHealthcare Community Plan of Arizona. In October 2016, AHCCCS approved the sale and the transaction is expected to be final as of February 1, 2017. This sale provides an infusion of cash that will allow MIHS to continue its vital mission of serving as the healthcare safety net for citizens of Maricopa County while providing the cash needed for strategic investments to ensure that MIHS will remain an asset to our community.

Maricopa County voters in 2014 approved Proposition 480 by an overwhelming 63 to 37 percent margin to develop, improve and expand MIHS healthcare facilities for outpatient and behavioral health care throughout Maricopa County, and replace our outdated teaching hospital, Maricopa Medical Center. MIHS kicked off its Prop 480 Implementation Planning process in October 2015 with nationally recognized Navigant Healthcare consulting group. Since kick off, the Board and senior leadership have been working with Navigant to revisit key assumptions, assess community need, address operational realities, and incorporate industry dynamics

On September 28, 2016, the Maricopa County Special Health Care District Board of Directors set a roadmap for our organization’s future by receiving the final report resulting from the Proposition 480 implementation planning initiative. This plan will ensure our organization continues to be recognized for high quality care, innovation and service. It creates a better model of patient care and medical education that improves access, quality, cost and outcomes for patients and increases the supply of future healthcare professionals. Specifically, the vision of the plan allocates a greater share of system resources to grow primary and specialty care in underserved parts of Maricopa County and to deliver that care cost-effectively. Second, the plan calls for the expansion of behavioral health capacity to meet the glaring need in the community for more mental health and substance abuse services. Third, the plan calls for training the next generation of physicians, nurses and allied health professionals in response to an ongoing critical shortage of clinicians in Arizona. In total, the goal is to deliver more care outside the walls of the hospital and in the community, and to deploy new methods of clinical training that align accountability for that care with improved outcomes and reduced costs.

Other positive news this fiscal year:

- The Governor’s Office and AHCCCS made arrangements to draw down $80 million in additional federal funding for Graduate Medical Education in Arizona. Of that amount, MIHS received approximately $12 million of new money to help support our teaching mission.

- During the year, we celebrated the two-year anniversary of Mercy Maricopa Integrated Care (MMIC), the organization we co-sponsored and which received the Regional Behavioral Health Authority contract for managing the health needs of the seriously mentally ill in Maricopa County. MMIC continues to perform well financially with a positive financial result of $20.7 million for the fiscal year.

- MIHS participated in the annual on-site survey with Det Norske Veritas Healthcare, Inc. (DNV) for review of our compliance with the Centers for Medicaid and Medicare (CMS) conditions for participation as a hospital in the United States. The DNV accreditation process provides MIHS the opportunity to demonstrate to the public that we meet or exceed the standards set forth in the CMS Conditions of Participation. This is the gold standard by which hospitals and health systems are evaluated and accreditation is also a requirement for receipt of Medicare and Medicaid funding. The survey team recommended DNV re-accreditation.

- The Trauma Center at Maricopa Integrated Health System has been re-verified by the American College of Surgeons (ACS), making it the only trauma center in Arizona with ACS verification in both pediatric and adult trauma care. The ACS Committee on Trauma extended the center's re-verification as a Level I Adult and Level II Pediatric Trauma Center until 2017. A Level I designation is the highest level any trauma program in the country can achieve.

- In March 2014, the District underwent a rigorous on-site survey conducted by the State OSHA survey team to validate our application as a VPP Star Site. After the survey, OSHA announced that MIHS at the time was Arizona's 36th OSHA VPP STAR Site and the first health care system in Arizona to achieve this prestigious honor. In May 2016, MIHS was surveyed and received a three-year extension of MIHS' VPP STAR designation. MIHS continues to be the only health system in Arizona to achieve this status.

- To help remedy a county wide shortage of inpatient psychiatric care beds and as part of MIHS' ongoing commitment to provide Maricopa County with access to high-quality behavioral health care, MIHS opened 14 additional beds at the Behavioral Health Annex in April of 2016, bringing the total inpatient psych capacity (Desert Vista and Annex combined) to 219 beds.

- MIHS collaborated with MMIC to develop three new outpatient behavioral health programs across MIHS including opening the Family Psycho-Education program at South Central FHC for the family members and significant others of MMIC clients with SMI (serious mental illness), establishing an Assertive Community Treatment team at Desert Vista to serve 100 SMI individuals living in the community and beginning construction of the Early Psychosis Intervention Program at the Pendergast Community Center for treating young people who have been newly diagnosed with schizophrenia or a related psychotic illness.

Overview of the Financial Statements

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

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

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

The District's Net Position

The District's net position represents the difference between its assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported in the statements of net position. The District's net position at June 30, 2016, 2015, and 2014, was $(6,785,529), $(37,102,719), and $361,348,108, respectively, as shown in Table 1.

Table 1: Assets, Deferred outflows of resources, Liabilities, Deferred inflows of resources, and Net position

	June 30 2016	June 30 2015	June 30 2014
Assets			
Current assets	$ 304,058,423	$ 216,851,885	$ 238,913,145
Other assets	75,265,320	10,000,000	10,940,631
Capital assets	211,250,614	226,518,267	248,641,826
Total assets	590,574,357	453,370,152	498,495,602
Deferred outflows of resources	31,497,747	39,764,781	–
Liabilities			
Current liabilities	$ 149,017,950	$ 98,756,762	$ 104,036,818
Long-term debt	81,182,903	15,409,250	20,170,873
Risk claims payable, less current portion	11,861,124	10,873,379	9,375,832
Net pension liability	334,641,881	332,820,645	–
Other long-term liabilities	9,702,936	9,532,058	3,563,971
Total liabilities	586,406,794	467,392,094	137,147,494
Deferred inflows of resources	42,450,839	62,845,558	–
Net position			
Unrestricted (deficit)	$ (262,587,862)	$ (256,551,374)	$ 120,296,779
Net investment in capital assets	156,217,475	217,161,526	239,873,020
Restricted for bonds	97,249,748	–	–
Restricted for grants	2,335,110	2,287,129	1,178,309
Total net position	(6,785,529)	(37,102,719)	361,348,108

The District's significant assets as of June 30, 2016, 2015, and 2014, were cash, patient accounts receivable, receivables from AHCCCS, receivables from others, and capital assets.

Operating Results and Changes in the District's Net Position

For the years ended June 30, 2016, 2015, and 2014, the District's net position increased by $30,317,190, decreased by $(39,581,107), and decreased by $(24,779,078), respectively, as shown in Table 2. These are made up of several different components, as shown in the following table. In addition, the adoption of GASB 68 decreased beginning net position as of July 1, 2014, by $(358,869,720). GASB 68 was not practical to implement for periods prior to July 1, 2014.

Table 2: Operating Results and Changes in Net Position

	June 30 2016	2015	2014
Operating revenues			
Net patient service revenue	$ 332,646,409	$ 287,962,633	$ 296,667,780
Capitation and reinsurance	333,340,936	286,748,678	210,756,454
AHCCCS medical education revenue	39,611,993	24,569,661	21,793,915
Safety net care pool revenue	–	2,317,701	52,786,667
Other	16,533,568	41,626,068	41,970,031
Total operating revenues	722,132,906	643,224,741	623,974,847
Operating expenses			
Salaries and wages	216,324,713	215,657,871	232,285,866
Employee benefits	55,407,012	62,049,406	66,018,599
Purchased services	126,799,535	128,392,524	124,218,172
Medical claims	264,163,953	219,178,891	159,592,558
Supplies and other expenses	111,206,947	106,420,019	110,527,711
Depreciation	26,894,751	28,181,478	25,878,166
Total operating expenses	800,796,911	759,880,189	718,521,072
Operating loss	(78,664,005)	(116,655,448)	(94,546,225)
Nonoperating revenues (expenses)			
Property tax receipts	102,773,760	65,822,329	62,499,144
Noncapital grants	8,200,503	7,957,019	7,191,220
Noncapital subsidies from State/County	3,547,896	5,000,000	2,069,606
Other nonoperating expense	(3,358,337)	(1,450,603)	(1,672,622)
Interest income	543,981	236,534	373,475
Interest expense	(2,726,608)	(490,938)	(693,676)
Total nonoperating revenues	108,981,195	77,074,341	69,767,147
Increase (decrease) in net position before capital contribution	30,317,190	(39,581,107)	(24,779,078)
Capital contribution	–	–	114,477,949
Increase (decrease) in net position	30,317,190	(39,581,107)	89,698,871
Net position, beginning of year	(37,102,719)	2,478,388	271,649,237
Net position, end of year	$ (6,785,529)	$ (37,102,719)	$ 361,348,108

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss – generally, the difference between total operating revenues and total operating expenses incurred to perform those services. Net patient service revenues for the year ended June 30, 2016, was $332,646,409, which includes both inpatient and outpatient services provided to patients. Provision for uncollectible accounts (bad debt expense) is a component of net patient service revenue. In addition to net patient service revenue, the District received capitation and supplemental revenue from its health plan operations of $333,340,936 based on total member months of 1,021,163.

Other operating revenues included six significant sources of income during the year ended June 30, 2016: (1) the receipt of $4,202,300 of AHCCCS and Medicare disproportionate share funding to assist in providing sufficient resources to offset some of the costs to the facility of serving lower income and other residents of the County, (2) the receipt of $39,611,993 from AHCCCS for medical education support, and (3) the receipt of $2,825,020 from AHCCCS for trauma services. The operating losses for the years ended June 30, 2016, 2015, and 2014, were $78,664,005, $116,655,448, and $94,546,225, respectively. The primary components of the operating losses for June 30, 2016, 2015, and 2014, were as follows:

- Net patient service revenue of $332,646,409, $287,962,633, and $296,667,780, respectively
- Bad debt expense of $73,625,191, $68,903,242, and $48,589,630, respectively
- Capitation and reinsurance revenue of $333,340,936, $286,748,678, and $210,756,454, respectively
- Salaries and wages of $216,324,713, $215,657,871, and $232,285,866, respectively
- Employee benefit costs of $55,407,012, $62,049,406, and $66,018,599, respectively
- Purchased services of $126,799,535, $128,392,524, and $124,218,172, respectively
- Payments for medical services provided to patients of $264,163,953, $219,178,891, and $159,592,558, respectively

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 for the years ended June 30, 2016 and 2015, were $67,273,204 and $65,822,329; $35,500,556 and $0, respectively. Also included in nonoperating revenues are noncapital grants, and noncapital subsidies from the County/State. These amounts for the years ended June 30, 2016 and 2015, were $8,200,503 and $7,957,019; and $3,547,896 and $5,000,000; respectively. Nonoperating revenues and expenses consisting primarily of property tax receipts, noncapital grants, and noncapital subsidies from the County. These amounts for the year ended June 30, 2014, were $62,499,144, $7,191,200, and $2,069,606, respectively.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses discussed earlier. Net cash used in operating activities for the years ended June 30, 2016, 2015, and 2014, was $(73,134,142), $(84,747,317), and $(63,288,932), respectively.

Capital Assets

As of June 30, 2016, the District had $211,250,614 invested in capital assets, net of accumulated depreciation which includes the capital contribution from Maricopa County. For the years ended June 30, 2016, 2015, and 2014, the District purchased new property and equipment costing $11,273,511, $8,534,006, and $32,552,929, respectively.

Debt

As of June 30, 2016, the District had bonds payable of $106,000,000 after closing its first offering of general obligation bonds in August 2015. Bonds proceeds will be used to purchase various equipment and to fund various improvement projects on the District's existing acute, behavioral health facilities and outpatient health centers. A portion of the bond proceeds, $36,000,000, was used to reimburse the District's general fund for prior capital asset purchases. At June 30, 2016, 2015, and 2014, the District had notes payable to Maricopa County in the amount of $12,542,265, $15,433,000, and $15,433,000, respectively. For the years ended June 30, 2016, 2015, and 2014, the District had capital lease and other long-term obligations totaling $2,805,866, $4,702,383, and $7,850,712, respectively, to various other entities.

Contacting the District's Financial Management

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

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

Statements of Net Position

	June 30	
	2016	**2015**
Assets		
Current assets:		
Cash and cash equivalents	**$ 128,130,805**	$ 99,947,849
Restricted cash – bond	**36,178,414**	–
Patient accounts receivable, net of allowances of $76,571,000 (2016) and $54,791,000 (2015)	**64,332,592**	60,566,208
Receivable from AHCCCS for medical education (net)	**39,611,993**	24,569,662
Receivable from AHCCCS for health plan premiums	**9,646,308**	9,646,890
Other receivables	**11,441,192**	8,764,978
Due from related parties	**114,334**	246,105
Supplies	**7,010,417**	6,948,156
Prepaid expenses	**7,592,368**	6,162,037
Total current assets	**304,058,423**	216,851,885
Other assets:		
Other assets	**4,193,986**	–
Long-term investments	**10,000,000**	10,000,000
Restricted cash – bond	**61,071,334**	–
Total other assets	**75,265,320**	10,000,000
Capital assets:		
Land	**13,090,000**	13,090,000
Depreciable capital assets, net of accumulated depreciation	**198,160,614**	213,428,267
Total capital assets, net of accumulated depreciation	**211,250,614**	226,518,267
Total assets	**590,574,357**	453,370,152
Deferred outflows of resources		
Contributions made after measurement date	**22,366,096**	22,849,862
Experience loss	**9,131,651**	16,914,919
Total deferred outflows of resources	**$ 31,497,747**	$ 39,764,781

See accompanying notes.

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

Statements of Net Position (continued)

	June 30	
	2016	**2015**
Liabilities and net assets		
Current liabilities:		
Current maturities of long-term debt	**$ 40,165,228**	$ 4,726,133
Accounts payable	**26,322,155**	23,129,649
Accrued payroll and expenses	**22,139,941**	20,412,034
Medical claims payable	**27,511,730**	20,035,113
Risk claims payable – current	**3,750,613**	3,379,822
Payable to AHCCCS for health plan premiums	**6,629,727**	12,144,263
Overpayments due to third-party payors	**14,986,830**	11,028,010
Other current liabilities	**7,511,726**	3,901,738
Total current liabilities	**149,017,950**	98,756,762
Risk claims payable less current portion	**11,861,124**	10,873,379
Net pension liability	**334,641,881**	332,820,645
Other long term liabilities	**9,702,936**	9,532,058
Long-term debt	**81,182,903**	15,409,250
Total liabilities	**586,406,794**	467,392,094
Deferred inflows of resources		
Change in proportion and differences between employer contributions and proportionate share of contributions	**14,190,736**	4,645,503
Difference between projected and actual investment earnings	**10,724,531**	58,200,055
Difference between expected and actual experience	**17,535,572**	–
Total deferred inflows of resources	**42,450,839**	62,845,558
Net position:		
Unrestricted deficit	**(262,587,862)**	(256,551,374)
Net investment in capital assets	**156,217,475**	217,161,526
Restricted for bonds	**97,249,748**	–
Restricted for grants	**2,335,110**	2,287,129
Total net position	**$ (6,785,529)**	$ (37,102,719)

See accompanying notes.

1608-2033133

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

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30	
	2016	**2015**
Operating revenues:		
Net patient service revenue, net of provision for uncollectible accounts of $73,625,000 (2016) and $68,903,000 (2015)	**$ 332,646,409**	$ 287,962,633
Capitation and reinsurance	**333,340,936**	286,748,678
AHCCCS medical education revenue	**39,611,993**	24,569,661
Safety net care pool revenue	**–**	2,317,701
Other	**16,533,568**	41,626,068
Total operating revenues	**722,132,906**	643,224,741
Operating expenses:		
Salaries and wages	**216,324,713**	215,657,871
Employee benefits	**55,407,012**	62,049,406
Purchased services	**126,799,535**	128,392,524
Medical claims	**264,163,953**	219,178,891
Supplies and other expenses	**111,206,947**	106,420,019
Depreciation	**26,894,751**	28,181,478
Total operating expenses	**800,796,911**	759,880,189
Operating loss	**(78,664,005)**	(116,655,448)
Nonoperating revenues (expenses):		
Property tax receipts	**102,773,760**	65,822,329
Noncapital grants	**8,200,503**	7,957,019
Noncapital subsidies from State/County	**3,547,896**	5,000,000
Other nonoperating expenses	**(3,358,337)**	(1,450,603)
Interest income	**543,981**	236,534
Interest expense	**(2,726,608)**	(490,938)
Total nonoperating revenues	**108,981,195**	77,074,341
Increase (decrease) in net position	**30,317,190**	(39,581,107)
Net position, beginning of year	**(37,102,719)**	2,478,388
Net deficit, end of year	**$ (6,785,529)**	$ (37,102,719)

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2016	**2015**
Operating activities		
Receipts from and on behalf of patients	**$ 662,220,961**	$ 568,841,410
Payments to suppliers and contractors	**(497,149,904)**	(440,412,510)
Payments to employees	**(269,520,053)**	(281,310,303)
Other operating receipts	**41,934,191**	71,223,139
Other operating payments	**(10,619,337)**	(3,089,053)
Net cash used in operating activities	**(73,134,142)**	(84,747,317)
Noncapital financing activities		
Property tax receipts supporting operations	**67,273,204**	65,822,329
Noncapital contributions and grants received	**8,200,503**	7,957,019
Noncapital subsidies and other nonoperating receipts	**189,560**	3,549,397
Net cash provided by noncapital financing activities	**75,663,267**	77,328,745
Capital and related financing activities		
Property tax receipts for debt service	**35,500,556**	–
Principal payments on long-term debt and capital leases	**(4,787,252)**	(3,148,328)
Purchase of capital assets	**(11,627,098)**	(6,057,919)
Bond proceeds	**106,000,000**	–
Interest paid on long-term debt	**(2,726,608)**	(490,938)
Net cash provided by (used in) capital and related financing activities	**122,359,598**	(9,697,185)
Investing activities		
Purchases of short-term investments, net	**–**	(5,000,000)
Interest from short-term investments	**543,981**	236,534
Net cash provided by (used in) investing activities	**543,981**	(4,763,466)
Increase (decrease) in cash and cash equivalents	**125,432,704**	(21,879,223)
Cash and cash equivalents, beginning of year	**99,947,849**	121,827,072
Cash and cash equivalents, end of year	**$ 225,380,553**	$ 99,947,849

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

Statements of Cash Flows (continued)

	Year Ended June 30	
	2016	**2015**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (78,664,005)**	$ (116,655,448)
Depreciation	**26,894,751**	28,181,478
Provision for uncollectible accounts	**73,625,191**	68,903,242
Changes in operating assets and liabilities:		
Patient, other accounts receivable, and other assets	**(99,303,524)**	(63,587,641)
Due from related parties	**131,771**	86,535
Supplies and prepaid expenses	**(1,492,592)**	720,532
Estimated amounts due from/to third-party payors	**3,958,820**	(4,321,116)
Medical claims payable	**7,476,617**	(2,639,193)
Risk claims payable	**1,358,536**	(1,527,631)
Accounts payable and accrued expenses	**(7,119,707)**	6,091,925
Net cash used in operating activities	**$ (73,134,142)**	$ (84,747,317)

See accompanying notes.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

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

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

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

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

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

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

Effective October 1, 2005, the District assumed the operations and financial responsibility for the Maricopa Health Plan (MHP), a managed care plan previously operated by the County. MHP contracts with the Arizona Health Care Cost Containment System (AHCCCS) to arrange and provide health care services to Medicaid-eligible clients. In March 2013, MHP was awarded a new five-year contract with AHCCCS to operate MHP through September 30, 2018. This contract must be approved by AHCCCS on a year-to-year basis. MIHS has a management agreement with University Physicians Healthcare (UPH) to provide day-to-day management of MHP, including providing all employees and infrastructure necessary to operate MHP. MHP is an operating division of the District. (See Note 17).

The AHCCCS contract awarded to MHP in March 2013 required that each successful contractor establish a Medicare Advantage Coordinated Care Plan. In September 2013, the Centers for Medicare and Medicaid Services (CMS) approved a contract with the District to operate Maricopa Care Advantage (MCA) for one year effective January 1, 2014, with renewals for successive one-year periods in accordance with the terms of the agreement. MIHS amended its management agreement with University Physicians Healthcare (UPH) to provide day-to-day management of MCA, including providing all employees and infrastructure necessary to operate MCA. MCA is a contract of the District. (See Note 17).

In April 2014, Mercy Maricopa Integrated Care (MMIC) began operations. MMIC was formed to respond to a legal solicitation issued jointly by the Arizona Department of Health Services (ADHS) and AHCCCS. The purpose of the solicitation was to award a contract to the successful bidder to become the Maricopa County Regional Behavioral Health Authority (RBHA). The RBHA will provide integrated health care services, both medical and behavioral health, to Medicaid eligible adults with serious mental illnesses. ADHS awarded the contract to MMIC on March 25, 2013. The District retains a 15% ownership in the venture and has a 25% representation on the governing body. Under the MMIC bylaws approved in final form on September 9, 2013, the District will be one of the four members entitled to vote for MMIC's directors. The District's initial capital contribution to MMIC of $5,000,000 is accounted for under the cost method of accounting. An additional capital contribution of $5,000,000 was made by the District in May 2015.

The District primarily earns revenues by providing inpatient and outpatient medical and nursing services and operating a managed care plan for Medicaid-eligible patients.

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

Basis of Accounting and Presentation

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board. 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 program-specific, government-mandated, non-exchange transactions. Government-mandated, non-exchange transactions that are not program-specific (such as appropriations from the County); investment income; and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents

For purposes of the statement of cash flow, the District considers all liquid investments including restricted assets with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, the District had approximately $225,381,000 and $99,948,000 of cash and cash equivalents, respectively.

Restricted Cash

Restricted cash includes cash and cash equivalents that are restricted for use and includes approximately $36,178,000 of tax proceeds restricted for debt service on the general obligation bonds and approximately $61,071,000 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. (See Note 11).

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

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries; medical malpractice and natural disasters. The District participated in the County's self-insurance program through December 3, 2012. The IGA between the District and County was amended to reflect that the District would no longer participate in the County's self-insurance program effective December 4, 2012, except for workers' compensation claims. The 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.

MHP receives insurance coverage from the state of Arizona to reduce the risk of catastrophic loss on services provided under the AHCCCS program. The reinsurance expense is reflected as reduced capitation rates paid to MHP. Under the state program, risk of loss from inpatient claims is generally limited to an annual deductible of $20,000 per member, per policy year. Eligible claims in excess of the deductible are generally paid at 75% to 85%, with no maximum annual benefit. Eligible reinsurance claims are reported as a reduction of health care expenses at the amount expected to be collected from AHCCCS.

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. As a service to the patient, 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 as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

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

Capital Assets

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

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

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

Compensated Absences

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

Net Position

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

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

Net position at July 1, 2014, has been adjusted as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions:*

Net position – June 30, 2014, as previously reported	$ 361,348,108
Prior period adjustments – Implementation of GASB 68	
Net pension liability (measurement date of June 30, 2013)	(380,564,936)
Deferred outflow of resources for contributions made after measurement date	21,695,216
Net position – July 1, 2014, as restated	$ 2,478,388

It was not practical to implement GASB 68 for periods prior to July 1, 2014 because the District could not obtain information from Arizona State Retirement System (ASRS) prior to the measurement date of July 1, 2013 that was used to implement this standard at transition.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known. The District participates in the Federally Qualified Health Center (FQHC) program and receives supplemental payments from AHCCCS. The payments are made based on information filed with AHCCCS on the Annual Reconciliation and Rebase Data (ARRD) report. The District recognized a $1,168,000 decrease in total operating revenue in 2015 based on additional information received upon filing the 2014 ARRD report. The District is waiting from a response from AHCCCS in regards to the 2015 ARRD filing.

Other Health Plan Receivables From AHCCCS

Capitation revenues include premiums earned under contracts that require MHP to provide health care services to subscribers of AHCCCS for monthly capitation fees as agreed upon by MHP and AHCCCS. Capitation revenues are recognized as revenue in the period to which health care

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

coverage relates. Amounts receivable under these contracts are recorded as other health plan receivables from AHCCCS. Capitation rates for nonreconciled risk groups are subject to adjustment based on national episodic/diagnostic risk. As such, there is at least a possibility that recorded amounts will change by a material amount in the near term.

Receivable from AHCCCS for health plan premiums represents management's best estimate of amounts to be received and are calculated based on the identification of qualifying incurred inpatient expenses and a percentage of estimated inpatient and certain pharmaceutical costs incurred but not yet reported. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Medical Claims Payable

The costs of hospital and medical services provided to enrollees served under contract are accrued in the period that the services are rendered. Provision has been made for claims in process of review and for claims incurred but not received at year-end. The amount of this liability is computed by an independent actuary using historical claims payment experience, coupled with a review of experience for similar plans. Estimates are adjusted based upon changes in experience, and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term. Management believes that the medical claims payable is adequate. (See Note 9).

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 income in relation to the federal poverty guideline and type of service rendered.

The total net cost of charity care provided was approximately $41,421,000 and $58,102,000 for the years ended June 30, 2016 and 2015, 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 $6,623,000 and $7,755,000 for the years ended June 30, 2016 and 2015, respectively.

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

Property Taxes

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

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

Proposition 480 allows the County to levy additional property taxes for principal and interest debt service related to general obligation bonds. (See Note 11).

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 under Section 115 of the Internal Revenue Code and a similar provision of state law.

Pensions

The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* effective July 1, 2014. The statement establishes standards for recognition, measurement, and presentation of pension information including pension liability, deferred outflows and inflows of resources, and expenses related to pension benefits.

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

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

New Accounting Pronouncement

The Government Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*, in February 2015. The standard provides guidance related to applying fair value to certain investments and disclosures related to fair value measurements. The standard was effective for the District as of July 1, 2015 and had no impact to the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions in GASB Statement 67 and 68* in June 2015. The standard provides clarification to guidance provided in GASB Statement 68. The standard was effective for the District as of July 1, 2015 and had no impact to the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* in December 2015. The standard provides guidance on accounting and financial reporting for investment pools and pool participants including establishing criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The standard is effective for the District as of July 1, 2016. The District is evaluating the impact of adopting the accounting standard.

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

2. Net Patient Service Revenue (continued)

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, 2014.

- Effective October 1, 2014, AHCCCS changed its payment arrangements to prospectively determined rates for inpatient acute services while inpatient psychiatric services remain paid on a per diem basis. Outpatient services rendered to AHCCCS program beneficiaries are primarily reimbursed under prospectively determined rates.

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

Approximately 62% and 61% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2016 and 2015, respectively. Laws and regulations governing the Medicare and AHCCCS programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Net patient service revenue increased by approximately $914,000 and decreased by $1,121,000 in 2016 and 2015, respectively, due to changes in estimates related to final settlements with the Medicare program and cost reports that are no longer subject to audits, reviews, or investigations.

3. AHCCCS Safety Net Care Pool

The District participated in the AHCCCS Safety Net Care Pool (SNCP) program that provides reimbursement to Safety Net Hospitals for uncompensated cost incurred in providing services to Medicaid and uninsured/underinsured patients. The District recognized $2,318,000 in additional AHCCCS Safety Net Care Pool revenue in 2015 based on preliminary reconciliation and additional information received related to actual uncompensated cost incurred to provide services

3. AHCCCS Safety Net Care Pool (continued)

related to 2014 and 2013, and subsequent interpretations of the program rules. The program was terminated by AHCCCS effective December 31, 2013. Amounts recorded under the SNCP program are subject to final settlement by AHCCCS and the District does not expect final settlement until fiscal 2017. The District has established a reserve for potential overpayment, totaling $1,317,000 at June 30, 2016. Upon final settlement, amounts previously recorded could change by material amounts. Management believes amounts recorded under the SNCP program are adequate.

4. Deposits and Interest Income

Custodial Credit Risk

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.

Effective July 1, 2013, the District contracted with JP Morgan Chase Bank to manage its banking and investment activities. The District maintains three primary depository accounts for the Medical Center, MHP, and MCA. A compensating balance is maintained in these accounts at a sufficient amount so that earnings on these accounts offset the fees charged for services. Any amounts above the compensating balance is swept daily overnight into a commercial paper investment account.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2016, the District's funds were held in cash and cash equivalents and carrying value equates to fair value.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligation. At June 30, 2016, the District's funds were held by JP Morgan Chase Bank. Its short-term rating for investments is A1 for S&P, P1 for Moody's and F1 for Fitch.

5. Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable consisted of the following at June 30:

	2016	2015
Medicare	**$ 13,677,857**	$ 15,602,179
AHCCCS	**29,054,844**	27,926,229
Other third-party payors	**58,474,092**	40,832,453
Patients	**39,697,117**	30,996,327
	140,903,910	115,357,188
Less allowance for uncollectible accounts	**76,571,318**	54,790,980
	$ 64,332,592	$ 60,566,208

6. Other Receivables

At June 30, 2016 and 2015, significant components of other receivables included amounts due from District Medical Group of approximately $2,300,000 and $3,300,000, respectively. Additional amounts receivable at June 30, 2016, include an amount receivable related to HomeAssist Health of approximately $2,002,000.

7. Receivables From AHCCCS for Medical Education

During the years ended June 30, 2016 and 2015, MIHS entered into an intergovernmental agreement with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2016 and 2015, available funds from CMS for medical education totaled approximately $57,571,000 and $36,051,000, respectively. At June 30, 2016 and 2015, the amount due to MIHS is approximately $39,612,000, which is net of the $17,959,000 matching funds provided by MIHS, and $24,570,000, which is net of the $11,481,000 matching funds provided by MIHS, respectively.

8. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	**$ 902,058**	**$ 11,789,774**	**$ –**	**$ (3,382,742)**	**$ 9,309,090**
Capitalized software in progress	**323,456**	**7,374**	**–**	**–**	**330,830**
Land	**13,090,000**	**–**	**–**	**–**	**13,090,000**
Capital assets being depreciated:					
Buildings and leasehold improvements	**197,595,323**	**–**	**–**	**1,356,498**	**198,951,821**
Capitalized software	**49,516,241**	**–**	**–**	**–**	**49,516,241**
Equipment	**120,428,193**	**–**	**(523,638)**	**2,026,244**	**121,930,799**
	381,855,271	**11,797,148**	**(523,638)**	**–**	**393,128,781**
Less accumulated depreciation:					
Buildings and leasehold improvements	**43,548,433**	**10,313,595**	**–**	**–**	**53,862,028**
Capitalized software	**30,202,539**	**5,905,282**	**–**	**–**	**36,107,821**
Equipment	**81,586,032**	**10,675,874**	**(353,588)**	**–**	**91,908,318**
	155,337,004	**26,894,751**	**(353,588)**	**–**	**181,878,167**
Capital assets, net	**$ 226,518,267**	**$ (15,097,603)**	**$ (170,050)**	**$ –**	**$ 211,250,614**

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 13,374,642	$ 5,492,907	$ –	$ (17,965,491)	$ 902,058
Capitalized software in progress	565,155	565,463	–	(807,162)	323,456
Land	13,090,000	–	–	–	13,090,000
Capital assets being depreciated:					
Buildings and leasehold improvements	191,691,258	–	–	5,904,065	197,595,323
Capitalized software	47,625,263	–	–	1,890,978	49,516,241
Equipment	109,451,034	–	(451)	10,977,610	120,428,193
	375,797,352	6,058,370	(451)	–	381,855,271
Less accumulated depreciation:					
Buildings and leasehold improvements	32,922,081	10,626,352	–	–	43,548,433
Capitalized software	23,473,240	6,729,299	–	–	30,202,539
Equipment	70,760,205	10,825,827	–	–	81,586,032
	127,155,526	28,181,478	–	–	155,337,004
Capital assets, net	$ 248,641,826	$ (22,123,108)	$ (451)	$ –	$ 226,518,267

9. Medical Claims Payable

Medical claims liability consists of the following at June 30, 2016:

Claims payable or pending approval	$ 18,696,888
Provisions for claims incurred but not yet reported	8,814,842
	$ 27,511,730

The cost of health care services is recognized in the period in which care is provided and includes an estimate of the cost of services that has been incurred but not yet reported. Accrued claims payable are estimated based on historical claims payments and other relevant information. Unpaid claims adjustment expenses are an estimate of the cost to process the incurred but not reported claims and are included in medical claims payable. Estimates are continually monitored and reviewed, and as settlements are made or estimates adjusted, differences are reflected in current operations. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims paid is dependent on future developments, management is of the opinion that the accrued medical claims payable is adequate.

The following is a reconciliation of the accrued claims liability as of and for the years ended June 30:

	2016	**2015**
Beginning balance	**$ 20,035,113**	$ 22,674,306
Incurred:		
Current	**297,312,965**	226,274,034
Prior	**4,196,361**	(649,154)
Total	**301,509,326**	225,624,880
Paid:		
Current	**269,113,196**	206,238,921
Prior	**24,919,513**	22,025,152
Total	**294,032,709**	228,264,073
Ending balance	**$ 27,511,730**	$ 20,035,113

9. Medical Claims Payable (continued)

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claim payments becomes known. This information is compared to the originally established year-end liability. Medical claims expense in the statements of revenues, expenses, and changes in net position is recorded net of reinsurance revenue.

10. Risk Claims Payable

The District maintains insurance through a combination of programs of 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 $15,612,000 and $14,253,000, of which $3,751,000 and $3,380,000 has been recorded as a current liability and approximately $11,861,000 and $10,873,000 has been recorded as a noncurrent liability in the accompanying statements of net position as of June 30, 2016 and 2015, respectively. Risk claims payable are undiscounted.

As of June 30, 2016, the District maintained commercial insurance as follows:

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

The insurance policies listed above became effective December 1, 2012, and remain current through June 30, 2016.

10. Risk Claims Payable (continued)

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

	2016	2015	2014
Beginning balance	**$ 14,253,201**	$ 15,780,832	$ 11,588,073
Total incurred	**4,037,496**	1,332,433	7,802,403
Total paid	**(2,678,960)**	(2,860,064)	(3,609,644)
Ending balance	**$ 15,611,737**	$ 14,253,201	$ 15,780,832

11. Long-Term Debt and Capital Leases

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

	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
2016					
General obligation bonds	**$ –**	**$ 106,000,000**	**$ –**	**$ 106,000,000**	**$ 33,000,000**
Note payable and credit facility, Maricopa County	**15,433,000**	**–**	**(2,890,735)**	**12,542,265**	**5,518,239**
Capital lease obligations	**4,702,383**	**–**	**(1,896,518)**	**2,805,866**	**1,646,989**
Total long-term debt	**$ 20,135,383**	**$ 106,000,000**	**$ (4,787,253)**	**$ 121,348,131**	**$ 40,165,228**
2015					
Note payable and credit facility, Maricopa County	$ 15,433,000	$ –	$ –	$ 15,433,000	$ 2,829,615
Capital lease obligations	7,850,712	–	(3,148,329)	4,702,383	1,896,518
Total long-term debt	$ 23,283,712	$ –	$ (3,148,329)	$ 20,135,383	$ 4,726,133

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

General Obligation Bonds

On November 4, 2014, the voters of Maricopa County approved Proposition 480. Proposition 480 allows the District to issue up to $935 million 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, acute care facilities, including replacement of the District's public teaching hospital Maricopa Medical Center and its Level One Trauma Center and Arizona Burn Center, on the existing campus.

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

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

The bond purchase agreement also contains certain non-financial covenants including the maintenance of property and annual reporting requirements. Management believes they are in compliance with these covenant requirements at June 30, 2016.

Note Payable and Credit Facility, Maricopa County

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

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

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

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

Scheduled maturities of long-term debt for the years ending June 30 are as follows:

2017	$ 38,518,239
2018	41,609,515
2019	38,414,511
	$ 118,542,265

Capital Lease Obligations

The District is obligated under the leases for buildings, building improvements, and equipment, through 2018, which are accounted for as capital leases. Assets under capital leases at June 30, 2016 and 2015, had a total cost of approximately $22,080,000 and $26,803,000, respectively, with accumulated depreciation of approximately $15,526,000 and $15,614,000, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at varying rates together with the present value of the future minimum lease payments as of June 30, 2016:

	Principal	**Interest**
Years ending June 30:		
2017	$ 1,646,989	$ 47,265
2018	1,157,809	12,769
2019	1,068	12
	$ 2,805,866	$ 60,046

12. Restricted Net Position

Restricted net position at June 30, 2016 consists of grant funds received for specific purposes that are expected to be expended during 2017 in the amount of approximately $2,335,000. Restricted net position at June 30, 2015 consists of grant funds received for specific purposes that are expected to be expended during 2016 in the amount of approximately $2,287,000.

Restricted net position at June 30, 2016 also consists of bond funds expected to be expended during 2017 for specific purposes as defined in the bond agreement, in the amount of approximately $97,250,000.

13. Pension Plan

General Information About the Pension Plan

Plan Description

The District contributes to a cost-sharing, multiple-employer, defined benefit pension plan 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 by writing the Arizona State Retirement System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, or by telephoning (602) 240-2000 or (800) 621-3778.

Funding Policy

The Arizona State Legislature establishes and may amend contribution rates for active plan members and the District. For the years ended June 30, 2016 and 2015, active plan members and the District were required by statute to contribute at the actuarially determined rate of 11.47% (11.35% retirement and 0.12% long-term disability) and 11.60% (11.48% retirement and 0.12% long-term disability), respectively, of the members' annual covered payroll.

13. Pension Plan (continued)

Benefits Provided

ASRS provides retirement, healthcare and long-term disability benefits. Defined Benefit Plan: Provides a monthly retirement benefit to a member who has 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 their age, their years of service, their salary at retirement, and the retirement option chosen. To learn more, visit the basic benefit calculator page. 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). 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 (LTD): Provides a monthly disability benefit to partially replace income lost as a result of disability.

Contributions

The contribution rate is 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.

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

At June 30, 2016, the District reported a liability of approximately $334,642,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 and was rolled forward using generally accepted actuarial procedures to June 30, 2015. 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, 2015, the District's proportion was 2.15%, which was a decrease of 0.10 from its proportion measured as of June 30, 2014.

13. Pension Plan (continued)

For the years ended June 30, 2016 and 2015, the District recognized pension expense of $10,759,000 and $19,882,000. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,131,651	$ (17,535,572)
Net difference between projected and actual earnings on pension plan investments	–	(10,724,531)
Changes in proportion and differences between District contributions and proportionate share of contributions	–	(14,190,736)
District contributions subsequent to the measurement date	22,366,096	–
Total	$ 31,497,747	$ (42,450,839)

Approximately $22,366,096 reported as deferred outflows of resources related to pensions 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense through 2020 as follows:

Year ending June 30:	
2017	$ (14,378,410)
2018	(17,881,604)
2019	(8,800,941)
2020	7,741,767

13. Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.00 – 6.75% average, including inflation
Investment rate of return	8.79%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2007 – June 30, 2012. As a result of the 2012 actuarial experience study, the expectation of life after disability was adjusted in the June 30, 2014 actuarial valuation to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments was 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.

13. Pension Plan (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	58%	3.94%
Fixed income	25	0.93
Commodities	2	0.08
Real estate	10	0.42
Multi-asset class	5	0.17
Total	100%	5.54%
Inflation		3.25%
Expected arithmetic nominal return		8.79%

Discount Rate

The discount rate used to measure the total pension liability was 8%. 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 pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

13. Pension Plan (continued)

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

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

	1 Point Decrease (7%)	Discount Rate (8%)	1 Point Increase (9%)
District's proportionate share of the net pension liability	$ 438,495,222	$ 334,641,881	$ 263,968,309

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS Comprehensive Annual Financial Report.

14. Commitments and Contingencies

Operating Leases

The District leases various equipment and facilities under operating leases expiring at various dates through June 2020. Total rental expense in 2016 and 2015 for all operating leases was approximately $3,417,600 and $3,105,000, respectively.

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2016, that have initial or remaining noncancelable lease terms in excess of one year:

Years ending June 30:	
2017	$ 2,492,002
2018	2,492,002
2019	2,431,104
2020	1,560,000
2021	1,375,000

14. Commitments and Contingencies (continued)

Litigation

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

Maricopa Health Plan

MHP's contract with AHCCCS requires the plan to be in compliance with certain financial and nonfinancial covenants as defined. At June 30, 2016, management believes MHP was in compliance with these covenants.

For 2016 and 2015, substantially all of MHP's revenues were earned under its AHCCCS contract. Continuation of the AHCCCS program is dependent upon governmental policies. This contract is subject to periodic renewal. MHP has been awarded its AHCCCS contract renewal through September 30, 2016 (See Note 17).

The District has secured an irrevocable letter of credit in the amount of $25,000,000 with Travelers Casualty and Surety Company of America to fulfill the performance bond requirement of the AHCCCS contract at June 30, 2016.

Maricopa Care Advantage

During the year ended June 30, 2015, the District was awarded a contract with AHCCCS for a Medicare Advantage Special Needs Program (SNP). The new SNP plan, Maricopa Care Advantage or MCA, began enrolling members on January 1, 2014.

MCA's contract with AHCCCS requires the plan to be in compliance with certain financial and nonfinancial covenants as defined. At June 30, 2016, management believes MCA was in compliance with these covenants.

14. Commitments and Contingencies (continued)

For 2015, substantially all of MCA's revenues were earned under its AHCCCS contract. Continuation of the AHCCCS program is dependent upon governmental policies. This contract is subject to periodic renewal. MCA has been awarded its AHCCCS contract renewal through September 30, 2016 (See Note 17).

The District has secured an irrevocable letter of credit in the amount of $2,500,000 with Travelers Casualty and Surety Company of America to fulfill the performance bond requirement of the AHCCCS contract at June 30, 2016.

15. Disproportionate Share Settlement

Section 1923 of the Social Security Act establishes federal requirements designed to aid entities that provide medical services to a disproportionate share of medically indigent patients. These requirements were met for the State fiscal years ended June 30, 2016 and 2015, through disproportionate share settlements established in Laws 2016 Second Regular Session Chapter 122 and Laws 2015 First Regular Session Chapter 14. AHCCCS was directed to distribute such settlements based on various qualifying criteria and allocation processes. The District recorded in other operating revenue approximately $4,202,000 in disproportionate share settlements in fiscal years 2016 and 2015.

16. Related-Party Transactions

During the years ended June 30, 2016 and 2015, net patient service revenues included approximately $3,690,000 and $4,171,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered, and approximately $2,700,000 and $2,325,000 in grant funds were received from the Maricopa County Department of Public Health in fiscal years 2016 and 2015, respectively.

During the year ended June 30, 2016, net patient revenues also included approximately $38,753,000 of payments received from Mercy Maricopa Integrated Care (MMIC) for medical and behavioral services rendered.

17. Subsequent Events

Subsequent events were evaluated through December 19, 2016, the date the financial statements were available to be issued.

Effective July 1, 2016, 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 $70,777,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

Effective July 1, 2016, the District elected to levy property tax on all taxable property in the defined surrounding area, in the amounts of $37,866,000 and $1,881,000, respectively, for the second year principal and interest debt service on the general obligation bonds.

Effective September 1, 2016, the District executed an IGA with the County Treasurer to transfer all of the District's funds from the District's account at JP Morgan Chase to the County Treasurer. The agreement also requires that the County Treasurer shall have all the responsibilities with respect to all funds of the District including, without limitation, all monies deposited to bank accounts of the District or invested for the benefit of the District.

In May 2016, the District awarded the transfer of membership of Maricopa Health Plan and Maricopa Care Advantage to United Healthcare Community Plan of Arizona. The transfer of membership was approved by AHCCCS in October 2016. The transfer will be effective February 1, 2017.

Schedules of Required Supplementary Information

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

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

	2016	2015	2014
District's proportion of the net pension liability	**2.15%**	2.25%	2.29%
District's proportionate share of the net pension liability	**$ 334,641,881**	$ 332,820,645	$ 380,564,936
District's covered-employee payroll	**$ 215,657,871**	$ 232,285,866	$ 223,173,388
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	**155.17%**	143.28%	170.52%
Plan fiduciary net position as a percentage of the total pension liability	**68.35%**	69.49%	63.58%

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

Schedule of Contributions

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	**$ 22,366,096**	$ 22,849,862	$ 21,695,216	$ 22,325,937	$ 20,633,465	$ 18,011,420	$ 16,725,499	$ 17,077,783	$ 16,695,527	$ 13,846,083
Contributions in relation to the contractually required contribution	**(22,366,096)**	(22,849,862)	(21,695,216)	(22,325,937)	(20,633,465)	(18,011,420)	(16,725,499)	(17,077,783)	(16,695,527)	(13,846,083)
Contribution (excess) deficiency	**$ –**	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
District’s covered-employee payroll	**$ 216,324,713**	$ 215,657,870	$ 232,285,866	$ 223,173,388	$ 208,978,043	$ 196,046,371	$ 201,350,989	$ 201,577,752	$ 194,842,815	$ 165,654,356
Contributions as a percentage of covered-employee payroll	**10.34%**	10.60%	9.34%	10.00%	9.87%	9.19%	8.31%	8.47%	8.57%	8.36%

Building a better working world

Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
Suite 2300
2 North Central Avenue
Phoenix, AZ 85004

Tel: +1 602 322 3000
Fax: +1 602 322 3023
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of This Report

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

Ernst + Young LLP

December 19, 2016

EY | Assurance | Tax | Transactions | Advisory

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

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

ey.com