

AUDITED FINANCIAL STATEMENTS AND SINGLE  
AUDIT REPORTS

Maricopa County Special Health Care District  
d/b/a Maricopa Integrated Health System  
Year Ended June 30, 2014  
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

Audited Financial Statements and Single Audit Reports

Year Ended June 30, 2014

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## Report of Independent Auditors

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

### **Report on the Financial Statements**

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, 2014 and 2013, 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 did not audit the financial statements of the Maricopa Health Plan (a division of the District) and Maricopa Care Advantage, which represents 13% and 9% of the assets as of June 30, 2014 and 2013, respectively, and 34% and 25% of the revenues of the District for the years then ended, respectively. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Maricopa Health Plan and Maricopa Care Advantage, are based solely on the report of the other auditors. 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. The financial statements of the Maricopa Health Plan and Maricopa Care Advantage were not audited in accordance with *Government Auditing Standards*.

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, based on our audits and the report of the other auditors, 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, 2014 and 2013, and the respective changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–14 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2014, 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, regulations, contracts and 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 5, 2014, except for the schedule of expenditures of federal awards for which the date is January 27, 2015

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

Management's Discussion and Analysis

Years Ended June 30, 2014, 2013, and 2012

This management's discussion and analysis of the 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 financial activities for the years ended June 30, 2014, 2013, and 2012. 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, 2014, 2013, and 2012, include Maricopa Health Plan (MHP), a division of the District. The year ended June 30, 2014 also includes Maricopa Care Advantage (MCA) a new Medicare Dual Special Needs Plan that began operations on January 1, 2014.

**Operating Highlights**

During fiscal year 2014 the District was again active in sustaining the quality and regulatory gains from previous years and enhancing clinical outcomes. The following highlights cover a few of those significant activities:

- Participated in the annual on-site survey with Det Norske Veritas Healthcare, Inc. (DNV) and was recognized for sustained improvements in all areas. MIHS successfully resolved all findings from the previous year's survey.
- Operations of the Patient Center Medical Homes (PCMH) proved so successful that several AHCCCS health plans awarded the District incentive payments for improved outcomes. Emergency department visitations and inpatient readmissions were reduced beyond expectations for the members managed. Clinical outcomes in such areas as control of high blood pressure, diabetic blood sugar levels and well child checkups earned the District even more incentive payments for exceeding expected standards. These outcomes have resulted in at least one plan assigning a significant number of its members to our providers for their care.
- Fully implemented the project to open a total of 8 Integrated Health Homes with the opening of the final 2 sites. The sites are seeing more patients than anticipated and clinical outcomes are enhancing the lives of those Seriously Mentally Ill (SMI) patients throughout the County.
- Successfully aligned with a state-wide Health Information Exchange to join other hospitals and health care providers to begin the process of making appropriate patient specific health information available throughout the State. This initiative enhances the ability of all participants to help their patients sustain and improve their health outcomes and helps to

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

reduce the overall cost of care for the broader community by having available test results and prescribed medications to any provider treating the patient regardless of the location of those services.

- Finalized in September 2013 a joint venture with two other health care providers and a health plan to form Mercy Maricopa Integrated Health, a managed care entity that successfully responded to a state level Request for Proposal for the award of a contract to operate the Regional Behavioral Health Authority (RBHA) for Maricopa County. For the first time in the State of Arizona, this RBHA will be an integrated health plan that provides for both the physical and behavioral needs of the SMI population in Maricopa County in addition to the behavioral health needs of the General Mental Health and Substance Abuse population. The District retains a 15 percent ownership in the venture and has a 25 percent representation on the governing body. The gross value of the contract is approximately \$1 billion per year over the five year term of the contract. The RBHA began operations on April 1, 2014. As the largest provider of inpatient court ordered treatment and evaluation services in the County the District remains an essential part of not only managing but also providing behavioral health services to the people of Maricopa County.

In fiscal year 2014 the District also continued to enhance its facilities and services in a manner to make it possible to provide safe, efficient, effective, patient centered health care for all the people in the community.

After months of effort, the District relocated its McDowell Healthcare Center (McDowell) to a new site in September 2013. McDowell specializes in medical and dental care for HIV/AIDS patients. For the past five years, McDowell has averaged patient volume growth of 10% per year and no longer had the physical capacity to serve more patients. McDowell will continue to be co-located with the Southwest Center for HIV/AIDS. The two organizations provide complementary support services to the County's HIV/AIDS population.

Upgrades to the radiology department began early in the fiscal year with the installation of a new 256 slice CT scanner. This enabled MIHS to relocate the existing 16 slice scanner to the Comprehensive Health Center (CHC) to enhance the diagnostic capabilities available within that outpatient center. In May 2014, a new MRI suite was opened that provides state of the art and convenient access for both inpatients and outpatients. It houses two magnets; a 3.0T and a 1.5T strength unit which replaced a 12 year old 1.5T and a trailer unit that was used to supplement the fixed location.

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Management's Discussion and Analysis (continued)

As part of the MRI suite construction the Main entrance of the hospital was remodeled and expanded adding a more convenient patient drop-off area, an expanded information desk, and more convenient services for waiting patients and families.

In November 2013, the District completed the renovation of the inpatient unit on the fourth floor now known as 4 East. Thirteen private rooms were constructed from space that previously housed an underutilized detention (jail) unit. The rooms were a welcomed addition to the services within the hospital and have been utilized primarily for observation patients.

During the holiday periods in late 2013, the District undertook an extensive refurbishment of the Medical and the Surgical Intensive Care Units (MICU and SICU). Both areas were completely updated to include new lighting, floors, wall covering and nursing stations.

In March 2014 the District opened a remodeled and expanded Emergency Department waiting area. In addition to making access to the ED more convenient with direct entrance from the exterior, it added additional space and a more convenient and private registration area for patients seeking treatment. Included in the project were the addition of three triage rooms and altered patient flow in the critical entry point to the Emergency Room. With the addition, the District was able to reduce its treatment times in the Emergency Room significantly.

In the Family Health Centers, in addition to opening the last two Integrated Health Homes (IHH) sites, co-located with RBHA provider sites, a new Family Learning Center, partially funded with grants from several agencies, was constructed and opened at the Chandler Family Health Center. Serving as a learning center for children as well as the family, it is a family friendly area where patients can learn about specific disease states and wellness activities and generally engage the family in lifestyle changes. Also at the Chandler FHC, the imaging capabilities were enhanced with the remodel of the imaging room and installation of a new piece of radiology equipment.

Diagnostic capabilities were also enhanced at the CHC with the remodeling of the main mammography services center and the installation of a new, 3D camera. And lastly, at the 7<sup>th</sup> Avenue site an imaging unit remodel and new camera were completed in June of 2014.

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

**Financial Highlights**

In June 2013, as part of implementation of the federal Affordable Care Act (ACA), the Arizona legislature approved and the Governor signed into law the expansion of the State's Medicaid program to be effective on January 1, 2014. Medicaid benefits were restored to include childless adults and coverage was expanded to citizens with adjusted income levels less than 138% of the federal poverty guideline. The ACA was also effective January 1<sup>st</sup> and offered low price and subsidized insurance to citizens not eligible for other forms of coverage. With both programs effective January 1, MIHS operated the first six months of fiscal 2014 under existing programs and the second half of the year under the new programs.

During the first six months of the fiscal year the District continued to receive \$52.8 million in benefit from the Safety Net Care Pool (SNCP). The District recognized an additional \$18.1 million in AHCCS Safety Net Care Pool revenue in 2014 based on additional information received related to actual uncompensated cost incurred to provide services related to 2013 and 2012, and subsequent interpretations of the program rules. Due to the negative impact of the reductions in the State's Medicaid program, SNCP was established as means to mitigate the impact to safety net hospitals. SNCP pays for a portion of the uncompensated costs these hospitals incurred to provide services to Medicaid and uninsured/underinsured patients. CMS approved the change to the State's Medicaid waiver to create SNCP in May 2012. The program was retroactive to the beginning of the federal fiscal year beginning October 1, 2011 and expired on December 31, 2013. While the State anticipated that the expansion of Medicaid and the implementation of the Affordable Care Act (ACA) would offset the impact of the loss of SNCP, the expiration was a major concern for the District in that it did not believe Medicaid expansion and ACA enrollment will occur at a rate sufficient to mitigate the loss of SNCP. This concern materialized. By the end of the fiscal year, the District was providing care to patients who had no insurance coverage either through Medicaid or ACA at levels higher than previously provided in fiscal years 2010 and 2011 before the Medicaid reduction in benefits.

In addition, the District, along with other hospitals, is required to contribute to the State's federal matching funds that paid for the expanded Medicaid program. This new assessment combined with the multi-year Medicaid rate freeze and 10% rate reduction in 2011 results in a widening gap between the cost to provide services to AHCCCS patients and reimbursement. SNCP compensated MIHS for approximately 67% of the cost of care for uninsured patients. These same patients converted to the Medicaid rolls are paid at an average of 61% of cost further exacerbating the impact of the loss of SNCP to the District.

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

The District recognized that a significant number of its current self-pay population would not qualify for the expanded Medicaid services but would be eligible for insurance offered through the ACA insurance federal exchanges. Significant efforts were made to identify these patients and steer them to marketplace products. The District entered into a relationship with a public federally sponsored cooperative to offer a low price option. As a result, the District was able to enroll approximately 2,500 patients into the program who subsequently sought service at the District's facilities.

In 2014 the District was successful in renewing its contract with AHCCCS to continue operation of Maricopa Health Plan. As part of the award, MHP was placed in the first position for auto enrollment of patients who did not specifically select another plan. The combination of auto assignments and the increase of newly eligible Medicaid patients on January 1, 2014 increased the plan size from approximately 50,000 members to 78,600 by year-end. As part of the MHP award, the District was required by AHCCCS to implement a Medicare Dual Special Needs Plan, Maricopa Care Advantage (MCA). Initial estimates of enrollment were approximately 400 members but the plan immediately grew to slightly over 1,100 members by June 2014. The combination of expanded enrollment in these three programs, the federal health insurance exchanges, MHP and MCA, however, was insufficient to offset the lost revenue incurred when SNCP was discontinued on January 1, 2014.

During the fiscal year, the District lost revenue from other sources as well including a \$1.3 million reduction in graduate medical education payments, a \$1.5 million reduction in Maricopa County's contribution to the psychiatric residency program and \$5.4 million reduction in Federally Qualified Health Center supplemental payments due to Medicaid enrollment declines.

### **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 assets; 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.

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

The statement of net position and statement of revenues, expenses, and changes in net assets report the District's net position and changes in it. The District's total net position – the difference between assets and liabilities – 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.

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

**The District's Net Position**

The District's net position represents the difference between its assets and liabilities reported in the statements of net position. The District's net position at June 30, 2014, 2013, and 2012, was \$361,348,108, \$271,649,237, and \$255,037,360, respectively, as shown in Table 1.

**Table 1: Assets, Liabilities, and Net Position**

	<b>2014</b>	<b>June 30 2013</b>	<b>2012</b>
<b>Assets</b>			
Current assets	<b>\$ 238,913,145</b>	\$ 258,586,779	\$ 222,586,304
Other assets	<b>10,940,631</b>	6,903,440	153,219
Capital assets	<b>248,641,826</b>	125,444,254	128,748,419
Total assets	<b>\$ 498,495,602</b>	\$ 390,934,473	\$ 351,487,942
<b>Liabilities</b>			
Current liabilities	<b>\$ 104,036,818</b>	\$ 90,318,993	\$ 75,658,485
Long-term debt and capital leases	<b>23,734,844</b>	20,378,170	20,792,097
Risk claims payable, less current portion	<b>9,375,832</b>	8,588,073	-
Total liabilities	<b>137,147,494</b>	119,285,236	96,450,582
<b>Net position</b>			
Unrestricted	<b>120,296,779</b>	153,505,501	133,056,524
Net investment in capital assets	<b>239,873,020</b>	117,276,025	121,078,254
Restricted for grants	<b>1,178,309</b>	867,711	902,582
Total net position	<b>361,348,108</b>	271,649,237	255,037,360
Total liabilities and net position	<b>\$ 498,495,602</b>	\$ 390,934,473	\$ 351,487,942

The District's significant assets as of June 30, 2014, 2013, and 2012, were cash, short-term investments, patient accounts receivable, receivables from AHCCCS, receivables from others, and capital assets.

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d/b/a Maricopa Integrated Health System

Management's Discussion and Analysis (continued)

**Operating Results and Changes in the District's Net Assets**

For the years ended June 30, 2014, 2013, and 2012, the District's net assets increased by \$89,698,871, \$16,611,877, and \$20,014,160, respectively, as shown in Table 2. These are made up of several different components, as shown in the following table.

**Table 2: Operating Results and Changes in Net Position**

	2014	June 30 2013	2012
Operating revenues:			
Net patient service revenue	\$ 296,667,780	\$ 313,335,520	\$ 290,059,337
Capitation and reinsurance	210,756,454	141,648,686	163,629,209
AHCCCS medical education revenue	21,793,915	23,112,211	26,971,604
Safety net care pool revenue	52,786,667	49,739,827	41,717,587
Other	41,970,031	44,922,610	39,426,710
Total operating revenues	<b>623,974,847</b>	572,828,854	561,804,447
Operating expenses:			
Salaries and wages	232,285,866	223,173,388	208,978,043
Employee benefits	66,018,599	66,368,809	61,664,101
Purchased services	124,218,172	116,160,642	107,383,444
Medical claims	159,592,558	98,263,932	123,394,806
Supplies and other expenses	110,527,711	96,405,796	89,783,300
Depreciation	25,878,166	20,698,608	18,624,138
Total operating expenses	<b>718,521,072</b>	621,071,175	609,827,832
Operating loss	<b>(94,546,225)</b>	(48,242,321)	(48,023,385)
Nonoperating revenues (expenses):			
Property tax receipts	62,499,144	57,895,470	57,895,470
Noncapital grants	7,191,220	7,652,873	6,414,432
Noncapital subsidies from County	2,069,606	3,547,896	3,547,896
Other nonoperating expense	(1,672,622)	(4,049,053)	(90,254)
Investment income	373,475	580,466	642,147
Interest expense	(693,676)	(773,454)	(372,146)
Total nonoperating revenues	<b>69,767,147</b>	64,854,198	68,037,545
(Loss) income before capital contribution	<b>(24,779,078)</b>	16,611,877	20,014,160
Capital contribution	<b>114,477,949</b>	-	-
Increase in net assets	<b>89,698,871</b>	16,611,877	20,014,160
Net position, beginning of year	<b>271,649,237</b>	255,037,360	235,023,200
Net position, end of year	<b>\$ 361,348,108</b>	\$ 271,649,237	\$ 255,037,360

*See accompanying notes.*

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Management's Discussion and Analysis (continued)

**Operating Losses**

The first component of the overall change in the District's net position is its operating income or loss – generally, the difference between total operating revenues and total operating expenses incurred to perform those services. Net patient service revenue for the year ended June 30, 2014, was \$296,667,780, 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. The District experienced a decrease of \$16,121,045 in bad debt expense from fiscal year 2013 primarily attributed to the improvement in the payor mix and the Medicaid expansion. In addition to net patient service revenue, the District received capitation and supplemental revenue from its health plan operations of \$210,114,716 based on total member months of 786,512.

Other operating revenues included six significant sources of income during the year ended June 30, 2014: (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 \$21,793,915 from AHCCCS for medical education support, (3) the receipt of \$52,786,667 from AHCCCS and CMS for the SNCP program to help cover the increased cost of caring for patients with no medical coverage, (4) the receipt of \$5,557,398 from AHCCCS for the EMR program initiative, (5) the receipt of \$14,949,364 in supplemental payments from AHCCCS for the District's Federally Qualified Health Centers, and (6) the receipt of \$5,925,000 from the city of Phoenix related to the provider tax assessment. The SNCP revenue is net of \$3,634,236 that the District established as a reserve for potential overpayment for FFY2012 thru FFY2014.

The operating losses for the years ended June 30, 2014, 2013, and 2012, were \$94,546,225, \$48,242,321, and \$48,023,385, respectively. The primary components of the operating losses for June 30, 2014, 2013, and 2012, were as follows:

- Net patient service revenue of \$296,667,780, \$313,335,520, and \$290,059,337, respectively
- Bad debt expense of \$48,589,630, \$64,710,675, and \$98,021,529, respectively
- Capitation and reinsurance revenue of \$210,756,454, \$141,648,686, and \$163,629,209, respectively
- Salaries and wages of \$232,285,866, \$223,173,388, and \$208,978,043, respectively

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Management's Discussion and Analysis (continued)

- Employee benefit costs of \$66,018,599, \$66,368,809, and \$61,664,101, respectively
- Purchased services of \$124,218,172, \$116,160,642, and \$107,383,444, respectively
- Payments for medical services provided to patients of \$159,592,558, \$98,263,932, and \$123,394,806, respectively

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of property tax receipts, noncapital grants, and noncapital subsidies from the County. These amounts for the years ended June 30, 2014, 2013, and 2012, were \$62,499,144, \$57,895,470, and \$57,895,470; \$7,191,220, \$7,652,873, and \$6,414,432; and \$2,069,606, \$3,547,896, and \$3,547,896; 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 provided by (used in) operating activities for the years ended June 30, 2014, 2013, and 2012, was \$(63,288,932), \$1,507,070, and \$(60,737,827), respectively.

**Capital Contributions**

In September 2013, Maricopa County agreed to transfer the land and real property located at the Maricopa Medical Center and Desert Vista campuses to the District. The transfer was recorded at its fair market value as determined in the Appraisal of Real Estate report prepared by Cushman & Wakefield Western, Inc. as of May 6, 2014. The value of the transfers for land was \$9,000,000, buildings of \$104,375,000 and land improvements of \$3,700,000 or a total of capital contribution of \$117,075,000. The District executed a note payable for \$2,597,000 related to one of the buildings, which has been recorded in other current liabilities and the contribution reduced.

**Capital Assets**

As of June 30, 2014, the District had \$248,641,826 invested in capital assets, net of accumulated depreciation which includes the capital contribution from Maricopa County. For the years ended June 30, 2014, 2013, and 2012, the District purchased new property and equipment costing \$32,552,929, \$17,431,249, and \$33,585,809, respectively.

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

**Debt**

At June 30, 2014, 2013, and 2012, the District had notes payable of \$15,433,000, and capital lease and other long-term obligations totaling \$7,850,712, \$7,484,542, and \$7,439,228, respectively, to the County and various other entities. The District entered into new capital lease agreements for equipment purchases totaling \$3,750,000, \$2,420,657, and \$3,271,226 for the years ended June 30, 2014, 2013, and 2012, respectively.

**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	
	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 121,827,072	\$ 1,420,089
Short-term investments	-	146,835,114
Patient accounts receivable, net of allowances of \$44,850,000 (2014) and \$66,118,000 (2013)	54,696,307	51,226,334
Receivable from AHCCCS for medical education (net)	21,793,915	23,112,211
Receivable from AHCCCS for health plan premiums	9,250,040	9,875,764
Other receivables	17,182,446	13,505,817
Due from related parties	332,640	1,094,613
Supplies	7,909,448	7,186,403
Prepaid expenses	5,921,277	6,233,874
Total current assets	238,913,145	260,490,219
Other assets	5,940,631	-
Long-term investments	5,000,000	5,000,000
Capital assets:		
Land	13,090,000	4,090,000
Depreciable capital assets, net of accumulated depreciation	235,551,826	121,354,254
Total capital assets, net of accumulated depreciation	248,641,826	125,444,254
Total assets	\$ 498,495,602	\$ 390,934,473
<b>Liabilities and net position</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 3,112,839	\$ 2,549,372
Accounts payable	22,902,801	23,509,936
Accrued payroll and expenses	21,046,761	20,074,546
Medical claims payable	22,674,306	12,156,393
Risk claims payable – current	6,405,000	3,000,000
Payable to AHCCCS for health plan premiums	4,403,035	-
Overpayments due to third-party payors	15,349,126	26,215,191
Other current liabilities	8,142,950	2,813,555
Total current liabilities	104,036,818	90,318,993
Risk claims payable less current portion	9,375,832	8,588,073
Other long-term liabilities	3,563,971	-
Long-term debt	20,170,873	20,378,170
Total liabilities	137,147,494	119,285,236
Net position:		
Unrestricted	120,296,779	153,505,501
Net investment in capital assets	239,873,020	117,276,025
Restricted for grants	1,178,309	867,711
Total net position	361,348,108	271,649,237
Total liabilities and net position	\$ 498,495,602	\$ 390,934,473

See accompanying notes.

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

Statements of Revenues, Expenses, and Changes in Net Position

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues:		
Net patient service revenue, net of provision for uncollectible accounts of \$48,590,000 (2014) and \$64,711,000 (2013)	<b>\$ 296,667,780</b>	\$ 313,335,520
Capitation and reinsurance	<b>210,756,454</b>	141,648,686
AHCCCS medical education revenue	<b>21,793,915</b>	23,112,211
Safety net care pool revenue	<b>52,786,667</b>	49,739,827
Other	<b>41,970,031</b>	44,992,610
Total operating revenues	<b>623,974,847</b>	572,828,854
Operating expenses:		
Salaries and wages	<b>232,285,866</b>	223,173,388
Employee benefits	<b>66,018,599</b>	66,368,809
Purchased services	<b>124,218,172</b>	116,160,642
Medical claims	<b>159,592,558</b>	98,263,932
Supplies and other expenses	<b>110,527,711</b>	96,405,796
Depreciation	<b>25,878,166</b>	20,698,608
Total operating expenses	<b>718,521,072</b>	621,071,175
Operating loss	<b>(94,546,225)</b>	(48,242,321)
Nonoperating revenues (expenses):		
Property tax receipts	<b>62,499,144</b>	57,895,470
Noncapital grants	<b>7,191,220</b>	7,652,873
Noncapital subsidies from County	<b>2,069,606</b>	3,547,896
Other nonoperating expenses	<b>(1,672,622)</b>	(4,049,053)
Interest income	<b>373,475</b>	580,466
Interest expense	<b>(693,676)</b>	(773,454)
Total nonoperating revenues	<b>69,767,147</b>	64,854,198
(Loss) income before other contributions	<b>(24,779,078)</b>	16,611,877
Capital contribution	<b>114,477,949</b>	–
Increase in net position	<b>89,698,871</b>	16,611,877
Net assets, beginning of year	<b>271,649,237</b>	255,037,360
Net assets, end of year	<b>\$ 361,348,108</b>	\$ 271,649,237

*See accompanying notes.*

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

Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Receipts from and on behalf of patients	<b>\$ 503,954,261</b>	\$ 453,521,197
Payments to suppliers and contractors	<b>(376,242,316)</b>	(311,784,456)
Payments to employees	<b>(297,332,251)</b>	(288,429,553)
Other operating receipts	<b>108,708,034</b>	151,235,896
Other operating payments	<b>(2,376,660)</b>	(3,036,014)
Net cash (used in) provided by operating activities	<b>(63,288,932)</b>	1,507,070
<b>Noncapital financing activities</b>		
Property tax receipts	<b>62,499,144</b>	57,895,470
Noncapital contributions and grants received	<b>7,191,220</b>	7,652,873
Noncapital subsidies and other nonoperating receipts	<b>396,984</b>	(501,157)
Net cash provided by noncapital financing activities	<b>70,087,348</b>	65,047,186
<b>Capital and related financing activities</b>		
Principal payments on long-term debt and capital leases	<b>(4,655,608)</b>	(2,375,342)
Purchase of capital assets	<b>(28,250,738)</b>	(14,973,787)
Interest paid on long-term debt	<b>(693,676)</b>	(773,454)
Net cash used in capital and related financing activities	<b>(33,600,022)</b>	(18,122,583)
<b>Investing activities</b>		
Sales (purchases) of short-term investments, net	<b>146,835,114</b>	(44,389,889)
Investment in unconsolidated entity	-	(5,000,000)
Interest from short-term investments	<b>373,475</b>	580,466
Net cash provided by (used in) investing activities	<b>147,208,589</b>	(48,809,423)
Increase (decrease) in cash and cash equivalents	<b>120,406,983</b>	(377,750)
Cash and cash equivalents, beginning of year	<b>1,420,089</b>	1,797,839
Cash and cash equivalents, end of year	<b>\$ 121,827,072</b>	\$ 1,420,089

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

Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (94,546,225)	\$ (48,242,321)
Depreciation	25,878,166	20,698,608
Provision for uncollectible accounts	48,589,630	64,710,675
Changes in operating assets and liabilities:		
Patient, other accounts receivable, and other assets	(59,732,843)	(56,722,209)
Due from related parties	761,973	586,749
Supplies and prepaid expenses	(410,448)	(2,313,772)
Estimated amounts due from/to third-party payers	(10,866,065)	8,705,808
Medical claims payable	10,517,913	337,022
Risk claims payable	4,192,759	11,588,073
Accounts payable and accrued expenses	12,326,208	2,158,437
Net cash (used in) provided by operating activities	\$ (63,288,932)	\$ 1,507,070
<b>Supplemental cash flows information</b>		
Capital lease obligations for new equipment	\$ 3,750,000	\$ 2,420,657
Capital contribution	\$ 114,477,949	\$ —
Note payable related to building	\$ 2,598,051	\$ —

*See accompanying notes.*

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

Notes to Financial Statements

June 30, 2014

**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 \$9,000,000, buildings of \$104,375,000 and land improvements of \$3,700,000. The District executed a note payable for \$2,597,000 related to one of the buildings, which has been recorded in other current liabilities and reduced the contribution from the County.

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.

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

Notes to Financial Statements (continued)

**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.

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 & 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.

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 percent ownership in the venture and has a 25 percent 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.

The District primarily earns revenues by providing inpatient and outpatient medical and nursing services and operating a managed care plan for Medicaid-eligible patients. In addition, the District provides attendant care services in the same geographic area.

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

Notes to Financial Statements (continued)

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

**Basis of Accounting and Presentation**

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board. 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**

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, the District had approximately \$121,827,000 and \$1,420,000, of cash and cash equivalents, respectively. Amounts previously held by the County Treasurer on behalf of the District were reported as short-term investments (see Note 4).

**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.

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

Notes to Financial Statements (continued)

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

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.

**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.

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

Notes to Financial Statements (continued)

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

**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

**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 position invested 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

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

Notes to Financial Statements (continued)

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

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 less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted net position.

**Net Patient Service Revenue**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known. The District participates in the Federally Qualified Health Center (FQHC) program and receives supplemental payments from AHCCCS. The payments are made based on information filed with AHCCCS on the Annual Reconciliation and Rebase Data (ARRD) report. The District recognized a \$2,731,000 decrease in total operating revenue in 2014 based on additional information received upon filing the 2013 ARRD report, and recognized a \$1,193,000 increase in total operating revenue in 2013 based on additional information received upon filing the 2012 ARRD report.

**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 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.

Reinsurance receivables, or from AHCCCS represent 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.

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

Notes to Financial Statements (continued)

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

**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 \$97,363,000 and \$103,572,000 for the years ended June 30, 2014 and 2013, respectively. Charity care cost is based on the percentage of total direct operating expenses less other operating revenue divided by the total gross revenue for the Medical Center. This percentage is applied to the amount written off as charity care to determine the total charity care cost. The net cost of charity care is total charity care cost less any payments received. Payments received were approximately \$10,015,000 and \$9,313,000 for the years ended June 30, 2014 and 2013, respectively.

**Property Taxes**

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

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

Notes to Financial Statements (continued)

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

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.

**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.

**New Accounting Pronouncement**

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in June 2012, which will be effective for the District for the year ending June 30, 2015. Under this standard, government employers will use an accrual-based approach to financial reporting for pension benefits that more closely matches costs with periods of employee service. Management is currently evaluating the effect of adopting this standard on the financial statements.

**2. Net Patient Service Revenue**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. These payment arrangements include the following:

- Medicare – Inpatient acute care services, certain inpatient non-acute care services, and substantially all outpatient services rendered to Medicare program beneficiaries, are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity, and other factors. Inpatient psychiatric services are paid based on a blended cost reimbursement methodology and prospectively determined rates. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The Medicare fiscal intermediary has audited the District's cost reports through June 30, 2012.

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

Notes to Financial Statements (continued)

**2. Net Patient Service Revenue (continued)**

- AHCCCS inpatient services are paid on a per diem basis. Outpatient services rendered to AHCCCS program beneficiaries are primarily reimbursed under prospectively determined rates.
- Approximately 53% and 44% of net patient service revenues were from participation in the Medicare and state-sponsored AHCCCS programs for the years ended June 30, 2014 and 2013, 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 decreased by approximately \$2,072,000 and \$1,379,000 in 2014 and 2013, 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.

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.

**3. AHCCCS Safety Net Care Pool**

The District participates in the Arizona 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. For the years ended June 30, 2014 and 2013, SNCP compensated the District \$39,555,000 and \$57,848,000, respectively. The District has established a reserve for potential overpayment, totaling \$3,634,000, at June 30, 2014. The District recognized an \$18,134,000 increase in AHCCCS Safety Net Care Pool revenue in 2014 based on additional information received related to actual uncompensated cost incurred to provide services related to 2013 and 2012, 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 2016. Upon final settlement, amounts previously recorded could change by material amounts. Management believes amounts recorded under the SNCP program are adequate.

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

Notes to Financial Statements (continued)

**4. Deposits, Pooled Funds, 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.

In fiscal year 2013, the District's deposits were held by the County in conjunction with other county funds, and the District could draw them upon demand. Effective July 1, 2013 the District terminated its contract with the Maricopa County Treasurer to manage its banking and investment activities. During fiscal year 2014, the District contracted with JP Morgan Chase Bank to provide these services. 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, 2014 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, 2014, 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.

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

Notes to Financial Statements (continued)

**5. Patient Accounts Receivable**

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

	<b>2014</b>	<b>2013</b>
Medicare	<b>\$ 11,200,413</b>	\$ 9,694,598
AHCCCS	<b>25,344,312</b>	6,106,211
Other third-party payors	<b>39,532,953</b>	66,644,567
Patients	<b>23,468,637</b>	34,898,633
	<b>99,546,315</b>	117,344,009
Less allowance for uncollectible accounts	<b>44,850,008</b>	66,117,675
	<b>\$ 54,696,307</b>	\$ 51,226,334

**6. Other Receivables**

At June 30, 2014 and 2013, significant components of other receivables included amounts due from participation in the FQHC program of approximately \$1,500,000 and \$5,230,000, respectively. Additional amounts receivable at June 30, 2014, include an amount receivable related to Disproportionate Share (DSH) of approximately \$4,202,000 (see Note 15).

**7. Receivables from AHCCCS for Medical Education**

During the years ended June 30, 2014 and 2013, MIHS entered into an intergovernmental agreement with AHCCCS such that AHCCCS provided available medical education funds from CMS. At June 30, 2014 and 2013, available funds from CMS for medical education totaled approximately \$32,605,000 and \$34,973,000, respectively. At June 30, 2014 and 2013, the amount due to MIHS is approximately \$21,794,000, which is net of the \$10,811,000 matching funds provided by MIHS, and \$23,112,000, which is net of the \$11,861,000 matching funds provided by MIHS, respectively.

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

Notes to Financial Statements (continued)

**8. Capital Assets**

Capital assets activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 4,408,898	\$ 32,546,850	\$ -	\$ (23,581,106)	\$ 13,374,642
Capitalized software in progress	1,296,934	6,080	(552,192)	(185,667)	565,155
Land	4,090,000	9,000,000	-	-	13,090,000
Capital assets being depreciated:					
Buildings and leasehold improvements	74,727,390	108,075,000	(35,000)	8,923,868	191,691,258
Capitalized software	47,439,596	-	-	185,667	47,625,263
Equipment	94,793,796	-	-	14,657,238	109,451,034
	<u>226,756,614</u>	<u>149,627,930</u>	<u>(587,192)</u>	<u>-</u>	<u>375,797,352</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	23,842,896	9,079,185	-	-	32,922,081
Capitalized software	16,050,508	7,422,732	-	-	23,473,240
Equipment	61,418,956	9,376,249	(35,000)	-	70,760,205
	<u>101,312,360</u>	<u>25,878,166</u>	<u>(35,000)</u>	<u>-</u>	<u>127,155,526</u>
Capital assets, net	<u>\$ 125,444,254</u>	<u>\$ 123,749,764</u>	<u>\$ (552,192)</u>	<u>\$ -</u>	<u>\$ 248,641,826</u>

Capital assets activity for the year ended June 30, 2013, was as follows:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	\$ 328,473	\$ 15,841,820	\$ -	\$ (11,761,395)	\$ 4,408,898
Capitalized software in progress	-	1,589,429	-	(292,495)	1,296,934
Land	4,090,000	-	-	-	4,090,000
Capital assets being depreciated:					
Buildings and leasehold improvements	71,052,582	-	-	3,674,808	74,727,390
Capitalized software	47,147,101	-	-	292,495	47,439,596
Equipment	89,457,789	-	(2,750,580)	8,086,587	94,793,796
	<u>212,075,945</u>	<u>17,431,249</u>	<u>(2,750,580)</u>	<u>-</u>	<u>226,756,614</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	18,952,269	4,890,627	-	-	23,842,896
Capitalized software	8,690,820	7,359,688	-	-	16,050,508
Equipment	55,684,437	8,448,293	(2,713,774)	-	61,418,956
	<u>83,327,526</u>	<u>20,698,608</u>	<u>(2,713,774)</u>	<u>-</u>	<u>101,312,360</u>
Capital assets, net	<u>\$ 128,748,419</u>	<u>\$ (3,267,359)</u>	<u>\$ (36,806)</u>	<u>\$ -</u>	<u>\$ 125,444,254</u>

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

Notes to Financial Statements (continued)

**9. Medical Claims Payable**

Medical claims liability consists of the following at June 30, 2014:

Claims payable or pending approval	\$ 15,628,798
Provisions for claims incurred but not yet reported	<u>7,045,508</u>
	<u><u>\$ 22,674,306</u></u>

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 on 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:

	2014	2013
Beginning balance	\$ 12,156,393	\$ 11,819,371
Incurred:		
Current	162,689,707	109,118,657
Prior	1,992,906	204,032
Total	<u>164,682,613</u>	<u>109,322,689</u>
Paid:		
Current	140,801,979	95,777,191
Prior	13,362,721	13,208,476
Total	<u>154,164,700</u>	<u>108,985,667</u>
Ending balance	<u><u>\$ 22,674,306</u></u>	<u><u>\$ 12,156,393</u></u>

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

Notes to Financial Statements (continued)

**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 revenue, 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 \$15,781,000 of which \$6,405,000 has been recorded as a current liability and approximately \$9,376,000 has been recorded as a noncurrent liability in the accompanying statements of net position as of June 30, 2014. Risk claims payable are undiscounted.

As of June 30, 2014, the District maintained commercial insurance as follows:

<b>Insurance</b>	<b>Limits</b>	<b>Self-Insured Retention/Deductible</b>
Workers' compensation	Statutory	\$500,000 each claim
Medical malpractice	\$25,000,000 each incident	\$2,000,000 each incident

The insurance policies listed above became effective December 1, 2012, and remain current through June 30, 2014. For the period July 1, 2012 through November 30, 2012, the District participated in the County's risk programs.

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

Notes to Financial Statements (continued)

**10. Risk Claims Payable (continued)**

The following is a reconciliation of the risk claims payable as of the year ended June 30, 2014:

	2014	2013
Beginning balance	\$ 11,588,073	\$ —
Total incurred	7,802,403	15,550,565
Total paid	3,609,644	3,962,492
Ending balance	\$ 15,780,832	\$ 11,588,073

**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	Deductions	Ending Balance	Current Portion
<b>2014</b>					
Capital lease obligations	\$ 7,484,542	\$ 3,750,000	\$ (3,383,830)	\$ 7,850,712	\$ 3,112,839
Note payable and credit facility, Maricopa County	15,443,000	—	(10,000)	15,433,000	—
Total long-term debt	\$ 22,927,542	\$ 3,750,000	\$ (3,393,830)	\$ 23,283,712	\$ 3,112,839
<b>2013</b>					
Capital lease obligations	\$ 7,439,228	\$ 2,420,657	\$ (2,375,343)	\$ 7,484,542	\$ 2,549,372
Note payable and credit facility, Maricopa County	15,443,000	—	—	15,443,000	—
Total long-term debt	\$ 22,882,228	\$ 2,420,657	\$ (2,375,343)	\$ 22,927,542	\$ 2,549,372

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

Notes to Financial Statements (continued)

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

**Capital Lease Obligations**

The District is obligated under the leases for buildings, building improvements, and equipment, which are accounted for as capital leases. Assets under capital leases at June 30, 2014 and 2013 had a total cost of approximately \$25,974,000 and \$23,320,000, respectively, with accumulated depreciation of approximately \$13,130,000 and \$9,928,000, 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, 2014:

	<b>Principal</b>	<b>Interest</b>
Years ending June 30:		
2015	\$ 3,112,839	\$ 205,664
2016	1,932,693	114,429
2017	1,627,733	48,576
2018	1,177,447	12,905
2019	—	—
	\$ 7,850,712	\$ 381,574

**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 is 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 now bears interest at a rate of 1.52% through its maturity in 2015. The balance for this note, including accrued interest, is approximately \$459,000 and \$452,000 at June 30, 2014 and 2013, respectively.

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 are 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. The \$15,000,000 was discounted at a rate of 6.4%, and the discounted amount of \$3,990,500 was amortized over a five-year period beginning on August 1, 2005.

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

Notes to Financial Statements (continued)

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

Beginning August 1, 2010, the \$15,000,000 bears interest at competitive rates through its maturity in 2015. The rate of interest is 1.52% and reflects the effective interest rate the County Treasurer earned on its investments as of August 1, 2010. The balance for this credit facility, including accrued interest, is approximately \$15,892,000 and \$15,665,000 at June 30, 2014 and 2013, respectively.

As part of the amended IGA, the District issued a note payable to the County for \$2,597,000 in September 2013, which is due July 2015. The note bears interest at a rate payable of 10%. The balance of this note is approximately \$1,335,000 at June 30, 2014.

**12. Restricted Net Position**

Restricted net position at June 30, 2014, consists of grant funds received for specific purposes that are expected to be expended during 2015, in the amount of approximately \$1,178,000. Restricted net position at June 30, 2013, consists of grant funds received for specific purposes that are expected to be expended during 2014, in the amount of approximately \$868,000.

**13. Pension Plan**

**Plan Description**

The District contributes to a cost-sharing, multiple-employer, defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Pension expense is recorded for the amount the District is contractually required to contribute for the period. 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.

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

Notes to Financial Statements (continued)

**13. Pension Plan (continued)**

**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, 2014 and 2013, active plan members and the District were required by statute to contribute at the actuarially determined rate of 11.54% (11.30% retirement and 0.24% long-term disability) and 11.14% (10.90% retirement and 0.24% long-term disability), respectively, of the members' annual covered payroll. The District's contributions to ASRS were approximately \$23,859,000 and \$22,814,000 for the years ended June 30, 2014 and 2013, respectively, which were equal to the required contributions for the year.

**14. Commitments and Contingencies**

**Capital Expenditure Commitments**

The District Board approved approximately \$1,000,000 in fiscal year 2015 capital expenditures related to the completion of the remaining application suite of the District's new Enterprise Resource Planning (ERP) system.

The District Board also approved approximately \$4,200,000 in fiscal year 2015 capital expenditures for strategic investments. One of the projects that was approved by the Board in May 2014 was the opening of the Pendergast Family Health Center (FHC) in the West Valley. The clinic will be operational around January 2015.

**Operating Leases**

The District leases various equipment and facilities under operating leases expiring at various dates through June 2019. Total rental expense in 2014 and 2013 for all operating leases was approximately \$2,843,000 and \$3,018,000, respectively.

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

Notes to Financial Statements (continued)

**14. Commitments and Contingencies (continued)**

The following is a schedule, by year, of future minimum lease payments under operating leases as of June 30, 2014, that have initial or remaining noncancelable lease terms in excess of one year:

Years ending June 30:	
2015	\$ 537,685
2016	537,685
2017	537,685
2018	537,685
2019	542,932

**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, 2014, management believes MHP was in compliance with these covenants.

For 2014 and 2013, 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, 2015. The loss of this contract would have an adverse effect on MHP's future operations.

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

Notes to Financial Statements (continued)

**14. Commitments and Contingencies (continued)**

The District has secured an irrevocable letter of credit in the amount of \$20,000,000 with Travelers Casualty and Surety Company of America to fulfill the performance bond requirement of the AHCCCS contract at June 30, 2014.

**Maricopa Care Advantage**

During the year ended June 30, 2014, 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, 2014, management believes MCA was in compliance with these covenants.

For 2014, 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, 2015. The loss of this contract could have an adverse effect on MCA's future operations.

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, 2014.

**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, 2014 and 2013, through disproportionate share settlements established in Laws 2013 First Special Session Chapter 10 and Laws 2012 Second Regular Session Chapter 299, Chapter 13, respectively. 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 2014 and 2013.

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

Notes to Financial Statements (continued)

**16. Related-Party Transactions**

During the years ended June 30, 2014 and 2013, net patient service revenues included approximately \$4,685,000 and \$4,834,000, respectively, of payments received from Maricopa County Correctional Health for medical services rendered. In addition, transfers of approximately \$2,070,000 and \$3,548,000 in subsidies were received from the County General Fund in fiscal years 2014 and 2013, respectively, and approximately \$2,456,000 and \$2,771,000, in grant funds were received from the Maricopa County Department of Public Health in fiscal years 2014 and 2013, respectively. The District also provided various other services to the County for the years ended June 30, 2014 and 2013, totaling approximately \$15,000 and \$90,000, respectively.

During the year ended June 30, 2014, net patient revenues also included approximately \$2,337,000 of payments received from Mercy Maricopa Integrated Care (MMIC) for medical and behavioral services rendered.

**17. Subsequent Events**

Effective July 1, 2014, 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 \$65,124,000 of annual tax revenue. The tax revenue is to be used to support operations of the District.

During the fiscal year, the District established a new nonprofit company, HomeAssist Health, Inc. (HAH) to provide non-skilled personal care services to medically underserved persons primarily those residing in Maricopa County. In fiscal year 2014, the District provided these services as a department within the Medical Center. Effective July 1, 2014, these services, including all direct employees, were transitioned to HAH. Additionally, the District transferred all of its current contracts with payers for this service to HAH.

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 and construction of new outpatient health centers in northern, eastern and/or western Maricopa County, behavioral health facilities, including construction of a new behavioral health hospital and acute care facilities, including replacement of the District's public teaching hospital Maricopa Medical Center and its Level One Trauma Center and Arizona Burn Center, on the existing campus.

# Single Audit Reports



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

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

We have audited, in accordance with the 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 Health Care District d/b/a Maricopa Integrated Health System (the District) as of and for the year ended June 30, 2014, 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 5, 2014. Our report includes a reference to other auditors who audited the financial statements of the Maricopa Health Plan (a division of the District) and Maricopa Care Advantage as described in our report on the District's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maricopa Health Plan and Maricopa Care Advantage were not audited in accordance with *Government Auditing Standards*.

### **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 5, 2014



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## Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

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

### **Report on Compliance for Each Major Federal Program**

We have audited Maricopa County Special Health Care District d/b/a Maricopa Integrated Health System's (the District) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Ernst + Young LLP*

January 27, 2015

# Supplementary Information

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

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor / Program Title / Pass-Through Grantor	CFDA Number	Pass-Through Entity Identifying Number	Research and Development Cluster	Other Expenditures	Total Expenditures
<b>U.S. Department of Transportation:</b>					
State and Community Highway Safety	20.600		\$ -	\$ 19,977	\$ 19,977
<b>Total U.S. Department of Transportation</b>			<u>-</u>	<u>19,977</u>	<u>19,977</u>
<b>U.S. Department of Health and Human Services:</b>					
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		\$ -	\$ 595,566	\$ 595,566
Research on Healthcare Costs, Quality and Outcomes	93.226		12,530	-	12,530
Mental Health Research Grants – <i>University of Massachusetts</i>	93.242	5U01MH088278	33,750	-	33,750
Centers for Disease Control and Prevention – Investigations and Technical Assistance <i>Maricopa County Department of Human Health</i>	93.283	C86-07-044-2-0	-	62,961	62,961
Centers for Disease Control and Prevention – Investigations and Technical Assistance <i>Maricopa County Department of Human Health</i>	93.283	ADHS14-064590	-	85,107	85,107
<b>Total 93.283 – Pass-Through</b>			<u>-</u>	<u>148,068</u>	<u>148,068</u>
Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development – <i>John Hopkins University School of Medicine</i>	93.360	1HDSEPT130014-01-01	196,559	-	196,559
Refugee and Entrant Assistance – State Administered Programs – <i>State of Arizona</i>	93.566	ADES13-047143	-	75,859	75,859
Strong Start for Mothers and Newborns	93.611		-	207,114	207,114
ARRA – State Grants to Promote Health Information Technology – <i>Jewish Family Service</i>	93.719	ASET13-SUB-UP-05	-	4,738	4,738
Cardiovascular Diseases Research – <i>The Regents of the University of California</i>	93.837	5U54HL108460-04	3,546	-	3,546
Biomedical Research and Research Training – <i>University of Pittsburgh</i>	93.859	5R01GM097471-03	2,607	-	2,607
National Bioterrorism Hospital Preparedness Program – <i>Arizona Department of Health Services</i>	93.889	ADHS13-048506/HR954027	-	176,336	176,336
National Bioterrorism Hospital Preparedness Program – <i>Arizona Department of Health Services</i>	93.889	ADHS14-060137	-	5,000	5,000
<b>Total 93.889 – Pass-Through</b>			<u>-</u>	<u>181,336</u>	<u>181,336</u>
HIV Emergency Relief Project Grants – <i>Maricopa County Department of Human Health</i>	93.914	H89HA11478	-	2,393,460	2,393,460
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918		-	676,759	676,759
HIV Prevention Activities – Health Department Based – <i>Arizona Department of Health Services</i>	93.940	5U62PS003635	-	753,025	753,025
Maternal and Child Health Services Block Grant to the States – <i>Arizona Department of Health Services</i>	93.994	HG761224	-	251,782	251,782
Clinical Trial for Community-Acquired Methicilin-Resistant Staphylococcus Aureus (CA-MRSA) Infections – <i>Olive View-UCLA Medical Center</i>	93.HHSN272200700032C	NIH-NIAID-DMID-07-12	37,729	-	37,729
<b>Total U.S. Department of Health and Human Services</b>			<u>286,721</u>	<u>5,287,707</u>	<u>5,574,428</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 286,721</u>	<u>\$ 5,307,684</u>	<u>\$ 5,594,405</u>

See notes to Schedule of Expenditures of Federal Awards.

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

**Note 1**

Federal awards expended are reported on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States as described in the notes to the financial statements.

**Note 2**

Federal expenditures of \$5,594,405 are included in the financial statements as grant expenditures.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

**Section I – Summary of Auditor’s Results**

**Financial Statements Section**

Type of auditor’s report issued (unmodified, qualified, adverse, or disclaimer):

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**        X   **No**

Significant deficiency(ies) identified?

\_\_\_\_\_ **Yes**        X   **None reported**

Noncompliance material to financial statements noted?

\_\_\_\_\_ **Yes**        X   **No**

**Federal Awards Section**

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ **Yes**        X   **No**

Significant deficiency(ies) identified?

\_\_\_\_\_ **Yes**        X   **None reported**

Type of auditor’s report issued on compliance for major federal programs (unmodified, qualified, adverse, or disclaimer):

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

\_\_\_\_\_ **Yes**        X   **No**

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

Schedule of Findings and Questioned Costs (continued)

**Section I – Summary of Auditor’s Results (continued)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.940	HIV Prevention Activities – Health Department Based

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X **Yes**

       **No**

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

Schedule of Findings and Questioned Costs (continued)

**Section II – Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None noted.

**Section III – Federal Award Findings and Questioned Costs**

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None noted.

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