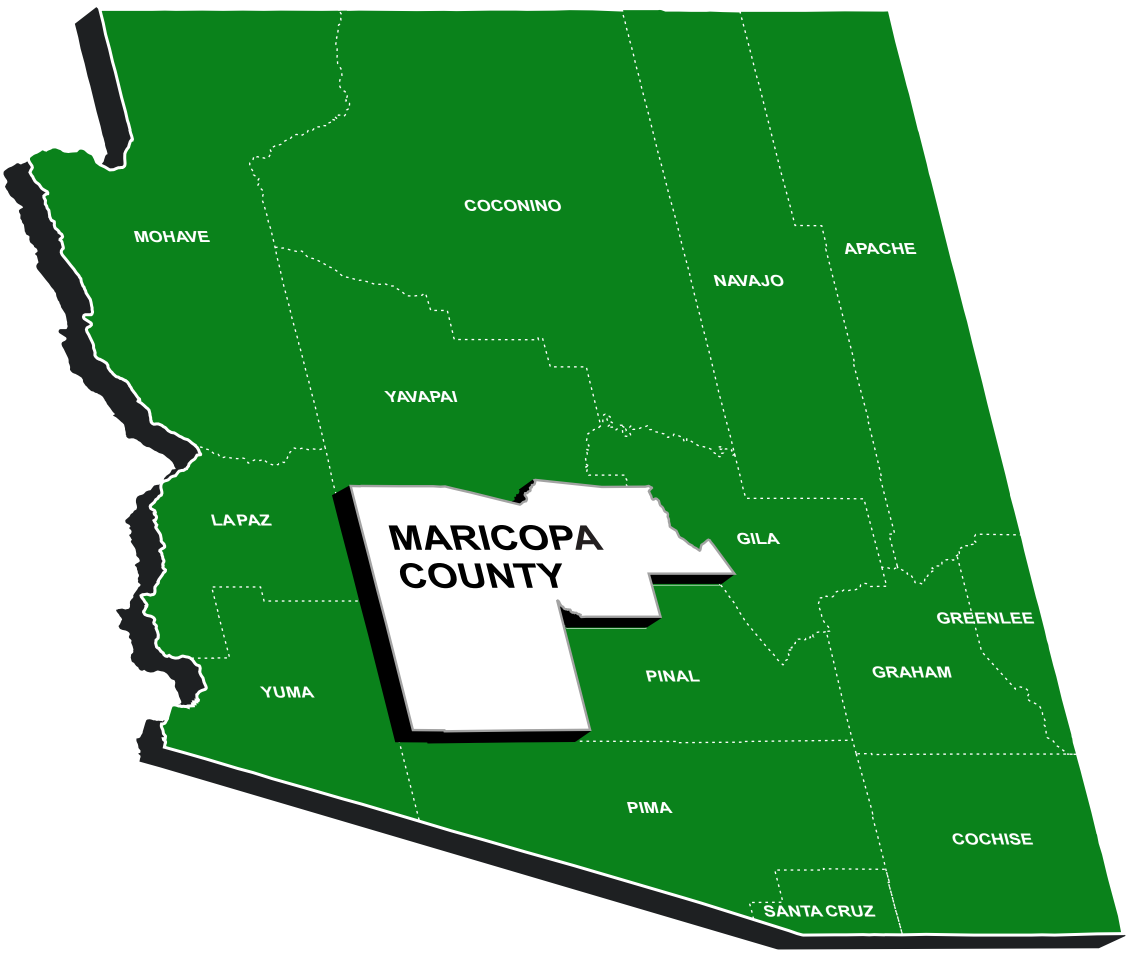
Risk Management Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2019



Maricopa County, Arizona

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MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT TRUST FUND
(An Internal Service Fund of Maricopa County)
Report on Audit of Financial Statements
June 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors
Maricopa County Risk Management Trust Fund
Maricopa County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Maricopa County Risk Management Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2019, and the related statements of revenues, expenses and changes in net position – internal service fund, and cash flows – internal service fund for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Board of Supervisors
Maricopa County Risk Management Trust Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Risk Management Trust Fund as of June 30, 2019, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Risk Management internal service fund and do not purpose to, and do not present fairly the financial position of Maricopa County as of June 30, 2019, the changes in its financial position, or, where applicable, it cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 5 through 8 and schedule of the Maricopa County Risk Management Trust Fund's proportionate share of the net pension liability and contributions on pages 25 through 26 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, who 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 of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of the Maricopa County Risk Management Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Maricopa County Risk Management Trust Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Maricopa County Risk Management Trust Fund's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 19, 2019

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INDEPENDENT AUDITORS' REPORT 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*

Board of Supervisors
Maricopa County Risk Management Trust Fund
Maricopa County, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Maricopa County Risk Management Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position – internal service fund and cash flows – internal service fund for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Maricopa County Risk Management Trust Fund's basic financial statements, and have issued our report thereon dated November 19, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Maricopa County Risk Management Trust Fund'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 Maricopa County Risk Management Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Maricopa County Risk Management Trust Fund's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Risk Management Trust Fund's financial statements are free from 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
November 19, 2019

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Management's Discussion and Analysis
June 30, 2019

This section of the financial statements of the Maricopa County Risk Management Trust Fund presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2019. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

Overview of the Financial Statements

Maricopa County, Arizona (County) established a Risk Trust Fund (Trust) and declares itself Self-Insured under the provisions of Arizona Revised Statutes (A.R.S.) 11-981. For financial statement presentation purposes, the self-insured trust fund is reported as the Maricopa County Risk Management Trust Fund (Fund). The Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies as applicable. The primary purpose of the Risk Management Trust Fund is to provide indemnity protection from liability claims and lawsuits and to provide a source of funds to repair or replace damaged structures and/or personal property when damaged by a covered peril for County departments, County districts and other participants.

The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements are as follows:

<u>Statement of Net Position</u>
This statement presents information reflecting the assets, liabilities, deferred inflows and outflows of resources, and accumulated net position of the Fund as of June 30, 2019.

<u>Statement of Revenues, Expenses, and Changes in Net Position</u>
This statement reflects the revenues and expenses, as well as non-operating revenues and expenses during the year ended June 30, 2019.

<u>Statement of Cash Flows</u>
This statement reflects the cash flows from operating, investing, capital and non capital financing activities during the year ended June 30, 2019.

Financial Highlights

The significant highlights of fiscal year 2019 as compared to fiscal year 2018 follows:

- Total assets decreased $5,322,249 from $20,118,841 as of June 30, 2018 to $14,796,592 as of June 30, 2019.

- Deferred outflows and inflows of resources refer to the consumption and acquisition of net position applicable to a future reporting period and are related to the requirements of accounting and financial reporting for pensions. Deferred outflows of resources decreased $14,349 from $397,937 as of June 30, 2018 to $383,588 as of June 30, 2019. Deferred inflows of resources increased $90,483 from $294,215 as of June 30, 2018 to $384,698 as of June 30, 2019.

- Total liabilities decreased $11,755,861 from $82,056,789 as of June 30, 2018 to $70,300,928 as of June 30, 2019.

- Net position (deficit) is reported in the accompanying financial statements as unrestricted and investment in capital assets. The total net position (deficit) decreased $6,328,780 from $(61,834,226) as of June 30, 2018 to $(55,505,446) as of June 30, 2019.

The following tables and analysis discuss the financial position of the Fund as of June 30, 2019 and 2018 and the results achieved from the operations of the Fund for the year ended June 30, 2019 as compared to the year ended June 30, 2018.

Summary of Net Position

	June 30,	
	2019	**2018**
Cash and cash equivalents	$ 13,018,563	$ 18,280,636
Prepaid insurance	1,682,600	1,657,827
Interest receivable	47,117	80,609
Capital assets, net	48,312	99,769
Total assets	14,796,592	20,118,841
Deferred outflows of resources		
Deferred outflows related to pensions	383,588	397,937
Total deferred outflows of resources	383,588	397,937
Reserve for losses and loss expenses	64,940,972	76,995,586
Accounts payable	2,224,403	1,338,465
All other liabilities	3,135,553	3,722,738
Total liabilities	70,300,928	82,056,789
Deferred inflows of resources		
Deferred inflows related to pensions	384,698	294,215
Total deferred inflows of resources	384,698	294,215
Net position		
Investment in capital assets	48,312	99,769
Unrestricted (deficit)	(55,553,758)	(61,933,995)
Total net position (deficit)	$ (55,505,446)	$ (61,834,226)

Cash and cash equivalents decreased $5,262,073 as of June 30, 2019 compared to June 30, 2018 which caused an overall decrease in total assets.

Reserve for losses and loss expenses decreased $12,054,614 which caused an overall decrease in total liabilities. The reserve is determined by adjustments to specific claims and actuary projections.

Capital Assets and Related Debt

The Fund's investment in capital assets as of June 30, 2019, amounted to $48,312 net of accumulated depreciation. Capital assets consist of equipment and furnishings.

No long-term debt was added in fiscal year 2019.

Depreciation expense increased $24,116 from $26,877 as of June 30, 2018 to $50,993 as of June 30, 2019.

Summary of Revenues, Expenses and Changes in Net Position

	Years ended June 30, 2019	2018
Charges for services	$ 20,985,688	$ 20,574,204
Other income	565,033	864,452
Investment income	427,940	214,574
Gain (loss) on disposal of capital assets	(96,044)	
Transfers in	5,142,867	
Total revenue	27,025,484	21,653,230
Losses and loss expenses	12,606,040	23,698,981
All other expenses	8,090,664	9,007,698
Total expenses	20,696,704	32,706,679
Changes in net position	6,328,780	(11,053,449)
Total net position (deficit), July 1	(61,834,226)	(50,780,777)
Total net position (deficit), June 30	$ (55,505,446)	$ (61,834,226)

Charges for services had a slight increase. This amount is determined annually by a funding analysis. Other income decreased slightly in fiscal year 2019 from the previous fiscal year. Investment income increased slightly this fiscal year as the economy saw stronger interest rates. The risk recycling program was transferred to facilities management as well as the assets used in the recycling program. This is the loss on the disposal of capital assets however, the funds for the assets were transferred from facilities management to the Trust and are included in the transfer in income. The additional transfer in income was monies set aside as contingency during the budget process. Because of the large claim's payments made by the Trust in the fiscal year, the money was transferred into the Trust.

Total expenses decreased $12,009,975. This is largely due to increased claim payments which brought the actuarial estimates for the reserves for losses down this fiscal year. As mentioned earlier, this is determined by reserve adjustments on specific claims and actuary projections.

Net Position

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net position (deficit) of $(23,321,519) at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that called for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. Beginning in fiscal year 2012, Maricopa County (County) began using a combination of user charges on a cost reimbursement basis and contingency funds for the Trust funding plan. As of June 30, 2019, the total net position (deficit) was $(55,505,446). This is primarily due to the Risk Management Trust Fund not being funded for accrued claim liabilities which are not considered when determining funding for each fiscal year.

Economic Factors

During the budget and planning process for fiscal year 2019, County leadership asked each department to submit relatively flat budget requests with increases from the prior fiscal year requests only where approved. The Fund has continued to keep its charges relatively flat with just a slight increase this fiscal year using a combination of user charges and contingency funds and works to manage the ever-fluctuating costs of claims and claims related expenses. The effectiveness of a risk management program can be reflected in the comparison of the risk management program costs to the total County's expenditures. The Fund's commitment is to maintain this measure at or below 2%.

Contact Information

The management report is to provide our participants, customers and consultants with a general overview of the Fund's finances. If you have any questions about this report or need additional information, please contact the Maricopa County Risk Management Department, 222 N. Central Ave., Suite 1110, Phoenix, AZ 85004, or at www.maricopa.gov.

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Statement of Net Position—Internal Service Fund
June 30, 2019

	Risk Management
Assets	
Current assets:	
Cash and cash equivalents	$ 13,018,563
Interest receivable	47,117
Prepaid insurance	1,682,600
Total current assets	14,748,280
Noncurrent assets:	
Capital assets	185,637
Accumulated depreciation	(137,325)
Total noncurrent assets	48,312
Total assets	14,796,592
Deferred Outflows of Resources	
Deferred outflows related to pensions	383,588
Total deferred outflows of resources	383,588
Liabilities	
Current liabilities:	
Accounts payable	2,224,403
Employee compensation payable	363,692
Reserve for losses and loss expenses	16,251,931
Total current liabilities	18,840,026
Noncurrent liabilities:	
Reserve for losses and loss expenses	48,689,041
Net pension liability	2,771,861
Total noncurrent liabilities	51,460,902
Total liabilities	70,300,928
Deferred Inflows of Resources	
Deferred inflows related to pensions	384,698
Total deferred inflows of resources	384,698
Net Position	
Invested in capital assets	48,312
Unrestricted (deficit)	(55,553,758)
Total net position (deficit)	$ (55,505,446)

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Statement of Revenues, Expenses, and
Changes in Net Position—Internal Service Fund
Year Ended June 30, 2019

	Risk Management
Operating revenues:	
Intergovernmental charges	$ 20,985,688
Other income	565,033
Total operating revenues	21,550,721
Operating expenses:	
Personal services	2,484,092
Supplies and services	867,113
Legal expenses	4,553,752
Workers' compensation taxes	134,714
Losses and loss expenses	12,606,040
Depreciation	50,993
Total operating expenses	20,696,704
Operating income	854,017
Nonoperating revenues (expenses):	
Investment income	427,940
Gain (loss) on disposal of capital assets	(96,044)
Total nonoperating revenues (expenses)	331,896
Income before transfers	1,185,913
Other financing sources:	
Transfers in	5,142,867
Total other financing sources	5,142,867
Changes in net position	6,328,780
Total net position (deficit), July 1, 2018	(61,834,226)
Total net position (deficit), June 30, 2019	$ (55,505,446)

The accompanying notes are an integral part of the financial statements.

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Statement of Cash Flows—Internal Service Fund
Year Ended June 30, 2019

	Risk Management
Cash flows from operating activities:	
Receipts from employees and other funds	$ 20,985,688
Other receipts	565,033
Payments for fees, supplies, and services	(4,832,536)
Payments for claims	(19,209,920)
Payments for insurance premiums	(5,312,612)
Payments to employees	(2,966,445)
Net cash used in operating activities	(10,770,792)
Cash flows from capital financing activties:	
Purchase of capital assets	(95,580)
Net cash used in capital financing activities	(95,580)
Cash flows from other financing activities:	
Transfers in	5,142,867
Net cash provided by other financing activities	5,142,867
Cash flows from investing activities:	
Interest received on investments	461,432
Net cash provided by investing activities	461,432
Net decrease in cash and cash equivalents	(5,262,073)
Cash and cash equivalents, July 1, 2018	18,280,636
Cash and cash equivalents, June 30, 2019	$ 13,018,563
Reconciliation of operating loss to net cash used in operating activities:	
Operating income	$ 854,017
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	50,993
Net change in RBUC and IBNR claims, noncurrent portion	(10,338,944)
Changes in assets and liabilities:	
Increase in:	
Prepaid insurance	(24,773)
Accounts payable	885,938
Deferred inflows of resources related to pensions	90,483
RBUC and IBNR claims, current portion	(1,715,670)
Decrease in:	
Employee compensation payable	(81,561)
Deferred outflows of resources related to pensions	14,349
Net pension liability	(505,624)
Net cash used in operating activities	$ (10,770,792)
Schedule of noncash investing, capital, and non capital financing activites:	
Capital assets transferred to governmental funds	$ (166,491)
Accumulated depreciation on capital assets transferred to governmental funds	$ 70,447
Loss on disposal of capital assets transferred to governmental funds	$ 96,044

The accompanying notes are an integral part of the financial statements.

NOTE 1 - Organization and Summary of Significant Accounting Policies

Maricopa County, Arizona (the County), in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund and declares itself self-insured. For financial statement presentation purposes, the self-insured trust fund is reported as the Risk Management Trust Fund (Fund) and all monies held in the Fund are considered restricted for purposes of self-insurance. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The accompanying financial statements are those of the Fund and do not represent the financials statements of the County as a whole. The County's *Comprehensive Annual Financial Report* and basic financial statements as of and for the year ended June 30, 2019, will report the Fund as a governmental activity in the government-wide financial statements since it predominantly services the County's governmental funds. A summary of the Fund's significant accounting policies follows:

A. Reporting Entity

The Fund is accounted for as an internal service fund of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Fund is administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Fund remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

B. Fund Accounting

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. The Fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, deferred outflows and inflows of resources, liabilities, net position, revenues, and expenses.

The Fund's financial transactions are recorded and reported as an internal service fund since its operations are financed and operated in a manner similar to private business enterprises. The intent of the County Board of Supervisors is that the costs (expenses, including depreciation) of providing goods or services to other departments within the County on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Presentation and Accounting

The basic financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; and a statement of cash flows.

The statement of net position provides information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Fund at the end of the year. Assets and liabilities are classified as current and noncurrent. Investment in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net position (deficit) represents the assets held in the Fund for the specific purpose of self-insurance.

The statement of revenues, expenses, and changes in net position provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or non-operating, and all changes in net position are reported. Generally, charges for services are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be non-operating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, investing, or capital and non capital financing.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

When expending the Fund's fund balance or net position, if an expenditure is incurred that can be paid from either restricted or unrestricted fund balance, it is the Fund's policy to use unrestricted fund balance first.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets, deferred inflows and outflows of resources, and liabilities and disclosure of contingent assets, deferred inflows and outflows of resources, and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Investments

For purposes of the statement of cash flows, the Fund considers cash and cash equivalents to be cash on hand, demand deposits, cash and investments held by the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased.

F. Capital Assets

Capital assets consist mainly of vehicles and equipment with an initial, individual cost of more than $5,000. Capital assets are initially recorded at cost. Depreciation of capital assets are charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives range from 3 to 20 years.

G. Deferred Outflows and Deferred Inflows of Resources

The Fund recognizes the consumption of net position that are applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to accounting and financial reporting for the pension plans.

The Fund recognizes the acquisition of net position that are applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to accounting and financial reporting for the pension plans.

H. Reserve for Losses and Loss Expenses

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other socioeconomic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

I. Employee Compensation Payable

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate, and roll-over from year-to-year, up to 240 or 320 hours (depending on employee classification) of vacation leave, but any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon terminating employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a $10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2019, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end.

J. Pension Plan

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

K. Income Tax

The Fund is a component unit of Maricopa County, Arizona, a governmental agency, and is exempt from federal and state income taxes.

NOTE 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Fund to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds, notes and other evidences of indebtedness; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper issued by corporations organized and doing business in the United States, specified bonds, debentures, notes and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest Trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia. At June 30, 2019, all Fund cash and cash equivalents are held within the County Treasurer's investment pool.

Deposits — At June 30, 2019, there were no deposits for the Fund. The Fund follows the County's policies requiring collateralization of all deposits by at least 102% of the deposits not covered by depository insurance. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

Investments — The Fund's investments at June 30, 2019, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Fund's investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments.

Custodial credit risk — Statutes require collateral for deposits at 102% of all deposits not covered by federal depository insurance. For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. It is the County's investment policy that all of the Treasurer's securities be held by the agent or trust department and in the County's name. At June 30, 2019, The County did not have investments exposed to custodial credit risk.

Foreign currency risk — Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Credit Risk — Statutes have the following requirements for credit risk:
1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes and other evidences of indebtedness that are denominated in United States dollars must be rated A or better at the time of purchase by at least two nationally recognized ratings agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors' service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

The Fund follows the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The

County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2019, the Fund's investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

Interest rate risk — Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2019, the Fund had investments of $13,018,463 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 642 days, of which 15.7% of pooled investments have maturities of 90 days or less. The County invests the pooled investments primarily in U.S. government agency securities.

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Position follows:

Cash, deposits, and investments:	
Cash on hand	$ 100
County Treasurer's Investment Pool	13,018,463
Total	$ 13,018,563

NOTE 3 - Reserve for Losses and Loss Expenses

The Fund provides for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The County is liable for any single claim up to the insurance deductible or self-insurance retention (SIR), whichever is applicable, and the excess over insurance limits. Settled claims have not exceeded the commercial insurance coverage limits over the past 3 years.

Reserve for losses and loss expenses are estimates of the ultimate cost of claims that include the insurance deductible, the SIR, and the excess over insurance limits. The estimates are determined by an independent actuary using the following actuarial methods: developed paid loss, developed reported incurred losses, developed case reserves, frequency times severity analysis, loss rate analysis, and the Bornhuetter-Ferguson method. Total liabilities are equal to the sum of:

1. Reported but unpaid claims, which represent the estimated liability on reported claims established by the risk management department and;

2. Incurred but not reported reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. Therefore, IBNR is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted expected confidence level assuming a 2.0 percent annual rate of return on investments.

The total liabilities reported at June 30, 2019, categorized by insurable area follow:

Auto liability	$ 2,802,808
General liability	13,451,624
Workers' compensation	16,819,916
Medical malpractice	2,169,009
Auto physical damage	462,134
Property	146,011
Professional liability	230,752
Environmental property damage	2,036,103
Environmental liability	22,346,773
Unallocated	4,475,842
Total	$ 64,940,972

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, property, professional liability, environmental property damage, environmental liability and unallocated claims follow:

Year	Balance July 1	Current-Year And Changes Estimates	Claim Payments	Balance June 30
FY 2016-17	$ 80,288,367	$ 3,354,801	$ (9,144,619)	$ 74,498,549
FY 2017-18	74,498,549	18,355,104	(15,858,067)	76,995,586
FY 2018-19	76,995,586	7,155,306	(19,209,920)	64,940,972

Of these liabilities, $16,251,931 were actuarially estimated to be payable within the next 12 months.

NOTE 4 - Net Position

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net position (deficit) of $(23,321,519) at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. Beginning in fiscal year 2012, the County began using a combination of user charges and contingency funds for the Trust fund plan. As of June 30, 2019, the total net position (deficit) was $(55,505,446). This is primarily due to the Risk Management Trust Fund not being funded for accrued claim liabilities which are not considered when determining funding for each fiscal year.

NOTE 5 - Letter of Credit

On July 1, 2018, the County maintained a $12,109,327 irrevocable standby letter of credit issued to the Industrial Commission of Arizona for unfunded workers' compensation claims. On December 31, 2018, the letter of credit was increased to $12,937,811. The letter of credit was reserved against the municipal revolving line of credit. During fiscal year 2019, the letter of credit had not been drawn upon. The irrevocable standby letter of credit was renewed to June 30, 2020, for $12,937,811. However, an amendment will be issued on January 1, 2020 for the new liability amount.

NOTE 6 - Pollution Remediation Obligations

The Fund has estimated and reported a pollution remediation obligation in the financial statements for the current or potential detrimental effects of existing pollution. These obligations are categorized under environmental property damage and environmental liability in Note 3 – Reserve for Losses and Loss Expenses. At June 30, 2019, the Fund reported $24,382,876 of reported but unpaid claims, which is comprised of the following pollution remediation obligations:

Landfill – The County entered into a Consent Decree with Arizona Department of Environmental Quality (ADEQ) to remediate contaminated groundwater at a County landfill. A Remedial Action Plan (RAP) was approved by ADEQ in November 2016. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant. The estimate consists of a groundwater remediation program, a soil vapor extraction system and continued mandated monitoring and reporting to ADEQ.

A portion of County property adjacent to a municipal landfill is on the Superfund National Priorities List by the United States Environmental Protection Agency (EPA), pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), 42 U.S.C. §9605(a)(8), due to suspected groundwater contamination. The County is responsible for 27.78% of the remediation costs. The County's pollution remediation liability is an estimate provided by a professional environmental consultant. The groundwater extraction and soil vapor extraction treatment systems will continue to be run until the groundwater and soil meet cleanup levels.

The Fund pollution remediation liability is subject to change due to changes in the cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort. The Fund has no estimated recoveries at this time.

NOTE 7 - Retirement Plan

The Fund contributes to the Arizona State Retirement System (ASRS) Plan described below. The plan is a component unit of the State of Arizona.

At June 30, 2019, the Fund reported the following aggregate amounts related to the pension plan to which it contributes:

Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position	Governmental Activities
Net pension liabilities	$ 2,771,861
Deferred outflows of resources	383,588
Deferred inflows of resources	384,698
Pension expense	(166,916)

Plan Description – The Fund's employees participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

The OPEB plan is not included in the Fund's financial statements as the asset/liability and related deferred inflows of resources, deferred outflows of resources, as OPEB expenses are not material.

Benefits Provided – The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

	Retirement Initial membership date: Before July 1, 2011	 On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3 %	2.1% to 2.3%

*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions – In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2019, statute required active ASRS members to contribute at the actuarially determined rate of 11.8 percent (11.64 percent for retirement and 0.16 percent for long-term disability) of the members' annual covered payroll, and statute required the Fund to contribute at the actuarially determined rate of 11.8 percent (11.18 percent for retirement, 0.46 percent for health insurance premium benefit, and 0.16 percent for long-term disability) of the active members' annual covered payroll.

The Fund's contributions to the pension plan for the year ended June 30, 2019, were $233,876.

Pension Liability – At June 30, 2019, the Fund reported a liability of $2,771,861 for its proportionate share of the ASRS's net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The total pension liability as of June 30, 2018, reflect changes in actuarial assumptions based on the results of an actuarial experience study for the 5-year period ending June 30, 2016, including decreasing the discount rate from 8 percent to 7.5 percent, changing the projected salary increases from 3-6.75 percent to 2.7-7.2 percent, decreasing the inflation rate from 3 percent to 2.3 percent, and changing the mortality rates.

The Fund's proportion of the net pension liability was based on the County's June 30, 2018 ASRS net pension liability of $679,874,203. At June 30, 2018, the Fund's proportion was 0.408 percent, which was a decrease of 0.021 from its proportion measured as of June 30, 2017.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2019, the Fund recognized pension expense for ASRS of ($166,916). At June 30, 2019, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 76,363	$ 15,281
Changes of assumptions or other inputs	73,349	245,763
Net difference between projected and actual earnings on pension plan investments		66,567
Changes in proportion and differences between Fund contributions and proportionate share of contributions		56,997
Fund contributions subsequent to the measurement date	233,876	
Total	$ 383,588	$ 384,698

The $233,876 reported as deferred outflows of resources related to ASRS pensions resulting from Fund contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2020	$ (21,622)
2021	(82,358)
2022	(101,113)
2023	(29,893)

Actuarial Assumptions – The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2017
Actuarial roll forward date	June 30, 2018
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long - Term Expected Arithmetic Real Rate of Return
Equity	50%	5.50%
Fixed income	30%	3.83%
Real estate	20%	5.85%
Total	100%	

Discount Rate – At June 30, 2018, the discount rate used to measure the ASRS total pension liability was 7.5 percent, which was a decrease of 0.5 from the discount rate used as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Fund's proportionate share of the ASRS net pension liability to changes in the discount rate – The following table presents the Fund's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Fund's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Fund's proportionate share of the net pension liability	$ 3,951,351	$ 2,771,861	$ 1,786,415

Pension Plan Fiduciary Net Positon – Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Required Supplementary Information
Schedule of the Fund's Proportionate Share of Net Pension Liability and Contributions
Cost-Sharing Pension Plans
June 30, 2019

Arizona State Retirement System	Fiscal Year (Measurement Date)					
	2019 (2018)	**2018 (2017)**	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2010**
Proportion of the net pension liability	0.0199%	0.0210%	0.0217%	0.0205%	0.0193%	Information
Proportionate share of the net pension liability	$ 2,771,861	$ 3,277,485	$ 3,510,583	$ 3,193,127	$ 2,850,369	not available
Covered payroll	$ 2,109,742	$ 2,072,464	$ 1,904,819	$ 1,881,292	$ 1,817,445	
Proportionate share of the net pension liability as a percentage of its covered payroll	131.4%	158.1%	184.3%	169.7%	156.8%	
Plan fiduciary net position as a percentage of the total pension liability	73.40%	69.92%	67.06%	68.35%	69.49%	

Schedule of Fund County Pension Contributions

Arizona State Retirement System	Fiscal Year						
	2019	**2018**	**2017**	**2016**	**2015**	**2014**	**2013 through 2010**
Statutorily required contribution	$ 233,876	$ 225,826	$ 222,807	$ 205,278	$ 196,031	$ 193,243	Information
Contributions in relation to the statutorily required contribution	$ 233,876	$ 225,826	$ 222,807	$ 205,278	$ 196,031	$ 193,243	not available
Contribution deficiency (excess)	$0	$0	$0	$0	$0	$0	
Covered payroll	$2,195,902	$2,109,742	$2,072,464	$1,904,819	$1,881,292	$1,817,445	
Contributions as a percentage of covered payroll	10.7%	10.7%	10.8%	10.8%	10.4%	10.6%	

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Notes to required Supplementary Information
June 30, 2019

Note 1 - Acuarially Determined Contribution Rates

Actuarial determined contribution rates for ASRS are calculated as of June 30 one year prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to estabilsh the contribution requirements are as follows:

Actuarial valuation date	6/30/2017
Actuarial roll forward date	6/30/2018
Actuarial cost method	Entry age normal
Discount rate	7.5%
Projected salary increases	2.7-7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP