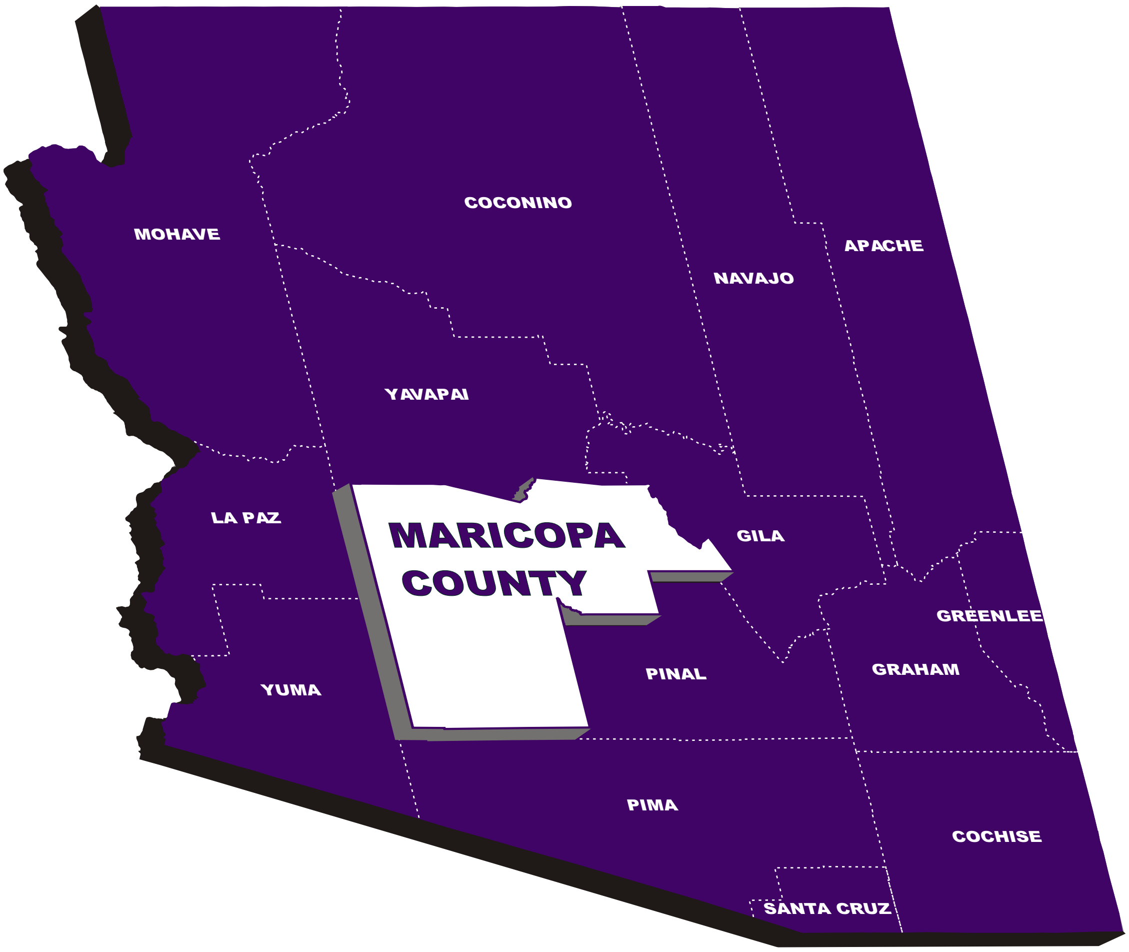
Risk Management Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2015



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT TRUST FUND
(An Internal Service Fund of Maricopa County)
Report on Audit of Financial Statements
June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Board of Supervisors of
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, 2015, 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.

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, 2015, 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 a Matter

Change in Accounting Principle

During fiscal year ended June 30, 2015, the Maricopa County Risk Management Trust Fund adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. As a result of the implementation of GASBS No. 68 and 71, Maricopa County Risk Management Trust Fund reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

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 analysis and schedule of the Maricopa County Risk Management Trust Fund's proportionate share of the net pension liability and contributions on pages 27 through 28 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 December 2, 2015, 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 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 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
December 2, 2015

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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 of
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, 2015, 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, 2015, 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 December 2, 2015.

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.

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Trust Fund

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
December 2, 2015

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Management's Discussion and Analysis
June 30, 2015

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, 2015. 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:

Statement of Net Position
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, 2015.

Statement of Revenues, Expenses and Changes in Net Position
This statement reflects the revenues and expenses, as well as non-operating revenues during the year ended June 30, 2015.

Statement of Cash Flows
This statement reflects the cash flows from operating, investing, capital and non capital financing activities during the year ended June 30, 2015.

Financial Highlights

The more significant highlights of fiscal year 2015 as compared to fiscal year 2014 follows:

- Total assets decreased more than two million dollars from $36,524,053 as of June 30, 2014 to $34,460,520 as of June 30, 2015.

- Deferred outflows and inflows of resources are reported new this fiscal year. The amounts refer to the consumption and acquisition of net assets applicable to a future reporting period and are related to the requirements of accounting and financial reporting for pensions under Governmental Accounting Standards Board (GASB), Statement No. 68.

- Total liabilities increased more than seven million dollars from $66,719,932 as of June 30, 2014 to $74,182,225 as of June 30, 2015.

- Net position (deficit) increased more than nine million dollars from $(30,195,879) as of June 30, 2014 to $(39,814,882) as of June 30, 2015.

The following tables and analysis discuss the financial position of the Fund as of June 30, 2015 and 2014 and the results achieved from the operations of the Fund for the year ended June 30, 2015 as compared to the year ended June 30, 2014.

Summary of Net Position

	June 30, 2015	June 30, 2014
Cash and cash equivalents	$ 32,562,471	$ 34,636,454
Prepaid insurance	1,804,691	1,821,083
Capital assets, net	43,836	34,368
All other assets	49,522	32,148
Total assets	$ 34,460,520	$ 36,524,053
Deferred Outflows of Resources		
Deferred outflows related to pensions	$ 405,264	
Total deferred outflows of resources	$ 405,264	
Deferred Inflows of Resources		
Deferred inflows related to pensions	$ 498,441	
Total deferred inflows of resources	$ 498,441	
Reserve for losses and loss expenses	$ 69,618,641	$ 65,460,160
Accounts payable	1,399,302	999,225
All other liabilities	3,164,282	260,547
Total liabilities	$ 74,182,225	$ 66,719,932
Net position		
Investment in capital assets	43,836	34,368
Unrestricted (deficit)	(39,858,718)	(30,230,247)
Total net position (deficit)	$ (39,814,882)	$ (30,195,879)

Cash and cash equivalents decreased over two million dollars as of June 30, 2015 compared to June 30, 2014 which caused an overall decrease in total assets.

Deferred Outflows and Inflows are reported new this fiscal year. The amounts refer to the consumption and acquisition of net assets applicable to a future reporting period and are related to the requirements of accounting and financial reporting for pensions under GASB 68.

Reserve for losses and loss expenses increased over four million dollars which caused an overall increase in total liabilities. This is determined by reserve adjustments on specific claims and actuary projections. The increase is primarily due to some large general liability claims and increases in a few workers compensation and environmental liability claims.

Net position is reported in the accompanying financial statements as unrestricted and investment in capital assets. The total net position (deficit) increased more than nine million dollars.

Capital Assets and Related Debt

The Fund's investment in capital assets as of June 30, 2015, amounted to $43,836 net of accumulated depreciation. Capital assets consist of equipment and furnishings. No long-term debt was added in fiscal year 2015.

Depreciation expense increased more than thirteen thousand dollars from $2,170 as of June 30, 2014 to $15,894 as of June 30, 2015.

Summary of Revenues, Expenses and Changes in Net Position

	Years ended June 30,	
	2015	**2014**
Charges for services	$ 20,170,791	$ 20,170,789
Other income	443,008	5,392,077
Investment income	171,201	202,401
Total revenue	20,785,000	25,765,267
Losses and loss expenses	18,749,111	9,766,478
All other expenses	8,709,577	9,292,610
Total expenses	27,458,688	19,059,088
Transfers in		4,466,508
Transfers out	(21,293)	
Total transfers	(21,293)	4,466,508
Change in net position	(6,694,981)	11,172,687
Restatement of prior year	(2,924,022)	
Total net position (deficit) July 1, 2014	(30,195,879)	
Total net position (deficit) July 1, 2014, as restated	(33,119,901)	(41,368,566)
Total net position (deficit) June 30, 2015	$ (39,814,882)	$ (30,195,879)

Charges for services remained flat. This amount is determined annually by a funding analysis. Other income decreased in fiscal year 2014-15 from the previous fiscal year. In fiscal year 2013-14, the Fund received a large environmental claim recovery from a class action lawsuit. This was a one time recovery; the figures for this fiscal year are more reflective of the normal activity for other income. Investment income decreased slightly this fiscal year as the interest rate continues to fluctuate.

Total expenses increased over eight million dollars. This is largely due to the increase in the reserves for losses and loss expenses. As mentioned earlier, this is determined by reserve adjustments on specific claims and actuary projections. The increase is primarily due to some large general liability claims and increases in a few workers compensation and environmental liability claims.

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 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 and contingency funds for the Trust funding plan. As of June 30, 2015, the total net position (deficit) was $(39,814,882). 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 2016, County management continued to see signs of a recovering economy, however, the expected revenue growth is significantly lower than in past years. As a result, 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 flat and 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, 2015

	Risk Management
Assets	
Cash and cash equivalents	$ 32,562,471
Interest receivable	49,522
Prepaid insurance	1,804,691
Capital assets, net	43,836
Total assets	34,460,520
Deferred Outflows of Resources	
Deferred outflows related to pensions	405,264
Total deferred outflows of resources	405,264
Liabilities	
Accounts payable	1,399,302
Employee compensation payable	313,913
Reserve for losses and loss expenses	69,618,641
Net pension liability	2,850,369
Total liabilities	74,182,225
Deferred Inflows of Resources	
Deferred inflows related to pensions	498,441
Total deferred inflows of resources	498,441
Net Position	
Investment in capital assets	43,836
Unrestricted (deficit)	(39,858,718)
Total net position (deficit)	$ (39,814,882)

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, 2015

	Risk Management
Operating revenues:	
Charges for services	$ 20,170,791
Other income	443,008
Total operating revenues	20,613,799
Operating expenses:	
Personal services	2,582,249
Supplies and services	414,558
Legal expenses	4,917,009
Workers' compensation taxes	191,131
Loss and loss expenses	19,337,847
Depreciation	15,894
Total operating expenses	27,458,688
Operating loss	(6,844,889)
Nonoperating revenues:	
Investment income	171,201
Total nonoperating revenues	171,201
Loss before transfers	(6,673,688)
Transfers:	
Transfers out	(21,293)
Total transfers	(21,293)
Decrease in net position (deficit)	(6,694,981)
Total net position (deficit), beginning July 1, 2014 , as restated, See Note 8	(33,119,901)
Total net position (deficit), ending June 30, 2015	$ (39,814,882)

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, 2015

	Risk Management
Cash flows from operating activities:	
Receipts from employees and other funds	$ 20,170,791
Other receipts	443,008
Payments for fees, supplies, and services	(5,122,620)
Payments for claims	(9,659,574)
Payments for insurance premiums	(5,503,400)
Payments to employees	(2,509,360)
Net cash used in operating activities	(2,181,155)
Cash flows from non capital financing activties:	
Cash transfers to other funds	(21,293)
Net cash used in non capital financing activities	(21,293)
Cash flows from capital financing activties:	
Purchase of capital assets	(25,362)
Net cash used in capital financing activities	(25,362)
Cash flows from investing activities:	
Interest received on investments	153,827
Net cash provided by investing activities	153,827
Net decrease in cash and cash equivalents	(2,073,983)
Cash and cash equivalents, July 1, 2014	34,636,454
Cash and cash equivalents, June 30, 2015	$ 32,562,471
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (6,844,889)
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	15,894
Net change in RBUC and IBNR claims, noncurrent portion	3,918,941
Changes in assets and liabilities:	
Increase in:	
Accounts payable	400,077
Employee compensation payable	72,890
RBUC and IBNR claims, current portion	239,539
Decrease in:	
Prepaid insurance	16,392
Net cash used in operating activities	$ (2,181,155)
Schedule of noncash investing, capital, and non capital financing activites:	
Accumulated depreciation from disposed capital assets	$ -
Machinery and equipment disposed	$ -

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 (Trust) 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* basic financial statements as of and for the year ended June 30, 2015, 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, 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 unclassified. Investment in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net position (deficit) represents the balance of monies held in the Fund.

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 nonoperating, 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 nonoperating 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 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.

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 and liabilities and disclosure of contingent assets 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 Cash Equivalents

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

F. Capital Assets

Equipment is initially recorded at cost. Depreciation of equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of equipment range from 3 to 10 years.

G. Deferred Outflows and Deferred Inflows of Resources

The Fund recognizes the consumption of net assets that are applicable to a future reporting period as deferred outflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under Governmental Accounting Standards Board (GASB), Statement No. 68.

The Fund recognizes the acquisition of net assets that are applicable to a future reporting period as deferred inflows of resources. Reported amounts are related to the requirements of accounting and financial reporting for pensions under GASB 68.

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. Classified employees may accumulate up to 240 hours of vacation leave. Any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Unclassified employees may accumulate up to 320 hours of vacation leave. Any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of 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, 2015, under this policy are accrued as a liability.

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

J. Pension Plans

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; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk
Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors' service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
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.

Custodial credit risk
Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101% of all deposits not covered by federal depository insurance.

Interest rate risk
Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Deposits—At June 30, 2015, there were no deposits for the Fund. The Fund follows the County's policies requiring collateralization of all deposits by at least 101% 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, 2015, 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.

Credit Risk—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, 2015, the Fund's investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

Interest rate risk—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, 2015, the Fund had investments of $32,562,371 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 366 days, of which 45% (in excess of $1 billion) 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
Amount of deposits	--
County Treasurer's Investment Pool	32,562,371
Total	$32,562,471

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 (RBUC), which represent the estimated liability on reported claims established by the Risk Management department and;

2. Incurred but not reported (IBNR) 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, 2015, categorized by insurable area follow:

	Total Liabilities
Auto liability	$ 3,902,098
General liability	30,960,061
Workers' compensation	17,641,346
Medical malpractice	4,858,465
Auto physical damage	41,743
Property	35,426
Professional liability	195,641
Environmental property damage	2,505,201
Environmental liability	3,062,500
Unallocated	6,416,160
Total	$69,618,641

The total estimates of unpaid claim liabilities were $69,618,641 at June 30, 2015. The balance at June 30, 2014 was $65,460,160.

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:

	FY 2014-15	FY 2013-14	FY 2012-13
Balance July 1	**$65,460,160**	**$76,866,119**	**$129,080,630**
Current-Year Claims and Changes in Estimates	13,360,665	4,028,631	(13,056,180)
Claim Payments	(9,202,184)	(15,434,590)	(39,158,331)
Balance June 30	$69,618,641	$65,460,160	$76,866,119

Of these liabilities, $19,316,231 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, 2015, the total net position (deficit) was $(39,814,882). 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 - Transfers

The County implemented a refresh program for all desktop computers in fiscal year 2014-2015. The department received new computers for a cost of $21,293 which was transferred to reimburse the Office of Enterprise Technology which was the department that initially purchased them.

NOTE 6 - Letter of Credit

On July 1, 2014, the County maintained a $15,878,105 irrevocable standby letter of credit issued to the Industrial Commission of Arizona for unfunded workers' compensation claims. On December 31, 2014, the letter of credit was decreased to $15,151,706. The letter of credit was reserved against the municipal revolving line of credit. During fiscal year 2014-15, the letter of credit had not been drawn upon. The irrevocable standby letter of credit was renewed to June 30, 2015, for $15,151,706. However, an amendment will be issued on January 1, 2016 for the new liability amount.

NOTE 7 - 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, 2015, the Fund reported $5,567,701 of reported but unpaid claims, which is comprised of the following pollution remediation obligations:

Cave Creek Landfill – The County has entered into a Consent Decree with ADEQ to evaluate the Cave Creek Landfill as a source of groundwater contamination. A Draft Remedial Action Plan (RAP) was completed and submitted to ADEQ in Spring 2015. The Draft RAP was approved by ADEQ in August 2015 and a public meeting was held in September 2015. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant. The estimate consists of mandated testing costs, continuation of the groundwater modeling program, soil vapor extraction well operation, public meetings, response to RAP comments, and initial implementation of recommended remediation at the landfill.

Hassayampa Landfill – On July 22, 1987, the Hassayampa Landfill was added to 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. On February 19, 1988, nine of the major potentially responsible parties (PRP) for the site entered into a Consent Order with the EPA to conduct the Remedial Investigation and Feasibility Study. On August 6, 1992, a Record of Decision was signed and detailed the EPA's selected cleanup remedy, which resulted in the formation of the Hassayampa Steering Committee (HSC). The HSC, an unincorporated association, consists of 11 PRP's that entered into a Unilateral Administrative Order with the EPA on March 30, 1993, to conduct additional investigation activities and to begin remedial design and action activities on the groundwater treatment system and soil cap. In September 1997, a Preliminary Close-Out Report was completed and the EPA certification of the completion of construction of the remedial action was issued in April 1998. The groundwater extraction and treatment system and soil vapor extraction and treatment system will continue to be run by the PRP's until the groundwater and soil meet cleanup levels.

The HSC hires consultants that recommend site actions, meet with regulators, and develop cost estimates for remediation of the Hassayampa Landfill. The County is responsible for

27.78% of the HSC's cost remediation. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant.

CERCLA Cost Recovery Claim – The County, along with numerous other entities, was named as a potential responsible party under the CERCLA, 42 U.S.C. §9607(a), by a third party. The Notice of Claim was based upon allegations that the County owned the properties which were acquired in the 1970's from a solvent manufacturer. However, in 2001, the County (and other parties) entered into a Consent Decree/Settlement with ADEQ which absolved the County of any additional liability for the site.

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 8 - Change in Accounting Principle

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.*

	Governmental Activities
Beginning net position as previously reported at June 30, 2014	($30,195,879)
Restatement adjustment - Implementation GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(3,109,826)
Deferred outflows - Fund contributions made during fiscal year 2014	185,804
Total restatement adjustment	(2,924,022)
Net position as restated, July 1, 2014	($33,119,901)

NOTE 9 - 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, 2015, the Fund reported the following aggregate amounts related to pensions for the plan to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension liabilities	$2,850,369
Deferred outflows of resources	405,264
Deferred inflows of resources	498,441
Pension expense	215,556

Plan Description—The Fund's employees participate in the Arizona State Retirement System. 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 comprehensive annual financial report that includes financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

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

ASRS	**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 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 earning. 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 survivor benefit is determined by the retirement benefit option chosen. 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 statute, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the cost of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.60 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.60 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long term disability) of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.51 percent for retirement and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to the ASRS.

The Fund's contributions to the System for the years ended June 30, 2015, 2014 and 2013 were $206,651, $200,347, and $169,663, respectively.

Years ended June 30,	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	$10,621	$2,161
2014	10,417	4,166
2013	9,900	3,655

Pension Liability – At June 30, 2015, the Fund reported a liability of $2,850,369 for its proportionate share of the net pension liability of the ASRS. The net pension liability was measured as of June 30, 2014. 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, 2013, to the measurement date of June 30, 2014. The Fund's proportion of the net pension liability was based on $740,172,934. At June 30, 2014, the Fund's proportion was 0.39 percent, which was an increase of 0.03 percent from its proportion measured as of June 30, 2013.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015, the Fund recognized pension expense for ASRS of $215,556. At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual Experience	$ 144,864	$
Changes of assumptions or other inputs		
Net difference between projected and actual earnings on pension plan Investments		498,441
Changes in proportion and differences between fund contributions and proportionate share of contributions	64,369	
Fund contributions subsequent to the measurement date	196,031	
Total	$ 405,264	$ 489,441

The Fund 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 ended June 30, 2016. 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	
2016	$ 33,640
2017	33,640
2018	97,318
2019	124,610

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

ASRS

Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Investment rate of return	8%
Amortization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2013, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 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 arithmetic real rates for each major asset class are summarized in the following table:

ASRS Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	63%	4.43%
Fixed income	25%	0.80%
Real estate	8%	0.38%
Commodities	4%	0.18%
Inflation		3.00%
Total	100%	8.79%

Discount Rate – The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. 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 Funds 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 8 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 (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	**1% Decrease (7%)**	**Current Discount Rate (8%)**	**1% Increase (9%)**
Proportionate share of the net pension liability	**$ 3,602,720**	**$ 2,850,369**	**$ 2,442,180**

Pension Plan Fiduciary Net Positon – Detailed information about the pensions 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, 2015

Arizona State Retirement System	Fiscal Year 2015 (2014)	2014 through 2006
Proportion of the net pension liability	0.01950%	Information not available
Proportionate share of the net pension liability	$ 2,850,369	
Covered-employee payroll	$ 1,740,255	
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	163.79%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Arizona State Retirement System	Fiscal Year 2015	Fiscal Year 2014
Statutorily required contribution	$ 196,031	$ 185,804
Contributions in relation to the statutorily required contribution	$ 196,031	184,122
Contribution deficiency (excess)	$0	$0
Covered-employee payroll	$1,824,548	$1,740,255
Contributions as a percentage of covered-employee payroll	11.0%	10.9%

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Notes to required Supplementary Information
June 30, 2015

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:

ASRS	
Actuarial valuation date	6/30/2013
Actuarial roll forward date	6/20/2014
Actuarial cost method	Entry age normal
Amorization method:	
Plan amendments	Immediate
Investment gain/loss	5 years
Assumption gain/loss	Average future service lives
Experience gain/loss	Average future service lives
Asset valuation	Fair value
Discount rate	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB