

2016

Development Services Enterprise Fund



Pima County, Arizona
For the Fiscal Year Ended June 30, 2016

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
June 30, 2016

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Independent Auditors' Report

To the Honorable Board of Supervisors
of Pima County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Pima County Development Services Enterprise Fund, an enterprise fund of Pima County, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pima County Development Services Enterprise Fund as of June 30, 2016, and the changes in financial position and cash flows thereof 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 Pima County Development Service Enterprise Fund and do not purport to, and do not, present fairly the financial position of Pima County, Arizona as of June 30, 2016, or the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis and the 10-year schedule of pension information required for cost-sharing plans that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2016, on our consideration of Pima County Development Services Enterprise 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 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 Pima County Development Services Enterprise Fund's internal control over financial reporting and compliance.

Wahne & Armstrong, LLP

Phoenix, Arizona
October 25, 2016

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Net Position
June 30, 2016

Assets

Current assets:

Cash and cash equivalents	\$	2,210,190
Interest receivable		1,036
Due from other funds		17,734
Accounts receivable		87,229
Prepaid expenses		8,725
Total current assets		2,324,914

Capital assets:

Equipment		95,400
Less accumulated depreciation		(95,400)
Total capital assets (net)		-

Total noncurrent assets		-
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Total assets		2,324,914
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Deferred outflows of resources

Deferred outflows related to pensions		580,105
Total deferred outflows of resources		580,105

Liabilities

Current liabilities:

Accounts payable		36,377
Employee compensation		93,665
Due to other funds		165,284
Total current liabilities		295,326

Noncurrent liabilities:

Compensated absences payable		338,089
Net pension liability		6,041,111
Total noncurrent liabilities		6,379,200

Total liabilities		6,674,526
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Deferred inflows of resources

Deferred inflows related to pensions		596,255
Total deferred inflows of resources		596,255

Net position

Unrestricted		(4,365,762)
Total net position		\$ (4,365,762)

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016

Operating revenues:	
Charges for services	\$ 6,211,906
Other	<u>47,816</u>
Total operating revenues	<u>6,259,722</u>
Operating expenses:	
Employee compensation	4,687,670
Operating supplies and services	16,765
Repair and maintenance	6,834
General and administrative	1,842,622
Consultants and professional services	<u>136,259</u>
Total operating expenses	<u>6,690,150</u>
Operating loss	<u>(430,428)</u>
Nonoperating revenues:	
Investment earnings	<u>14,506</u>
Total nonoperating revenues	<u>14,506</u>
Loss before transfers	<u>(415,922)</u>
Transfers (out)	<u>(570,438)</u>
Change in net position	(986,360)
Net position, July 1, 2015	<u>(3,379,402)</u>
Net position, June 30, 2016	<u><u>\$ (4,365,762)</u></u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2016

Cash flows from operating activities:	
Receipts from customers for goods and services	\$ 6,410,331
Payments to suppliers for goods and services	(152,067)
Payments to other Pima County funds for goods and services	(1,877,423)
Payments to employees	<u>(5,025,845)</u>
Net cash used for operating activities	<u>(645,004)</u>
 Cash flows from noncapital financing activities:	
Transfers out	(570,438)
Loans with other funds	<u>146,115</u>
Net cash used for noncapital financing activities	<u>(424,323)</u>
 Cash flows from investing activities:	
Interest received on investments	<u>15,105</u>
Net cash provided by investing activities	<u>15,105</u>
Net decrease in cash and cash equivalents	(1,054,222)
Cash and cash equivalents, July 1, 2015	3,264,412
Cash and cash equivalents, June 30, 2016	<u><u>\$ 2,210,190</u></u>
	(continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
 Development Services Enterprise Fund
 Statement of Cash Flows
 Year Ended June 30, 2016

(continued)

**Reconciliation of operating loss to net cash used
 for operating activities**

Operating loss	\$	(430,428)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Changes in assets and deferred outflows of resources:		
Decrease (increase) in assets:		
Accounts receivable		150,609
Prepaid expenses		14,762
Increased in deferred outflows of resources:		
Pension plans		165,141
Changes in liabilities and deferred inflows of resources:		
Increase (decrease) in liabilities:		
Accounts payable		(41,771)
Net pension liability		191,637
Other liabilities		(268,317)
Decrease in deferred inflows of resources:		
Pension plans		(426,637)
Net cash used for operating activities	\$	(645,004)

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2016:

The Fund retired fully depreciated capital assets with an original cost of \$195,231 and transferred out assets with an original cost of \$18,769.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Development Services Enterprise Fund (Fund) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

For the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles. The County also early implemented the provisions of GASB Statement No. 82, *Pension Issues*. GASB Statement No. 82 amends certain provisions of GASB Statements No. 67, No. 68, and No. 73.

A. Reporting Entity

The Fund is accounted for as an enterprise fund of Pima County, Arizona, and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for issuing zoning permits and enforcing and administering building and zoning codes and land development ordinances in Pima County.

The financial statements present only the Development Services Enterprise Fund as one of the funds of Pima County and are not intended to present the balances and activity of Pima County in its entirety.

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. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses.

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

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made, and determines when revenues, expenses and assets, deferred outflows of resources, liabilities and deferred inflows of resources are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flow. When both restricted and unrestricted components of net position are available to finance Fund expenses, restricted resources are used before unrestricted resources. Inter-fund transactions that would be treated as revenues or expenses if they

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

involved parties external to the County are recorded in the appropriate revenue or expense accounts unless in conflict with GASB pronouncements.

D. Basis of Presentation

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

A 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 either current or noncurrent and deferred outflows and inflows of resources, when applicable, are separately reported on the statement of net position. Net position is classified according to external restrictions or availability of assets to satisfy the Fund's obligations. Net investment in capital assets represents the cost of capital assets, net of accumulated depreciation. Restricted net position encompasses grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net position includes the remaining component of net position, including the portion that has been designated by management to be used for other than general operating purposes.

A 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 including capital contributions and transfers. Generally, charges for services and other fees generated for issuing zoning permits and enforcing building, zoning, and land development rules and regulations 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. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets.

A 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 operating, noncapital financing, capital and related financing, or investing.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit with the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, and deposits held in escrow accounts. Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

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

F. Accounts Receivable

Accounts receivable consist primarily of amounts due from customers for services provided. These balances are stated at the amount management expects to collect. Management provided for probable uncollectible amounts through charges to earnings and credits to a valuation allowance based on its assessment of the current status of individual

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies (continued)

balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

G. Capital Assets

Capital assets are reported at cost. The Fund capitalizes all land regardless of cost, intangible software assets valued at \$5,000,000 and buildings and all machinery and equipment valued at \$5,000 and above. Depreciation of assets is charged as an expense against operations.

Assets are depreciated over their estimated useful lives using the straight-line method. For equipment, the estimated useful lives range from 4 to 15 years.

H. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending upon years of services, but they forfeit any vacation hours in excess of the maximum amount that are unused at year-end. Upon termination of employment, all unused and not forfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but most employees forfeit them upon terminating employment. However, employees who have accumulated greater than 240 hours of sick leave and are eligible to retire will receive some benefits. Employees who are eligible to retire from County service into the Arizona State Retirement System may request sick leave to be converted to annual leave on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability in the Fund's financial statements in Employee Compensation for the current portion and under Noncurrent Liabilities for the noncurrent portion.

In addition, since vacation and sick leave used by employees within the first two pay periods after fiscal year-end is paid for with current financial resources, a compensated absences liability for these amounts is reported in the Fund's financial statements within Employee Compensation.

I. Deferred Outflows and Inflows of Resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

J. Pensions

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 2 - Cash and Investments

Cash and investments consist of \$500 of cash on hand and \$2,209,690 of cash on deposit with the County Treasurer and are available on demand. The Treasurer pools these deposits with other County monies for investment within the County Treasurer's pool.

Fair Value Measurements—The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are significant other observable inputs
- Level 3 inputs are significant unobservable inputs

The State Treasurer's pools are external investment pools, the LGIP (Pool 5), LGIP-Government (Pool 7) and LGIP (Pool 500), with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission (SEC). The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

The County Treasurer's pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the SEC. The fair value of each participant's position in the County Treasurer investment pool approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

Credit Risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. The Pima County Treasurer's investment pool is unrated.

Custodial credit risk – 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. The County does not have a formal policy with respect to custodial credit risk.

Concentration of Credit risk – The County has no formal policy with respect to limiting the amount the Treasurer may invest in any one issuer.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal investment policy with respect to interest rate risk. The Pima County Treasurer's investment pool had a weighted average maturity of 412 days at June 30, 2016.

Legal Provisions—Arizona Revised Statutes authorize counties 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; specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States; and certain open-end and closed-end mutual funds including exchange traded funds. 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.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 2 - Cash and Investments (continued)

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. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
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 deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk—Statutes do not include any requirements for concentration of credit risk.

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

Foreign currency risk—Statutes do not allow foreign investments.

Note 3 - Capital Assets

Capital asset activity for the year was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Equipment	\$ 309,399		\$ (213,999)	\$ 95,400
Accumulated depreciation	<u>(309,399)</u>		<u>213,999</u>	<u>(95,400)</u>
Total capital assets, net	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

Note 4 - Claims, Judgments and Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund is a participant in Pima County’s self-insurance program, and in the opinion of the Fund’s management, that program would cover any unfavorable outcomes from these risks. Accordingly, the Fund has no risk of loss beyond adjustments to future years’ premium payments to Pima County’s self-insurance program. All estimated losses for unsettled claims and actions of Pima County are determined on an actuarial basis and are included in the Pima County Comprehensive Annual Financial Report.

Note 5 - Related Party Transactions

Administrative and Fiscal Services—For the year ended June 30, 2016, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$1,752,063. Of that amount, \$122,127 was for temporary or part-time staffing, \$137,167 was for motor pool charges, \$925,358 was for the allocation of overhead, \$8,570 was for postage, \$69,996 was for self-insurance premiums, \$769 was for printing and microfilming, \$331,131 was for Internal Service Fund charges and \$156,945 was for other miscellaneous charges.

Public Works Center—The Fund occupies a portion of the Public Works Center and pays rent equivalent to its pro rata share of the building expenses incurred by the Pima County Facilities Management Department. For the year ended June 30, 2016, rent expense for the Fund totaled \$247,487.

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 6 – Interfund Activity

The transfers out of the Fund totaling \$570,438, consist of a transfer of \$320,438 to other funds to pay for upgrades to the Fund’s permitting system and a transfer to the General Fund for \$250,000. The transfer to the General Fund is a repayment of subsidies that were provided to the Fund in previous years to maintain operations through the economic downturn. Ideally, the Fund will generate enough revenue moving forward each year to repay these subsidies, but this is dependent upon the annual financial position of the Fund.

Note 7 – Pension and Other Postemployment Benefits

The County contributes to a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing multiple employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan administered by the *Arizona State Retirement System (ASRS)* that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. Although the County contributes to the Arizona State Retirement System (ASRS), the Corrections Officer Retirement Plan (CORP), the Public Safety Personnel Retirement System (PSPRS), and the Elected Officials Retirement Plan (EORP), the Fund employees only participate in the Arizona State Retirement System (ASRS).

At June 30, 2016, the Fund reported the following amounts related to pensions for which it contributes:

Net pension liabilities	\$	6,041,111
Deferred outflows of resources		580,105
Deferred inflows of resources		596,255
Pension expense		312,073

Plan Description – 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 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 benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Notes to Financial Statements
June 30, 2016

Note 7 – Pension and Other Postemployment Benefits (continued)

	<i>Retirement</i>	
	<i>Initial membership date</i>	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
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 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 contribution 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, 2016, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.47 percent (11.35 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 11.47 percent (10.85 percent for retirement, 0.50 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 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of the 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 pension plan for the year ended June 30, 2016 was \$381,931.

The Fund's OPEB contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

<u>Years ended June 30,</u>	<u>Health Benefit Supplemental Fund</u>	<u>Long-Term Disability Fund</u>
2016	\$17,599	\$4,224
2015	\$21,123	\$4,296
2014	\$20,586	\$8,235

Pension Liability – At June 30, 2016, the Fund reported a liability of \$6,041,111 for its proportionate share of the ASRS net pension liability. The net pension liability is measured as of June 30, 2015. The total pension liability used

PIMA COUNTY, ARIZONA
 Development Services Enterprise Fund
 Notes to Financial Statements
 June 30, 2016

Note 7 – Pension and Other Postemployment Benefits (continued)

to calculate the net pension liability was determined using updated procedures to roll forward the total Pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The Fund’s proportion of the net pension liability was based on the Fund’s actual contributions to the plan relative to the total of the County’s contributions for the year ended June 30, 2015. The Fund’s proportion measure as of June 30, 2015, was 1.55 percent, which did not change significantly from that measure as of June 30, 2014.

Pension Expense and Deferred Outflows / Inflows of Resources – For the year ended June 30, 2016, the Fund recognized pension expense of \$312,073. At June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u><i>Deferred Outflows of Resources</i></u>	<u><i>Deferred Inflows of Resources</i></u>
Differences between expected and actual experience	\$ 164,849	\$ 316,560
Net difference between projected and actual earnings on pension plan investments		193,604
Changes in proportion and differences between county contributions and proportionate share of contributions	33,325	86,091
County contributions subsequent to the measurement date	381,931	
Total	<u>\$ 580,105</u>	<u>\$ 596,255</u>

The \$381,931 reported as deferred outflows of resources relates to ASRS pensions resulting from Fund contributions subsequent to the measurement recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:

	<u>Year ending June 30,</u>	
	2017	\$ (141,703)
	2018	(248,412)
	2019	(147,724)
	2020	139,758

PIMA COUNTY, ARIZONA
 Development Services Enterprise Fund
 Notes to Financial Statements
 June 30, 2016

Note 7 – Pension and Other Postemployment Benefits (continued)

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

Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	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, 2014, 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 of return for each major asset class are summarized in the following table:

<i>Asset Class</i>	<u><i>Target Allocation</i></u>	<u><i>Long-Term Expected Real Rate of Return</i></u>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the ASRS total pensions 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 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 Development Services fund’s Proportionate Share of the ASRS Net Pension Liability 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.

PIMA COUNTY, ARIZONA
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Note 7 – Pension and Other Postemployment Benefits (continued)

	<i>1% Decrease (7%)</i>	<i>Current Discount Rate (8%)</i>	<i>1% Increase (9%)</i>
Fund's share of the net pension liability	7,915,919	6,041,111	4,756,252

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

The financial statements for the ASRS plan can be obtained by contacting ASRS at:

ASRS
 3300 N. Central Ave.
 P.O. Box 33910
 Phoenix, AZ 85067-3910
 (602) 240-2000 or (800) 621-3778
www.azasrs.gov

**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**

To the Honorable Board of Supervisors
of Pima 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 Pima County Development Services Enterprise Fund (the "Fund"), an enterprise fund of Pima County, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's financial statements, and have issued our report thereon dated October 25, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. 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 the 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 results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Walker & Armstrong, LLP