

2014

Self-Insurance Trust Internal Service Fund



Pima County, Arizona
For the Fiscal Year Ended June 30, 2014

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
June 30, 2014

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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 Self Insurance Trust Internal Service Fund, a proprietary fund of Pima County, Arizona, as of and for the year ended June 30, 2014, 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 U.S. generally accepted accounting principles (U.S. GAAP); 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 auditors consider internal controls 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 Self Insurance Trust Internal Service Fund as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in Note 1, the financial statements present only Pima County Self Insurance Trust Internal Service Fund and do not purport to, and do not, present fairly the financial position of Pima County, Arizona as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that U.S. generally accepted accounting principles requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 21, 2014, on our consideration of Pima County Self Insurance Trust Internal Service 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 Self Insurance Trust Internal Service Fund's internal control over financial reporting and compliance.

Walker & Armstrong LLP

Phoenix, Arizona
October 21, 2014

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Statement of Net Position
June 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 57,038,876
Interest receivable	10,152
Due from other Pima County funds	29,354
Accounts receivable	262,921
Prepaid expenses	1,083,070
Total current assets	<u>58,424,373</u>

Noncurrent assets:

Loan receivable	10,000,000
Capital assets:	
Land	592,353
Equipment	168,271
Less accumulated depreciation	(161,485)
Total capital assets	<u>599,139</u>
Total noncurrent assets	<u>10,599,139</u>

Total assets	<u>69,023,512</u>
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Liabilities

Current liabilities:

Accounts payable	488,350
Accrued employee compensation	58,075
Due to other governments	198
Reported but unpaid losses, current portion	5,301,317
Incurred but not reported losses, current portion	2,896,534
Total current liabilities	<u>8,744,474</u>

Noncurrent liabilities:

Compensated absences payable	68,248
Reported but unpaid losses	15,819,468
Incurred but not reported losses	10,143,443
Total noncurrent liabilities	<u>26,031,159</u>

Total liabilities	<u>34,775,633</u>
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Net position

Net investment in capital assets	599,139
Unrestricted	33,648,740

Total net position	<u>\$ 34,247,879</u>
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See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2014

Operating revenues:	
Charges for services	\$ 15,484,654
Other	86,788
	15,571,442
 Operating expenses:	
Employee compensation	2,157,763
Operating supplies	260,515
Utilities	19,964
Incurred losses	4,850,933
Insurance premiums	4,052,565
General and administrative	458,001
Repairs and maintenance	293,206
Professional services	686,946
Depreciation	1,766
	12,781,659
Total operating expenses	12,781,659
Operating income	2,789,783
 Nonoperating revenues:	
Investment income	913,868
	913,868
Total nonoperating revenues	913,868
Income before transfers	3,703,651
Transfers in	7,681
Transfers (out)	(754,170)
	(746,489)
Total transfers	(746,489)
Change in net position	2,957,162
Net position, July 1, 2013	31,290,717
Net position, June 30, 2014	\$ 34,247,879

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Statement of Cash Flows
Year Ended June 30, 2014

Cash flows from operating activities:

Receipts from other funds for goods and services	\$ 15,496,774
Receipts from miscellaneous operations	86,788
Payments to suppliers for goods and services	(5,948,838)
Payments to other Pima County funds for goods and services	(1,249,277)
Payments to employees	(1,357,518)
Payments for incurred losses	<u>(6,458,183)</u>
Net cash provided by operating activities	<u>569,746</u>

Cash flows from noncapital financing activities:

Transfers with other Pima County funds	(746,489)
Loans with other Pima County Funds	<u>1,147</u>
Net cash used for noncapital financing activities	<u>(745,342)</u>

Cash flows from investing activities:

Loan receivable	(10,000,000)
Interest received on investments	<u>907,348</u>
Net cash used for investing activities	<u>(9,092,652)</u>

Net decrease in cash and cash equivalents (9,268,248)

Cash and cash equivalents, July 1, 2013 66,307,124

Cash and cash equivalents, June 30, 2014 \$ 57,038,876

(continued)

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Statement of Cash Flows
Year Ended June 30, 2014

(continued)

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 2,789,783
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,766
Changes in assets and liabilities:	
Decrease (increase) in assets :	
Accounts receivable	12,120
Prepaid expenses	(172,276)
Increase (decrease) in liabilities:	
Accounts payable	(454,597)
Other liabilities	200
Reported but unpaid losses	(484,836)
Incurred but not reported losses	(1,122,414)
Net cash provided by operating activities	<u><u>\$ 569,746</u></u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Self Insurance Trust Internal Service 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.

A. Reporting Entity

The Fund is accounted for as an internal service fund of Pima County, Arizona, and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for managing the operation and the financing of the uninsured risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; medical malpractice; environmental claims; unemployment; and natural disasters.

The financial statements present only the Self Insurance Trust Internal Service 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 a proprietary 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 services provided by the Fund on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses 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 flows. When both restricted and unrestricted net position are available to finance Fund expenses, restricted resources are used before unrestricted components of resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense accounts.

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

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 represents 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 nonoperating, and all changes in net position are reported, including capital contributions and transfers. Generally, charges for services and other fees for Risk Management 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. Operating expenses include the cost of providing risk management 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 deposits with the Pima County Treasurer, deposits with a fiscal agent for Worker's Compensation, and deposits with the Arizona State Treasurer.

F. Accounts Receivable

Accounts receivable primarily consist of amount of insurance claims recoveries unpaid at the end of the fiscal year. In addition, unpaid employment is also reported as accounts receivable.

G. Capital Assets

Capital assets are reported at actual cost. The Fund capitalizes all land regardless of cost, all equipment costing at least \$5,000 and intangible software assets costing at least \$100,000. Depreciation on equipment and software is calculated over the assets' estimated useful lives of 4 to 20 years with no salvage value, and is charged as an expense against operations using the straight-line method.

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

H. Liability for Unpaid Claims

The Fund provides for claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The ultimate cost of claims includes incremental claim adjustment expenses that have been allocated to specific claims, as well as salvage and subrogation. No other claim adjustment expenses have been included. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts recoverable from excess insurers, if any, are deducted from the liability for unpaid claims or shown as an asset for paid claims. Because actual claims costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability, exposures, and damage awards, the process used in computing claims liabilities cannot yield an exact result, particularly for liability coverages.

Claims liabilities are recomputed annually and, except for those related to environmental and unemployment, are estimates determined by an independent actuary using selected loss development factors based on unadjusted data.

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. Environmental claims liabilities are estimates based on reported claims and the County risk manager's knowledge and experience. Unemployment liabilities are based on claims that have been submitted but not yet paid by the Fund. Given the complexity of the estimating process, the ultimate liability may be more or less than such estimates indicate. Consequently, adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending upon years of service, but they forfeit any unused vacation hours in excess of the maximum amount at fiscal year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but employees forfeit them upon terminating employment. Sick leave benefits do not vest with employees; however employees who are eligible to retire from County service to Arizona State Retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

Note 2 - Cash and Investments

Cash and cash equivalents consist of \$9,488,744 of deposits with the County Treasurer; \$640,480 of deposits with a fiscal agent for worker's compensation; and \$46,909,652 of deposits with the State Treasurer.

Deposits with the County Treasurer are available on demand and are pooled with other County monies for investment. The Fund's deposits are included in the Treasurer's investment pool but are not identified with specific investments or shares and, therefore, are not subject to custodial credit risk.

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 2 - Cash and Investments (continued)

Deposits with the State Treasurer are invested in the State Treasurer's Local Government Investment Pool and are available on demand. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the State Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

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. Both the County Treasurer's and the State Treasurer's investment pools are unrated.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. 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. The County does not have a formal investment policy with respect to interest rate risk. The County Treasurer's investments had a weighted average maturity of 525 days.

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

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 unless the investment is denominated in United States dollars.

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 3 - Capital Assets

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

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 592,353			\$ 592,353
Total capital assets not being depreciated	592,353			592,353
Capital assets being depreciated:				
Equipment	168,271			168,271
Less accumulated depreciation	(159,719)	\$ (1,766)		(161,485)
Total capital assets being depreciated, net	8,552	(1,766)		6,786
Total capital assets, net	<u>\$ 600,905</u>	<u>\$ (1,766)</u>		<u>\$ 599,139</u>

Note 4 – Claims, Judgments and Risk Management

The Fund is liable for any single general or automobile liability claim up to \$2,500,000 per occurrence, any workers' compensation claim up to \$1,000,000 per occurrence, and any single medical malpractice claim up to \$1,000,000 per occurrence or any medical malpractice claims in aggregate up to \$5,000,000 in any policy year. The County purchases commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded insurance coverage in any of the last 3 fiscal years.

Payment of unemployment claims is fully self-funded. Payment of environmental claims is generally self-funded, although some claims filed could result in past insurers being liable for such losses.

All of the County's departments participate in the Fund. With the exception of environmental and unemployment losses, charges are based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Charges for environmental losses are based on historical experience. Charges for unemployment losses are based on actual claims paid.

Claims liabilities at June 30, 2014, for each insurable area follow:

	Reported But Unpaid Losses	Incurred But Not Reported Losses	Total
General liability	\$ 6,638,123	\$ 3,848,691	\$ 10,486,814
Automobile liability	253,787	80,776	334,563
Medical malpractice	38,564	195,750	234,314
Workers' compensation	14,190,311	7,414,760	21,605,071
Environmental		1,500,000	1,500,000
Total	<u>\$ 21,120,785</u>	<u>\$ 13,039,977</u>	<u>\$ 34,160,762</u>

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 4 – Claims, Judgments and Risk Management (continued)

The above amounts, excluding environmental and unemployment, are reported at their present value using an expected future investment yield assumption of 2 percent.

Changes in the Fund’s claims liability amount for the years ended June 30, 2014 and 2013 were as follows:

	2014	2013
Claims liabilities - beginning	\$ 35,768,012	\$ 35,397,140
Current-year claims and changes in estimates	4,850,933	7,676,118
Claims payment	(6,458,183)	(7,305,246)
Claims liabilities balance - ending	\$ 34,160,762	\$ 35,768,012

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Reported but unpaid losses	\$ 21,605,621	\$ 3,875,703	\$ (4,360,539)	\$ 21,120,785	\$ 5,301,317
Incurred but not reported	14,162,391	975,230	(2,097,644)	13,039,977	2,896,534
Total	\$ 35,768,012	\$ 4,850,933	\$ (6,458,183)	\$ 34,160,762	\$ 8,197,851

Note 5 – Interfund Receivable from Other Pima County Funds

Due from other Pima County funds represents a receivable for interest earned on an interfund loan payable of \$10,000,000 to the Health Benefit Self Insurance Trust Fund. The loan is a reserve for the Health Benefit Self Insurance Trust Fund until it can establish its own reserve, with possible repayment beginning in 2016. These funds were deposited in the State’s LGIP Pool 500 account under the Trust’s name. However, all interest earned on the account is payable to the Self Insurance Trust Fund. At June 30, 2014, the due from other funds was \$29,354 in interest due from the Health Benefits Self Insurance Trust Fund.

Administrative and Fiscal Services - For the year ended June 30, 2014, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$1,204,728. Of that amount, \$800,243 was for temporary or part-time staffing, \$ 306,788 was for the allocation of overhead, \$49,661 was for self-insurance premiums, \$23,723 was for motor pool charges, \$10,764 was for repairs and maintenance, \$1,769 was for printing and microfilming, and \$11,780 was for other miscellaneous charges.

Administration Building – The Fund occupies a portion of the east Administration Building 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, 2014, rent expense for the Fund totaled \$44,550.

PIMA COUNTY, ARIZONA
Self-Insurance Trust Internal Service Fund
Notes to Financial Statements
June 30, 2014

Note 6 - Annuity Contracts

In prior fiscal years, the Fund purchased several annuities in claimants' names to fund future payments to these claimants. The Fund believes there is no material contingent liability related to these annuities. Accordingly, the amount of \$1,263,418 has not been reported as an asset or as a liability on the Statement of Net Position as of June 30, 2014.

Note 7 - Retirement Plan

Plan Description— 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.

Benefits are established by state statute and generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retiree's average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. The health insurance premium benefit is paid as a fixed dollar amount per month toward the retiree's health care insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, and Article 2.

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates. For the year ended June 30, 2014, statute required active ASRS members to contribute at the actuarially determined rate of 11.54 percent (11.3 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and statute required the County to contribute at the actuarially determined rate of 11.54 percent (10.70 percent for retirement, 0.60 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The County's 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>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2014	\$ 112,943	\$ 6,333	\$ 2,533
2013	\$ 93,580	\$ 5,934	\$ 2,191
2012	\$ 84,111	\$ 5,369	\$ 2,045

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

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1-800-621-3778
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 Self Insurance Trust Internal Service Fund (the "Fund"), a proprietary fund of Pima County, Arizona, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated October 21, 2014.

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 opinions 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 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. We did identify a deficiency in internal control, described below that we consider to be a significant deficiency.

During our audit, we noted that an amount reported as insurance expense should have been reported as a prepaid item and recognized as an expense in future periods. The cause is insufficient review of monthly non-accounts payable accruals adjustments affecting expenses recognized.

We recommend that Fund accounting personnel review all monthly expenses to determine that prepaid invoices are properly classified as assets and recognized over the life of the agreement's term.

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*.

Management's Response

Management's response to the finding identified on the previous page is as follows:

The County agrees with the finding and has implemented additional (monthly) internal controls to mitigate the risk of insurance accruals being reported in an incorrect period.

The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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.

Walker & Armstrong LLP

Phoenix, Arizona
October 21, 2014