



MEMORANDUM

Date: December 17, 2015

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "C.H. Huckelberry", is written over the typed name and title.

Re: **Fiscal Position of the Health Benefits Trust Fund**

As you know, approximately three years ago on July 21, 2013, we became self-insured for medical and pharmacy benefits. Previously, we were facing double-digit annual cost increases for providing medical insurance and healthcare services for our employees. After experiencing these significant cost increases over a number of years, it was clear we needed a new approach to providing health insurance and medical coverage for our employees.

Three to four years prior to the County's transition to the self-insured model, we began preparing the organization for such a change. We began to offer incentives for employees to move from the traditional Health Maintenance Organization/Preferred Provider Organization insurance model to a High Deductible Health Plan by offering financial incentives for employee Health Savings Accounts (HSAs). Today, these HSAs, in the aggregate, have a balance of \$12.3 million for employees to use for their healthcare needs.

One of the primary objectives of a successful self-insurance program or Health Benefit Trust Fund (HBTF) is to build sufficient reserves to anticipate future claims. To begin the HBTF, the County lent the Fund \$10 million from the Risk Management Self-insurance Fund, and the program was initiated on July 1, 2013. Our experience with the self-insurance model has been better than expected. Attached is a December 14, 2015 report from the Human Resources Director regarding this program. Also attached is the Independent Auditor's Report for the HBTF. The results are clear. The policy and decision by the Board of Supervisors to move to a HBTF has and will continue to save significant taxpayer resources in the provision of health insurance benefits to our employees.

In addition, the action will significantly reduce employees' healthcare costs in the future, as they will no longer experience or be adversely affected by double-digit premium increases for medical insurance coverage for themselves and their families.

For the Fiscal Year ending June 30, 2015, the funds available in the HBTF (cash or cash equivalents) equal just over \$27 million, which includes the \$10 million loan from the Risk Management Self-insurance Fund to establish the Fund. Most importantly, the findings of

The Honorable Chair and Members, Pima County Board of Supervisors
Re: Fiscal Position of the Health Benefits Trust Fund
December 17, 2015
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the self-insurance trust indicate the County has benefited from over \$44 million in avoided costs since the transition to the HBTF.

Our transition from the traditional insurance to a self-insurance model for employee medical insurance coverage has been a tremendous success.

CHH/anc

Attachments

c: John Bernal, Deputy County Administrator for Public Works
Tom Burke, Deputy County Administrator for Administration
Jan Leshar, Deputy County Administrator for Community and Health Services
Allyn Bulzomi, Director, Human Resources

Date: December 14, 2015

To: C.H. Huckelberry
County Administrator

From: M. Allyn Suzomi, Director
Human Resources

Via: Tom Burke
Deputy County Administrator

Re: 2015 Pima County Health Benefits Trust Fund – Independent Auditor’s Report

The attached Independent Auditor’s Report for the Health Benefit Trust Fund is presented for you review and information. The report covers the period from July 1, 2014 through June 30, 2015 and reflects the cumulative financial status of the trust fund since inception on July 1, 2013.

Background

Pima County became self-insured for medical and pharmacy benefits on July 1, 2013. Before moving to the self-insured model, the County had been preparing and educating employees on the benefits of being informed health benefit consumer for 3-4 years prior to the inception date of the self-insurance trust fund. Through a competitive process Aetna Insurance became the County’s Third Party Administrator as well as the Pharmacy Benefit Manager.

Employee and County contribution rates were set with the goal of generating sufficient revenue to pay all claims and begin to build a health benefit reserve. Based on market research and advice from our professional consultants, the goal was to build the reserve to \$20 million over the first five years of the program.

Status

For the fiscal year ending June 30, 2015, the net position of the trust fund is just over \$14 million with cash or cash equivalent assets of just over \$27 million. During the year, the trust fund generated more than \$5 million in net cash provided by operations. In fiscal year ending June 30, 2015, the trust fund is on track to pay back one-third of the \$10 million loan from the Risk Management Self-Insurance Trust Fund. The trust fund is healthy and should meet the goal of building a \$20 million reserve during the first five years of the program.

C.H. Huckelberry

Re: 2015 Pima County Health Benefits Trust Fund – Independent Auditors Report

December 14, 2015

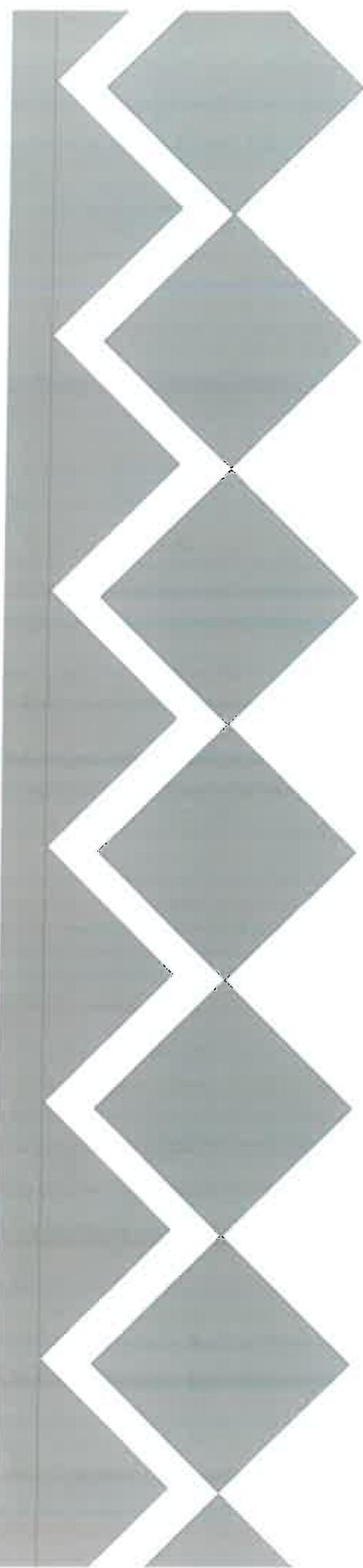
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Cost Avoidance

Prior to becoming self-insured, Pima County was fully insured through UnitedHealth Care. For FY2011-12 and FY2012-13 Pima County experienced 18%-19% increases in premiums per year. For FY2013-14, staff had been notified the increase would be approximately 14%. The attached chart reflects an estimation of what our expenses would have been compared to what we actually experienced by moving to a self-insured model. As is reflected on the chart, Pima County has avoided additional health benefit costs in excess of \$44 million by becoming self-insured.

AB/mp

c: Pima County Health Care Benefits Trust Board Trustees
Gayl Hayes, Division Manager, Human Resources



2015

Health Benefit Trust Internal Service Fund



Pima County, Arizona
For the Fiscal Year Ended June 30, 2015

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

The Board of Supervisors
of Pima County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Health Benefit Self Insurance Trust Fund, an internal service fund of Pima County, Arizona, as of and for the year ended June 30, 2015, 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.

Auditor's 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 respective financial position of the Health Benefit Self Insurance Trust Fund, an internal service fund of Pima County, Arizona, as of June 30, 2015, and the respective 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.

Fund Financial Statements

As discussed in Note 1, the financial statements of the Health Benefit Self Insurance Trust Fund are reported as an internal service fund of Pima County, Arizona, and are intended to present the financial position and the changes in financial position of only that portion of Pima County, Arizona that is attributable to the transactions of the Health Benefit Self Insurance Trust Fund. They do not purport to, and do not, present fairly the financial position of Pima County, Arizona as of June 30, 2015, or the changes in its financial position 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.

Change in Accounting Principle

As described in Note 1, the Trust implemented the provisions of the Governmental Accounting Standards Board (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*, for the year ended June 30, 2015, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2015, on our consideration of Health Benefit Self Insurance 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 Health Benefit Self Insurance Trust Fund's internal control over financial reporting and compliance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 14, 2015

PIMA COUNTY, ARIZONA
Health Benefit Self-Insurance Trust Fund
Statement of Net Position
June 30, 2015

Assets	
Current assets:	
Cash and cash equivalents	\$ 27,154,963
Interest receivable	9,301
Accounts receivable	2,329,513
Due from other funds	<u>46,741</u>
Total assets	<u>29,540,518</u>
Deferred outflows of resources:	
Deferred outflows related to pensions	<u>120,201</u>
Total deferred outflows of resources	<u>120,201</u>
Liabilities	
Current liabilities:	
Accounts payable	128,512
Accrued employee compensation	43,019
Due to other funds	40,424
Reported but unpaid losses, current portion	374,221
Incurred but not reported losses, current portion	<u>3,783,779</u>
Total current liabilities	<u>4,369,955</u>
Noncurrent liabilities:	
Compensated absences payable	51,864
Loan payable	10,000,000
Reported but unpaid losses	3,779
Incurred but not reported losses	38,221
Net pension liability	<u>943,463</u>
Total noncurrent liabilities	<u>11,037,327</u>
Total liabilities	<u>15,407,282</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	<u>164,983</u>
Total deferred inflows of resources	<u>164,983</u>
Net position	
Restricted for:	
Healthcare	<u>14,088,454</u>
Total net position	<u>\$ 14,088,454</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
 Health Benefit Self Insurance Trust Fund
 Statement of Revenues, Expenses and Changes in Net Position
 Year Ended June 30, 2015

Operating revenues:	
Charges for services	\$ 61,873,735
Other	2,158,355
	<u>64,032,090</u>
Operating expenses:	
Employee compensation	833,995
Operating supplies	3,619
Medical claims	46,123,279
Insurance premiums	5,280,652
General and administrative	1,392,058
Professional services	2,935,914
	<u>56,569,517</u>
Operating income	<u>7,462,573</u>
Nonoperating revenues:	
Investment income	72,649
	<u>72,649</u>
Total nonoperating revenues:	<u>72,649</u>
Change in net position	7,535,222
Net position as restated, July 1, 2014	6,553,232
	<u>6,553,232</u>
Net position, June 30, 2015	\$ 14,088,454

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
 Health Benefit Self Insurance Trust Fund
 Statement of Cash Flows
 Year Ended June 30, 2015

Cash flow from operating activities:	
Receipts from other Pima County funds for goods and services	\$ 62,390,778
Receipts from miscellaneous operations	2,158,355
Payments to suppliers for goods and services	(8,996,110)
Payments to other Pima County funds for goods and services	(640,242)
Payments for medical claims	(48,623,279)
Payments to employees	<u>(803,217)</u>
Net cash provided by operating activities	<u>5,486,285</u>
 Cash flows from noncapital financing activities:	
Cash transfers with other Pima County funds	<u>(35,671)</u>
Net cash used for noncapital financing activities	<u>(35,671)</u>
 Cash flows from investing activities:	
Interest on cash and investments	<u>76,698</u>
Net cash provided by investing activities	<u>76,698</u>
Net increase in cash and cash equivalents	5,527,312
Cash and cash equivalents, July 1, 2014	21,627,651
Cash and cash equivalents, June 30, 2015	<u><u>\$ 27,154,963</u></u>

(continued)

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Statement of Cash Flows
Year Ended June 30, 2015

(continued)

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

Operating income	\$ 7,462,573
Adjustments to reconcile operating income to net cash provided by operating activities:	
Pension expense	66,219
Employer pension contributions	(62,742)
Changes in assets and liabilities:	
Decrease (increase) in assets:	
Accounts receivable	517,043
Increase (decrease) in liabilities:	
Accounts payable	(3,984)
Reported but unpaid losses	(222,000)
Incurred but not reported losses	(2,278,000)
Other liabilities	7,176
Net cash provided by operating activities	<u>\$ 5,486,285</u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Health Benefit Self Insurance Trust 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.

For the year ended June 30, 2015, the County implemented the provisions 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*, and GASB Statement No. 69, *Government Combinations and Disposals of Governmental Operations*. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations.

A summary of the County's significant accounting policies affecting the Fund follows.

A. Reporting Entity

The Fund is accounted for as an internal services fund of Pima County, Arizona, and the ultimate financial accountability for the Fund remains with Pima County. The Trust fund is a self-insured medical plan for Pima County employees and their dependents. The Fund is responsible for collecting employer and employee medical premiums through payroll deductions and reimbursing Aetna, acting as the Third Party Administrator, for the payment of the medical claims. The premiums collected include amounts for medical, dental, vision, short-term disability and life insurance coverage. A five member Board of Trustees is responsible to the Pima County Board of Supervisors for oversight of the Trust. The Board of Trustees meets quarterly.

The financial statements present only the Health Benefit Self Insurance Trust 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 internal services 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 and claims incurred by the Fund on a continuing basis be financed primarily through payroll deducted employee and employer medical insurance premiums.

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

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (continued)

C. Basis of Accounting (continued)

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. 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 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 revenue for premium rebates, stop loss reinsurance and short-term disability insurance 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 medical claims, insurance premiums and consultants and professional services.

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. All investments are stated at fair value.

F. Accounts Receivable

Accounts receivable consist primarily of medical premium amounts deducted from employee compensation, together with the employer contribution, not yet transferred to the fund from the payroll system.

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 1 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

The fund has no capital assets.

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 any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and un-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 hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however employees who are eligible to retire from County service into the Arizona State Retirement System, 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.

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 (asset and) 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.

Note 2 – 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 68 Statement No. 71, *Pensions Transition for Contributions Made Subsequent to the Measurement Date*.

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 2 – Change in Accounting Principle (continued)

Net position as previously reported at June 30, 2014	\$ 7,538,000
Prior period adjustment - implementation of GASB 68:	
Net pension liability (measurement date as of June 30, 2013)	(1,046,268)
Deferred outflows - Fund contributions made during fiscal year 2014	61,500
Total prior period adjustment	(984,768)
Net position as restated, July 1, 2014	\$ 6,553,232

Note 3 - Cash and Investments

Cash and investments consist of \$500 in a Chase HSA Reserve outside bank account used to transfer employee payroll contributions to individual employee accounts, and \$17,160,780 of cash on deposit with the County Treasurer and available on demand. The Treasurer pools these deposits with other County monies for investment within the County Treasurer’s pool. The Fund’s deposits are included in the Treasurer’s investment pool but are not identified with specific investments. Additionally, there is \$9,993,683 in LGIP Pool 500.

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.

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 and the LGIP pool 500 had a combined weighted average maturity of 445 days at June 30, 2015.

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; 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 percent of all deposits not covered by federal depository insurance.

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 3 - Cash and Investments (continued)

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 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.

Foreign currency risk—Statutes do not allow foreign investments.

Note 4 - Claims, Judgments and Risk Management

The management of the Fund establishes claim liabilities from an annual actuarial report for Projected Unpaid Claim Liability. The actuarial report estimates the Incurred But Not Reported (IBNR) and the Incurred But Not Paid (IBNP) liabilities both current and non-current. The computations are made using a variety of actuarial methods and techniques including the exposure approach and completion factors. Adjustments to the claim liabilities are charged or credited to expense in the periods in which claims are made. The Health Benefit Self Insurance Trust Fund also has reinsurance (stop loss) coverage for excessive medical claim losses.

Changes in the Fund's claims liability amount for the year ended June 30, 2015 is as follows:

	2015	2014
Claims liability - beginning	\$ 6,700,000	
Current-year claims and changes in estimates	46,123,279	\$ 47,160,898
Claims payment	(48,623,279)	(40,460,898)
Claims liability balance - ending	<u>\$ 4,200,000</u>	<u>\$ 6,700,000</u>

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Incurred but not reported (IBNR)	\$ 6,100,000	\$ 36,808	\$ (2,314,808)	\$ 3,822,000	\$ 3,783,779
Reported but unpaid losses (IBNP)	600,000	7,989	(229,989)	378,000	374,221
Total	<u>\$ 6,700,000</u>	<u>\$ 44,797</u>	<u>\$ (2,544,797)</u>	<u>\$ 4,200,000</u>	<u>\$ 4,158,000</u>

The Fund is also exposed to various risks of loss related to torts; 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' overhead payments to Pima County. 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, 2015, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$640,242. Of that amount, \$20,125 was for inter-department salaries charged in, \$120 was for supplies and services, \$912 was for postage, \$610,718 was for the allocation of overhead, \$7,226 was for telephone, and \$1,141 was for printing and microfilming.

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 6 - Due To/From Other funds

Due to other Pima County funds represents payables for an interfund loan payable of \$10,000,000 from the Self Insurance Risk Trust Fund. The loan is a reserve for the 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 Fund's name. However, all interest earned on the account is payable to the Self Insurance Risk Trust Fund. At June 30, 2015, the due from other funds was \$40,424 in interest due to the Self Insurance Risk Trust Fund and \$46,471 in interest due from the Self Insurance Risk Trust 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), all component units of the State of Arizona, the Health Benefit Self Insurance Trust Fund employees only participate in the Arizona State Retirement System (ASRS).

At June 30, 2015 the Fund reported the following amounts related to pensions for which it contributes:

Net pension liabilities	\$	943,463
Deferred outflows of resources		120,201
Deferred inflows of resources		164,983
Pension expense		66,219

Plan Description – County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

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
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 7 – Pension and Other Postemployment Benefits (continued)

ASRS	Retirement	
	Initial membership date	
	<u>Before July 1, 2011</u>	<u>On or after July 1, 2011</u>
	Sum of years and age equals 80	30 years age 55
Years of service and age required to receive benefit	10 years age 62	25 years age 60
	5 years age 50*	10 years age 62
	any years age 65	5 years age 50 ²
		any years age 65
Final average salary is based on	Highest 36 months of last 120 months	Highest 60 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 Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates. 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, 2015, active ASRS members are required by statute to contribute at the actuarially determined rate of 11.6 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 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of 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 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, 2015 was \$62,742.

The Fund's contributions for the current and preceding year for OPEB, 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>
2015	\$3,472	\$706
2014	\$3,655	\$1,462

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 7 – Pension and Other Postemployment Benefits (continued)

Pension Liability – At June 30, 2015, the Fund reported a liability of \$943,463 for its proportionate share of the ASRS net pension liability. The net pension liability is measured as of June 30, 2014. The total pension liability used 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, 2013, to the measurement date of June 30, 2014. 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, 2014. The Fund’s proportion measure as of June 30, 2015, was 0.25 percent, which did not significantly change from that measured as of June 30, 2014.

Pension Expense and Deferred Outflows/Inflows of Resources – For the year ended June 30, 2015; the Fund recognized pension expense of \$66,219. At June 30, 2015, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>ASRS</i>	<u><i>Deferred Outflows of Resources</i></u>	<u><i>Deferred Inflows of Resources</i></u>
Differences between expected and actual experience	\$ 47,949	
Net difference between projected and actual earnings on pension plan investments		\$ 164,983
Changes in proportion and differences between county contributions and proportionate share of contributions	9,510	
County contributions subsequent to the measurement date	62,742	
Total	<u>\$ 120,201</u>	<u>\$ 164,983</u>

The \$62,742 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, 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	\$ 16,263
2017	16,263
2018	33,751
2019	41,247

PIMA COUNTY, ARIZONA
Health Benefit Self Insurance Trust Fund
Notes to Financial Statements
June 30, 2015

Note 7 – Pension and Other Postemployment Benefits (continued)

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

<i>ASRS</i>	
Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
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, 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 of return for each major asset class are summarized in the following table:

<i>ASRS</i>		
<i>Asset Class</i>	<i>Target Allocation</i>	<i>Long-Term Expected Real Rate of Return</i>
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
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 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
 Health Benefit Self Insurance Trust Fund
 Notes to Financial Statements
 June 30, 2015

Note 7 – Pension and Other Postemployment Benefits (continued)

<i>ASRS</i>	<i>1% Decrease</i> <u>(7%)</u>	<i>Current</i> <i>Discount Rate</i> <u>(8%)</u>	<i>1% Increase</i> <u>(9%)</u>
Health Benefit Self Insurance fund's share of the net pension liability	\$ 1,192,489	\$ 943,463	\$ 808,354

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



**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***

Independent Auditor's Report

The 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 the of Health Benefit Self Insurance Trust Fund, an internal service fund of Pima County, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Health Benefit Self Insurance Trust Fund's basic financial statements, and have issued our report thereon dated October 14, 2015. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 68, as amended by Statement No. 71.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Health Benefit Self Insurance 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Health Benefit Self Insurance Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Health Benefit Self Insurance 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 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 Health Benefit Self Insurance 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 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.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
CPAs and Business Consultants

October 14, 2015