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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, 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 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 Audit 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, 2015, 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 a 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, 2015, or the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Also as discussed in Note 1 to the financial statements, for the year ended June 30, 2015, Pima County Development Services Enterprise Fund adopted new accounting guidance, Governmental Accounting Standards Board 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. 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 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. Our opinion on the financial statements is not affected by this missing information.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2015, 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.

October 15, 2015
Phoenix, Arizona
### Assets
Current assets:
- Cash and cash equivalents: $3,264,412
- Interest receivable: 1,635
- Accounts receivable: 237,838
- Prepaid expenses: 23,487
  Total current assets: 3,527,372

Capital assets:
- Equipment: 309,399
- Less accumulated depreciation: (309,399)
  Total capital assets (net): -

Total noncurrent assets: -

Total assets: 3,527,372

### Deferred outflows of resources
- Deferred outflows related to pensions: 745,246
  Total deferred outflows of resources: 745,246

### Liabilities
Current liabilities:
- Accounts payable: 78,148
- Employee compensation: 248,587
- Due to other funds: 1,435
  Total current liabilities: 328,170

Noncurrent liabilities:
- Compensated absences payable: 451,484
- Net pension liability: 5,849,474
  Total noncurrent liabilities: 6,300,958

Total liabilities: 6,629,128

### Deferred inflows of resources
- Deferred inflows related to pensions: 1,022,892
  Total deferred inflows of resources: 1,022,892

### Net position
- Unrestricted: (3,379,402)
  Total net position: $ (3,379,402)
PIMA COUNTY, ARIZONA  
Development Services Enterprise Fund  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2015

<table>
<thead>
<tr>
<th>Operating revenues:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Charges for services</td>
<td>$6,324,271</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>37,805</td>
<td></td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>6,362,076</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee compensation</td>
<td>4,879,125</td>
<td></td>
</tr>
<tr>
<td>Operating supplies and services</td>
<td>36,373</td>
<td></td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>21,088</td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>1,589,127</td>
<td></td>
</tr>
<tr>
<td>Consultants and professional services</td>
<td>362,045</td>
<td></td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>6,887,758</td>
<td></td>
</tr>
</tbody>
</table>

Operating loss  
(525,682)

<table>
<thead>
<tr>
<th>Nonoperating revenues:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment earnings</td>
<td>15,140</td>
<td></td>
</tr>
<tr>
<td>Total nonoperating revenues</td>
<td>15,140</td>
<td></td>
</tr>
</tbody>
</table>

Loss before transfers  
(510,542)

<table>
<thead>
<tr>
<th>Transfers (out)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net position</td>
<td>(582,160)</td>
<td></td>
</tr>
</tbody>
</table>

Net position, July 1, 2014 (restated)  
(2,797,242)

Net position, June 30, 2015  
$ (3,379,402)
PIMA COUNTY, ARIZONA
Development Services Enterprise Fund
Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities:
Receipts from customers for goods and services $ 6,220,798
Payments to suppliers for goods and services (151,371)
Payments to other Pima County funds for goods and services (1,922,988)
Payments to employees (4,851,132)
Net cash used for operating activities (704,693)

Cash flows from noncapital financing activities:
Transfers out (71,618)
Net cash used for noncapital financing activities (71,618)

Cash flows from investing activities:
Interest received on investments 17,393
Net cash provided by investing activities 17,393

Net decrease in cash and cash equivalents (758,918)
Cash and cash equivalents, July 1, 2014 4,023,330
Cash and cash equivalents, June 30, 2015 $ 3,264,412

(continued)
Reconciliation of operating loss to net cash used for operating activities

Operating loss $ (525,682)

Adjustments to reconcile operating loss to net cash used for operating activities:

Pension expense 410,561
Employer pension contributions (389,000)

Changes in assets and deferred outflows of resources:

Decrease (increase) in assets:
Accounts receivable (141,278)
Prepaid expenses (7,360)

Changes in liabilities and deferred inflows of resources:

Increase (decrease) in liabilities:
Accounts payable (59,788)
Due to other funds 1,435
Due to other governments (13)
Other liabilities 6,432

Net cash used for operating activities $ (704,693)

Noncash investing, capital, and noncapital financing activities during the year ended June 30, 2015:

The Fund retired fully depreciated capital assets with an original cost of $329,878.
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, 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. 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 involved parties external to the County are recorded in the appropriate revenue or expense accounts unless in conflict with GASB pronouncements.
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 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. All 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 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.
Note 1 - Summary of Significant Accounting Policies (continued)

G. Capital Assets

Capital assets are reported at cost. The Fund capitalizes all land regardless of cost, buildings and intangible software assets valued at $5,000,000 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 5 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 any vacation hours in excess of the maximum amount that are unused at year-end are forfeited. Upon termination of employment, all unused and unforfeited 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 Statement No. 71, Pensions Transition for Contributions Made Subsequent to the Measurement Date.
Note 2 – Change in Accounting Principle (continued)

Net position as previously reported at June 30, 2014 $3,308,317

Prior period adjustment - implementation of GASB 68:
Net pension liability (measurement date as of June 30, 2013) (6,486,862)
Deferred outflows - Fund contributions made during fiscal year 2014 381,303
Total prior period adjustment (6,105,559)

Net position as restated, July 1, 2014 $ (2,797,242)

Note 3 - Cash and Investments

Cash and investments consist of $500 of cash on hand and $3,263,912 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. The Fund’s deposits are included in the Treasurer’s investment pool but are not identified with specific investments.

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 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; 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.

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.
Note 3 - Cash and Investments (continued)

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 4 - Capital Assets

Capital asset activity for the year was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 1, 2014</td>
<td></td>
<td></td>
<td>June 30, 2015</td>
</tr>
<tr>
<td>Equipment</td>
<td>$ 639,277</td>
<td></td>
<td>$ (329,878)</td>
<td>$ 309,399</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(639,277)</td>
<td></td>
<td>329,878</td>
<td>(309,399)</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

Note 5 - 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 6 - 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 $1,494,059. Of that amount, $106,035 was for temporary or part-time staffing, $139,434 was for motor pool charges, $1,092,014 was for the allocation of overhead, $8,816 was for postage, $69,416 was for self-insurance premiums, $4,690 was for printing and microfilming, and $73,654 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, 2015, rent expense for the Fund totaled $246,547.

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
Note 7 – Pension and Other Postemployment Benefits (continued)

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 Development Services fund employees only participate in the Arizona State Retirement System (ASRS).

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net pension liabilities</td>
<td>$5,849,474</td>
</tr>
<tr>
<td>Deferred outflows of resources</td>
<td>745,246</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td>1,022,892</td>
</tr>
<tr>
<td>Pension expense</td>
<td>410,561</td>
</tr>
</tbody>
</table>

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 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:

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

*with actuarially reduced benefits
Note 7 – Pension and Other Postemployment Benefits (continued)

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 Development Services Trust fund’s contributions to the pension plan for the year ended June 30, 2015 was $389,000.

The Development Services fund’s contributions for the current and two preceding years for OPEB, all of which were equal to the required contributions, were as follows:

<table>
<thead>
<tr>
<th>Years ended June 30</th>
<th>Health Benefit Supplemental Fund</th>
<th>Long-Term Disability Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$21,123</td>
<td>$4,296</td>
</tr>
<tr>
<td>2014</td>
<td>$20,586</td>
<td>$8,235</td>
</tr>
<tr>
<td>2013</td>
<td>$21,587</td>
<td>$7,971</td>
</tr>
</tbody>
</table>

Pension Liability – At June 30, 2015, the Development Services fund reported a liability of $5,849,474 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 Development Services fund’s proportion of the net pension liability was based on the Development Services fund’s actual contributions to the plan relative to the total of the County’s contributions for the year ended June 30, 2014. The Development Services 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, 2015, the Development Services fund recognized pension expense of $410,561. At June 30, 2015, the Development Services fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:
Note 7 – Pension and Other Postemployment Benefits (continued)

The $389,000 reported as deferred outflows of resources relates to ASRS pensions resulting from Development Services 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:

<table>
<thead>
<tr>
<th>Year ending June 30</th>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>$100,833</td>
<td>$1,022,892</td>
</tr>
<tr>
<td>2017</td>
<td>100,833</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>209,256</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>255,723</td>
<td></td>
</tr>
</tbody>
</table>

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

- 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.
Note 7 – Pension and Other Postemployment Benefits (continued)

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:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term Expected Real Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>63%</td>
<td>7.03%</td>
</tr>
<tr>
<td>Fixed income</td>
<td>25%</td>
<td>3.20%</td>
</tr>
<tr>
<td>Real estate</td>
<td>8%</td>
<td>4.75%</td>
</tr>
<tr>
<td>Commodities</td>
<td>4%</td>
<td>4.50%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

*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 Development Services fund’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Development Services 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.

<table>
<thead>
<tr>
<th>Development Service fund's share of the net pension liability</th>
<th>1% Decrease (7%)</th>
<th>Current Discount Rate (8%)</th>
<th>1% Increase (9%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7,393,434.40</td>
<td>5,849,473.41</td>
<td>5,011,797.05</td>
</tr>
</tbody>
</table>

*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, 2015, and the related notes to the financial statements, which collectively comprise the Fund’s financial statements, and have issued our report thereon dated October 15, 2015.

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.

Phoenix, Arizona
October 15, 2015