

# 2016

## Health Benefit Trust Internal Service Fund



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

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
June 30, 2016

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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 Trust, an internal service fund of Pima County, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 Trust, an internal service fund of Pima County, Arizona, as of June 30, 2016, 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 Trust 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 Trust. They do not purport to, and do not, present fairly the financial position of Pima County, Arizona as of June 30, 2016, or the changes in its financial position 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 Health Benefit Trust implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, 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 12, 2016, on our consideration of Health Benefit Trust'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 Trust's internal control over financial reporting and compliance.

*Heinfeld, Meech & Co., P.C.*

Heinfeld, Meech & Co., P.C.  
Tucson, Arizona  
October 12, 2016

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Statement of Net Position  
June 30, 2016

**Assets**

Current assets:

Cash and cash equivalents	\$ 32,539,379
Interest receivable	12,471
Accounts receivable	49,650
Prepaid expenses	9,600

Total assets	32,611,100
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Deferred outflows of resources:

Deferred outflows related to pensions	93,565
Total deferred outflows of resources	93,565

**Liabilities**

Current liabilities:

Accounts payable	131,875
Accrued employee compensation	21,107
Due to other funds	7,896
Reported but unpaid losses, current portion	457,700
Incurred but not reported losses, current portion	4,119,300
Total current liabilities	4,737,878

Noncurrent liabilities:

Compensated absences payable	36,390
Loan payable	6,700,000
Reported but unpaid losses	2,300
Incurred but not reported losses	20,700
Net pension liability	974,373
Total noncurrent liabilities	7,733,763

Total liabilities	12,471,641
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Deferred inflows of resources:

Deferred inflows related to pensions	96,170
Total deferred inflows of resources	96,170

**Net position**

Restricted for:

Healthcare	20,136,854
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Total net position	\$ 20,136,854
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See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2016

<b>Operating revenues:</b>	
Charges for services	\$ 62,742,505
Other	2,183,230
	<u>64,925,735</u>
Total operating revenues	<u>64,925,735</u>
<b>Operating expenses:</b>	
Employee compensation	781,788
Operating supplies	6,842
Medical claims	48,884,743
Medical claims - change in actuarial estimates	400,000
Insurance premiums	5,033,638
General and administrative	1,008,599
Professional services	2,947,735
	<u>59,063,345</u>
Total operating expenses	<u>59,063,345</u>
Operating income	<u>5,862,390</u>
Nonoperating revenues:	
Investment income	186,010
	<u>186,010</u>
Total nonoperating revenues:	<u>186,010</u>
Change in net position	6,048,400
Net position, July 1, 2015	<u>14,088,454</u>
<b>Net position, June 30, 2016</b>	<u><u>\$ 20,136,854</u></u>

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Statement of Cash Flows  
Year Ended June 30, 2016

<b>Cash flow from operating activities:</b>	
Receipts from other Pima County funds for goods and services	\$ 65,022,368
Receipts from miscellaneous operations	2,183,230
Payments to suppliers for goods and services	(8,530,338)
Payments to other Pima County funds for goods and services	(472,713)
Payments for medical claims	(48,884,743)
Payments to employees	(830,441)
	8,487,363
Net cash provided by operating activities	8,487,363
 <b>Cash flows from noncapital financing activities:</b>	
Cash transfers in from other funds	46,741
Cash transfers out to other funds	(32,528)
Loans with other Pima County funds	(3,300,000)
	(3,285,787)
Net cash used for noncapital financing activities	(3,285,787)
 <b>Cash flows from investing activities:</b>	
Interest on cash and investments	182,840
	182,840
Net cash provided by investing activities	182,840
Net increase in cash and cash equivalents	5,384,416
Cash and cash equivalents, July 1, 2015	27,154,963
<b>Cash and cash equivalents, June 30, 2016</b>	<b>\$ 32,539,379</b>

(continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Statement of Cash Flows  
For the Year Ended June 30, 2016

(continued)

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

Operating income	\$	5,862,390
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and deferred outflows of resources:		
Decrease (increase) in assets:		
Accounts receivable		2,279,863
Prepaid expenses		(9,600)
Decrease in deferred outflows of resources:		
Pension plans		26,636
Changes in liabilities and deferred inflows of resources:		
Increase (decrease) in liabilities:		
Accounts payable		3,363
Reported but unpaid losses		82,000
Incurred but not reported losses		318,000
Net pension liability		30,909
Other liabilities		(37,386)
Decrease in deferred inflows of resources:		
Pension plans		(68,812)
Net cash provided by operating activities	\$	8,487,363

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 1 - Summary of Significant Accounting Policies**

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

A 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, that is governed by a five member Board of Trustees which meets quarterly and is responsible to the Pima County Board of Supervisors for oversight of the Trust. The ultimate financial accountability for the Fund remains with Pima County. The 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.

The financial statements present only the Health Benefit 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

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

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. 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 in the State Treasurer's Local Government Investment Pool (LGIP) 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 in the State Treasurer's LGIP. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, and deposits held in escrow accounts.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of 1 year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

**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.

**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 they forfeit any vacation hours in excess of the maximum amount that are unused at year-end. 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 most employees forfeit them upon terminating employment. However, employees who have accumulated greater than 240 hours of sick leave and are eligible to retire will receive some benefits. Employees who are eligible to retire from County service into the Arizona State Retirement System may request sick leave to be converted to annual leave on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability in the Fund's financial statements in Employee Compensation for the current portion and under Noncurrent Liabilities for the noncurrent portion.

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

**I. Deferred Outflows and Inflows of Resources**

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

**J. Pensions**

For purposes of measuring the net pension (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.

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 2 - Cash and Investments**

Cash and investments consists of \$22,486,713 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. Additionally, there is \$10,052,666 invested in the State Treasurer's LGIP Pool 500.

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

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

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

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

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

**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 412 days at June 30, 2016.

**Legal Provisions**—Arizona Revised Statutes authorize counties to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; 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.

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 2 - 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 demand deposits, certificates of deposit, and repurchase agreements 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 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 3 - 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 which claims are made. The 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, 2016 is as follows:

	2016	2015
Claims liability - beginning	4,200,000	6,700,000
Current-year claims and changes in estimates	49,284,743	46,123,279
Claims payment	(48,884,743)	(48,623,279)
Claims liability balance - ending	4,600,000	4,200,000

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within 1 year
Incurred but not reported (IBNR)	3,822,000	854,605	(536,605)	4,140,000	4,119,300
Reported but unpaid losses (IBNP)	378,000	165,780	(83,780)	460,000	457,700
Total	4,200,000	1,020,385	(620,385)	4,600,000	4,577,000

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.

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 4 - Related Party Transactions**

*Administrative and Fiscal Services*—For the year ended June 30, 2016, the Fund incurred expenses from Pima County for a variety of administrative and fiscal services totaling \$543,794. Of that amount, \$71,081 was for inter-department salaries charged in, \$28 was for supplies and services, \$2,936 was for postage, \$437,156 was for the allocation of overhead, \$24,048 was for information technology department services, \$7,344 was for telephone, and \$1,201 was for printing and microfilming.

**Note 5 – Due To/From Other funds**

Due to other Pima County funds represents payables for an interfund loan payable of \$6,700,000 from the Self-Insurance Trust Fund. The loan is a reserve for the Fund until it can establish its own reserve, with 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 Trust Fund. At June 30, 2016, the due to other funds was \$7,896 in interest due to Self-Insurance Trust Fund.

**Note 6 – 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 Fund employees only participate in the Arizona State Retirement System (ASRS).

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

Net pension liabilities	\$ 974,373
Deferred outflows of resources	93,565
Deferred inflows of resources	96,170
Pension expense	50,334

*Plan Description*—The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at [www.azasrs.gov](http://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 Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 6 – Pension and Other Postemployment Benefits (continued)**

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

\*With actuarially reduced benefits

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. 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, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of the annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The Fund's contributions to the pension plan for the year ended June 30, 2016 was \$61,602.

The Fund's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

PIMA COUNTY, ARIZONA  
Health Benefit Trust Internal Service Fund  
Notes to Financial Statements  
June 30, 2016

**Note 6 – Pension and Other Postemployment Benefits (continued)**

<u>Years ended June 30,</u>	<u>Health Benefit Supplemental Fund</u>	<u>Long-Term Disability Fund</u>
2016	\$2,761	\$662
2015	\$3,472	\$706
2014	\$3,655	\$1,462

**Pension Liability**—At June 30, 2016, the Fund reported a liability of \$974,373 for its proportionate share of the ASRS net pension liability. The net pension liability was measured as of June 30, 2015. 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, 2014, to the measurement date of June 30, 2015. The Fund’s proportion of the net pension liability was based on the Fund’s actual contributions to the plan relative to the total of the County’s contributions for the year ended June 30, 2015. The Fund’s proportion measure as of June 30, 2015, was 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, 2016, the Fund recognized pension expense of \$50,334. At June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<i>ASRS</i>	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences between expected and actual experience	\$ 26,588	\$ 51,058
Net difference between projected and actual earnings on pension plan investments		31,226
Changes in proportion and differences between county contributions and proportionate share of contributions	5,375	13,886
County contributions subsequent to the measurement date	61,602	
Total	\$ 93,565	\$ 96,170

The \$61,602 reported as deferred outflows of resources relates to ASRS pensions resulting from Fund contributions subsequent to the measurement recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

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**Note 6 – Pension and Other Postemployment Benefits (continued)**

Year ending June 30,	
2017	\$ (22,855)
2018	(40,066)
2019	(23,827)
2020	22,541

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

<i>ASRS</i>	
Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which the 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>Target</i>	<i>Long-Term Expected</i>
<i>Asset Class</i>	<i>Allocation</i>	<i>Arithmetic Real</i>
	<u><i>Rate of Return</i></u>	
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.93%
Total	<u>100%</u>	

PIMA COUNTY, ARIZONA  
 Health Benefit Trust Internal Service Fund  
 Notes to Financial Statements  
 June 30, 2016

**Note 6 – Pension and Other Postemployment Benefits (continued)**

**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.

ASRS	<i>1% Decrease</i> <i>(7%)</i>	<i>Current</i> <i>Discount Rate</i> <i>(8%)</i>	<i>1% Increase</i> <i>(9%)</i>
Health Benefit Self Insurance fund's share of the net pension liability	\$ 1,276,761	\$ 974,373	\$ 767,137

**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 Trust, an internal service fund of Pima County, Arizona, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Health Benefit Trust's basic financial statements, and have issued our report thereon dated October 12, 2016. Our report included an emphasis of matter paragraph as to comparability because of the implementation of Governmental Accounting Standards Board Statement No. 72.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Health Benefit Trust'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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Health Benefit Trust'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 Trust'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.  
Tucson, Arizona  
October 12, 2016