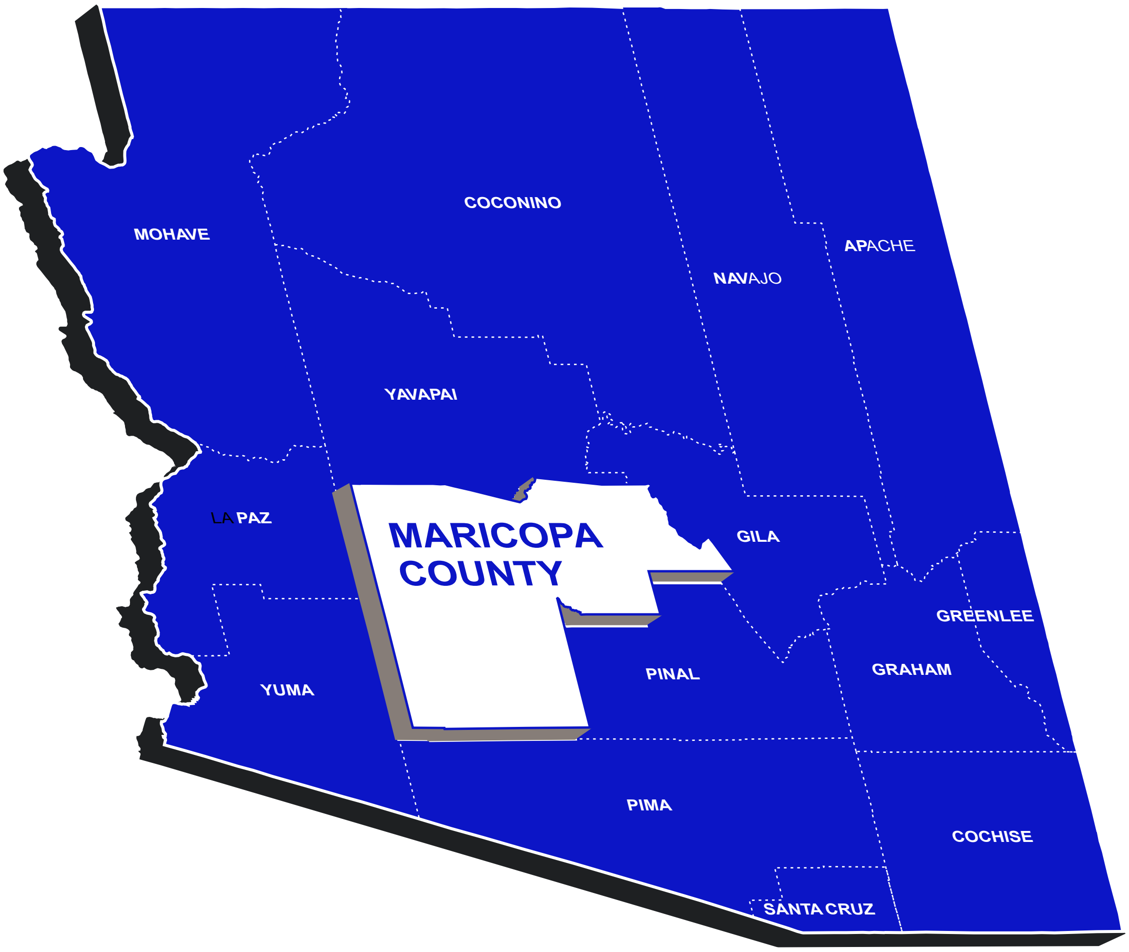
# Risk Management Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2012




Maricopa County, Arizona

www.maricopa.gov

**MARICOPA COUNTY, ARIZONA**
**RISK MANAGEMENT TRUST FUND**
**Report on Audit of Financial Statements**
**June 30, 2012**

**MARICOPA COUNTY**
**RISK MANAGEMENT TRUST FUND**
**Report on Audit of Financial Statements**
**June 30, 2012**

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CliftonLarsonAllen LLP
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## Independent Auditor's Report

Board of Supervisors of
Maricopa County Risk Management
Trust Fund
Maricopa County, Arizona

We have audited the accompanying statement of net assets – internal service fund of the Maricopa County Risk Management Trust Fund (Fund) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets (deficit) – internal service fund, and cash flows – internal service fund for the year then ended. These financial statements are the responsibility of the Maricopa County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Fund's financial statements are intended to present the financial position, changes in financial position and cash flow of only that portion of the governmental activities of Maricopa County, Arizona that is attributable to the Fund. They do not purport to and do not present fairly the financial position of Maricopa County, Arizona as of June 30, 2012, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maricopa County Risk Management Trust Fund as of June 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Maricopa County Risk Management 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 audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

CliftonLarsonAllen LLP

Phoenix, Arizona
November 20, 2012

**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**

Board of Supervisors of
Maricopa County Risk Management
Trust Fund
Maricopa County, Arizona

We have audited the financial statements of Maricopa County Risk Management Trust Fund (the Fund) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 20, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 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 Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of 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*.

This report is intended for the information and use of the Board of Supervisors and management and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Phoenix, Arizona
November 20, 2012

**MARICOPA COUNTY**
**RISK MANAGEMENT TRUST FUND**
**Management's Discussion and Analysis**
**June 30, 2012**

This section of the financial statements of the Maricopa County Risk Management Trust Fund presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2012. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

## Overview of the Financial Statements

Maricopa County, Arizona (County) established a Risk Trust Fund (Trust) and declares itself Self-Insured under the provisions of Arizona Revised Statute (A.R.S.) 11-981. For financial statement presentation purposes, the Self-insured Trust Fund is reported as the Maricopa County Risk Management Trust Fund (Fund). The Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies as applicable. The primary purpose of the Risk Management Fund is to provide indemnity protection from liability claims and lawsuits and to provide a source of funds to repair or replace damaged structures and/or personal property when damaged by a covered peril for County departments, County districts and other participants.

The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements are as follows:

<u>Statement of Net Assets (Deficit)</u>
This statement presents information reflecting the assets, liabilities, and accumulated net assets of the Fund as of June 30, 2012.

<u>Statement of Revenues, Expenses and Changes in Net Assets (Deficit)</u>
This statement reflects the revenues and expenses, as well as non-operating revenues during the year ended June 30, 2012.

<u>Statement of Cash Flows</u>
This statement reflects the cash flows from operating, investing, capital and related financing activities during the year ended June 30, 2012.

## Financial Highlights

The more significant highlights of fiscal year 2012 as compared to fiscal year 2011 follows:

- Cash and cash equivalents decreased $12,692,698 from $62,490,562 as of June 30, 2011 to $49,797,864 as of June 30, 2012.

- Total assets decreased $12,833,403 from $63,644,422 as of June 30, 2011 to $50,811,019 as of June 30, 2012.

- Net deficit increased $9,988,696 from $(69,783,185) as of June 30, 2011 to $(79,771,881) as of June 30, 2012.

- Change in net assets decreased $31,037,292 from $(41,025,988) for 2011 as compared to $(9,988,696) for 2012.

The following tables and analysis discuss the financial position of the Fund as of June 30, 2012 and 2011 and the results achieved from the operations of the Fund for the year ended June 30, 2012 as compared to the year ended June 30, 2011.

**Summary of Net Assets**

| | June 30, | |
|---|---|---|
| | **2012** | **2011** |
| Cash and cash equivalents | $ 49,797,864 | $ 62,490,562 |
| Prepaid insurance | 966,376 | 1,134,931 |
| Capital assets, net | 12,952 | 15,128 |
| All other assets | 33,827 | 3,801 |
| **Total assets** | $ 50,811,019 | $ 63,644,422 |
| Reserve for losses and loss expenses | $ 129,080,630 | $ 132,258,185 |
| Accounts payable | 1,296,079 | 982,763 |
| All other liabilities | 206,191 | 186,659 |
| Net assets (deficit) | | |
| Invested in capital assets | 12,952 | 15,128 |
| Unrestricted (deficit) | (79,784,833) | (69,798,313) |
| **Total liabilities and net assets** | $ 79,771,881 | $ 63,644,422 |

Cash and cash equivalents decreased by $12.7 million or 20.31% as of June 30, 2012 compared to June 30, 2011. The decrease was primarily due to a drop in charges to user departments in fiscal year 2012.

Reserve for losses and loss expenses decreased by $3.2 million or 2.4%. The decrease resulted from a decrease in reported claims of $29.1 million and an increase in the provision for incurred but unreported losses (IBNR) of $25.9 million. This decrease on reported claims resulted from the estimates on a cluster of liability claims developed favorably down, the estimates on general liability and medical malpractice developed favorably down, the estimates for environmental property damage and liability were reduced and the estimates for professional liability were reduced.

Net assets are reported in the accompanying financial statements as unrestricted and invested in capital assets.

## Capital Assets and Related Debt

The Fund's investment in capital assets as of June 30, 2012, amounted to $12,952 net of accumulated depreciation. Capital assets consist of equipment and furnishings. No long-term debt was added in 2012.

Depreciation expense for fiscal year 2012 was $2,176 as compared to $2,170 in 2011.

## Summary of Revenues and Expenses and Changes in Net Assets

| | Years ended 2012 | June 30, 2011 |
|---|---|---|
| Operating revenues | $ 15,756,191 | $ 24,332,007 |
| Other revenues | 242,165 | 579,991 |
| Investment income | 387,919 | 501,841 |
| Total revenue | 16,386,275 | 25,413,839 |
| Losses and loss expenses | 18,012,881 | 58,551,093 |
| All other expenses | 11,071,990 | 7,888,734 |
| Total expenses | 29,084,871 | 66,439,827 |
| Transfers in | 2,716,418 | - |
| All other expenses | (6,518) | - |
| Total transfers | 2,709,900 | - |
| **Change in net assets** | $ ( 9,988,696) | $ (41,025,988) |

Operating revenue decreased by $8.6 million. The decrease in operating revenue is primarily a result of a decrease in user charges in fiscal year 2012. This amount is determined annually by a funding analysis. Investment income decreased $113,922 in fiscal year 2012 due to lower rates of return during the weakening economy.

Total expenses decreased by approximately $37.4 million or 56.2%. This decrease is due to a large decrease in loss and loss expenses during the fiscal year ended June 30, 2012.

The change in net assets was $(9.9) million for 2012, a decrease of approximately $31.1 million from the change in net assets of $(41.0) million for 2011, primarily resulting from a decrease in reported claims. This decrease on reported claims resulted from the estimates on a cluster of liability claims developed favorably down, the estimates on general liability and medical malpractice developed favorably down, the estimates for environmental property damage and liability were reduced and the estimates for professional liability were reduced.

### Net Assets (Deficit)

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net assets (deficit) of $(23,321,519) at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2012, the total net assets (deficit) was $(79,771,881). This is primarily due to the Risk Management Trust Fund not being funded for accrued claim liabilities which are not considered when determining funding for each fiscal year.

### Economic Factors

During the budget and planning process for fiscal year 2012, County management continues to be aware of the declining economy. Maricopa County's main revenue sources of sales tax, vehicle license tax and jail taxes continue to decline as they had in the previous fiscal years. The Arizona economy continues to be in a downturn and the housing market continues to deteriorate. There are tougher lending standards, consumer spending is down, and the unemployment rate continues to increase.

As a result, County management continued the hiring freeze and a capital purchase freeze they had implemented in the prior fiscal year. In addition, County leadership asked each department to submit relatively flat budget requests without increases from the prior fiscal year requests. This included the Risk Management department.

The Risk Management Trust Fund projected claim and claims expense payments using an eighty percent confidence level for the three prior fiscal years 2012, 2011 and 2010. In the past years, a fifty five percent confidence level had been used. Due to the foreseen economic problems, County management used the greater confidence level.

### Contact Information

The management report is to provide our participants, customers and consultants with a general overview of the Fund's finances. If you have any questions about this report or need additional information, please contact the Maricopa County Risk Management Department, 222 N. Central Ave., Suite 1110, Phoenix, AZ 85004, or at www.maricopa.gov.

**MARICOPA COUNTY**
**RISK MANAGEMENT TRUST FUND**
**Statement of Net Assets (Deficit)—Internal Service Fund**
**June 30, 2012**

| | Risk Management |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 49,797,864 |
| Interest receivable | 33,827 |
| Prepaid insurance | 966,376 |
| Capital assets, net | 12,952 |
| **Total assets** | 50,811,019 |
| **Liabilities** | |
| Accounts payable | 1,296,079 |
| Employee compensation payable | 206,191 |
| Reserve for losses and loss expenses | 129,080,630 |
| **Total liabilities** | 130,582,900 |
| **Net Assets (deficit)** | |
| Invested in capital assets | 12,952 |
| Unrestricted (deficit) | (79,784,833) |
| **Total net assets (deficit)** | $ (79,771,881) |

The accompanying notes are an integral part of the financial statements.

**MARICOPA COUNTY**
**RISK MANAGEMENT TRUST FUND**
**Statement of Revenues, Expenses, and**
**Changes in Net Assets (Deficit)—Internal Service Fund**
**Year Ended June 30, 2012**

| | Risk Management |
|---|---|
| **Operating revenues:** | |
| Charges for services | $ 15,756,191 |
| Other income | 242,165 |
| **Total operating revenues** | 15,998,356 |
| **Operating expenses:** | |
| Personal services | 2,036,938 |
| Supplies and services | 1,157,631 |
| Legal expenses | 7,467,154 |
| Workers' compensation self-insurance tax | 408,091 |
| Loss and loss expenses | 18,012,881 |
| Depreciation | 2,176 |
| **Total operating expenses** | 29,084,871 |
| **Operating loss** | (13,086,515) |
| **Nonoperating revenues:** | |
| Investment income | 387,919 |
| **Total nonoperating revenues** | 387,919 |
| **Loss before transfers** | (12,698,596) |
| **Other financing sources (uses):** | |
| Transfers in | 2,716,418 |
| Transfers out | (6,518) |
| **Total other financing sources (uses)** | 2,709,900 |
| **Decrease in net assets** | (9,988,696) |
| **Total net assets (deficit), July 1, 2011** | (69,783,185) |
| **Total net assets (deficit), June 30, 2012** | $ (79,771,881) |

The accompanying notes are an integral part of the financial statements.

**MARICOPA COUNTY**
**RISK MANAGEMENT TRUST FUND**
**Statement of Cash Flows—Internal Service Fund**
**Year Ended June 30, 2012**

| | Risk Management |
|---|---|
| **Cash flows from operating activities:** | |
| Receipts from employees and other funds | $ 15,756,191 |
| Other receipts | 242,165 |
| Payments for fees, supplies, and services | (8,724,989) |
| Payments for insurance claims | (17,423,994) |
| Payments for insurance premiums | (3,592,458) |
| Payments to employees | (2,017,406) |
| Net cash used in operating activities | (15,760,491) |
| **Cash flows from non capital financing activties:** | |
| Cash transfers from general fund | 2,716,418 |
| Cash transfers to other funds | (6,518) |
| Net cash provided by non capital financing activities | 2,709,900 |
| **Cash flows from investing activities:** | |
| Interest received on investments | 357,893 |
| Net decrease in cash and cash equivalents | (12,692,698) |
| Cash and cash equivalents, July 1, 2011 | 62,490,562 |
| Cash and cash equivalents, June 30, 2012 | $ 49,797,864 |
| | |
| **Reconciliation of operating income to net cash used in operating activities:** | |
| Operating loss | $ (13,086,515) |
| Adjustments to reconcile operating income to net cash used in operating activities: | |
| Depreciation | 2,176 |
| Net change in RBUC and IBNR claims, noncurrent portion | 819,280 |
| Changes in assets and liabilities: | |
| Increase in: | |
| Accounts payable | 313,316 |
| Employee compensation payable | 19,532 |
| Decrease in: | |
| Prepaid insurance | 168,555 |
| RBUC and IBNR claims, current portion | (3,996,835) |
| Net cash used in operating activities | $ (15,760,491) |

The accompanying notes are an integral part of the financial statements.

## NOTE 1 - Organization and Summary of Significant Accounting Policies

Maricopa County, Arizona (the County), in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a Trust fund (Trust) and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as the Risk Management Trust Fund (Fund) and all monies held in the Fund are considered restricted for purposes of self-insurance. The Fund's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The accompanying financial statements are those of the Fund and do not represent the financials statements of the County. The Maricopa County, Arizona *Comprehensive Annual Financial Report* as of and for the year ended June 30, 2012, will report the Fund as governmental activity in the government-wide financial statements since it predominantly services the County's governmental funds. A summary of the Fund's significant accounting policies follows:

### A. Reporting Entity

The Fund is accounted for as an internal service fund of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Fund is administered by no less than six joint trustees, all of whom shall be citizens of the United States of America and residents of Maricopa County. The County Board of Supervisors also appoints the trustees. However, the ultimate financial accountability for the Fund remains with the County. The County is responsible for the management and operations of the financing of the uninsured risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

### 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. The fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, revenues, and expenses.

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

## C. Basis of Presentation and Accounting

The basic financial statements include statement of net assets; statement of revenues, expenses, and changes in fund net assets (deficit); and statement of cash flows.

The statement of net assets provides information about the assets, liabilities, and net assets of the Fund at the end of the year. Assets and liabilities are unclassified. Invested in capital assets represents the value of capital assets, net of accumulated depreciation. Unrestricted net assets represent the balance of monies held in the Fund.

The statement of revenues, expenses, and changes in fund net assets (deficit) provide information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Generally, charges for services are considered to be operating revenues. Other revenues such as investment income are not generated from operations and are considered to be nonoperating revenues. The cost of services, administrative expenses, and depreciation on capital assets are considered to be operating expenses.

The 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 either operating or investing.

Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied, and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are presented on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The Fund applies applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Fund has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

### D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### E. Cash and Cash Equivalents

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

### F. Capital Assets

Equipment is initially recorded at cost. Depreciation of equipment is charged as an expense against operations. These assets are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of equipment range from 3 to 10 years.

### G. Reserve for Losses and Loss Expenses

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other socioeconomic factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

### H. Employee Compensation Payable

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Classified employees may accumulate up to 240 hours of vacation leave. Any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Unclassified employees may accumulate up to 320 hours of vacation leave. Any vacation hours in excess of the maximum amount that are unused at calendar year-end convert to sick leave. Upon termination of employment, all unused vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, County employees with accumulated sick leave in excess of 1,000 hours are entitled to a $10,000 nontaxable investment in a Post Employment Health Plan established pursuant to Internal Revenue Code §501(c)(9). The obligations vested at June 30, 2012, under this policy are accrued as a liability.

Compensated absences are substantially paid within one year from fiscal year-end and, therefore, are reported as a current liability.

### I. Income Tax

The Fund is a component unit of Maricopa County, Arizona, a governmental agency, and is exempt from federal and state income taxes.

## NOTE 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Fund 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% of all deposits not covered by federal depository insurance.

**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.

**Deposits**—At June 30, 2012, there were no deposits for the Fund. The Fund follows the County's policies requiring collateralization of all deposits by at least 101% of the deposits not covered by depository insurance. At a minimum, the collateral is to be held by the pledging financial institution or its agent, but does not have to be held in the County's name.

**Investments**—The Fund's investments at June 30, 2012, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Fund's investments in the pool represent a portion of the County Treasurer's pool portfolio. There is no oversight provided for the County Treasurer's investment pool, and the pool's structure does not provide for shares. The Fund's portion in the pool is not identified with specific investments.

***Credit Risk*—**The Fund follows the County's policy to preserve the principal value and the interest income of an investment. The County can invest in obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, or instrumentalities. The County can also invest in commercial paper and corporate bonds with ratings that meet the statutory requirements specified above. At June 30, 2012, the Fund's investments consisted of monies invested in the Maricopa County Treasurer's Investment Pool which is unrated.

***Interest rate risk*—**It is the County's policy to hold investments to maturity, where practical, and avoid any loss on investments resulting from an early sale or retirement of an investment. Additionally, securities should be invested for a shorter duration, where applicable. At June 30, 2012, the Fund had investments of $49,797,764 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 377 days, of which 58% (in excess of $1 billion) of pooled investments have maturities of 90 days or less. The County invests the pooled investments primarily in U.S. government agency securities.

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets (Deficit) follows:

| | |
|---|---|
| Cash, deposits, and investments: | |
| Cash on hand | $ 100 |
| Amount of deposits | 0 |
| County Treasurer's Investment Pool | 49,797,764 |
| Total | $49,797,864 |

## NOTE 3 - Reserve for Losses and Loss Expenses

The Fund provides for claims liabilities based on estimates of the ultimate cost of claims, including future claims adjustment expenses, that have been reported but unpaid (RBUC), and of claims that have been incurred but not reported (IBNR).

The County is liable for any single claim up to the insurance deductible or self-insurance retention (SIR), whichever is applicable, and the excess over insurance limits. Settled claims have not exceeded the commercial insurance coverage limits over the past 3 years.

Reserve for losses and loss expenses are estimates of the ultimate cost of claims that include the insurance deductible, the SIR, and the excess over insurance limits. The estimates are determined by an independent actuary using the following actuarial methods: reported loss development, paid loss development, Bornhuetter-Ferguson reported loss and paid loss, frequency times severity, expected loss, incremental paid-workers' compensation, paid allocated loss adjustment expense to paid loss development-automobile liability, and tail liability for medical malpractice. Total liabilities are equal to the sum of:

1. Reported but unpaid claims (RBUC), which represent the estimated liability on reported claims established by the Risk Management department and

2. Incurred but not reported (IBNR) reserves, which include known loss events that are expected to become claims and expected future development on claims already reported. Therefore, IBNR is largely an estimate of loss and claim adjustment expenses associated with future likely claims activity based on historical actual results that establish a reliable pattern.

Accrued actuarial liabilities are based on a discounted 55 percent confidence level assuming a 2.0 percent annual rate of return on investments.

The total liabilities reported at June 30, 2012, categorized by insurable area follow:

| | Total Liabilities |
|---|---|
| Auto liability | $ 3,198,928 |
| General liability | 78,754,992 |
| Workers' compensation | 15,748,934 |
| Medical malpractice | 15,933,515 |
| Auto physical damage | 425,260 |
| Property | 228,068 |
| Professional liability | 194,848 |
| Environmental property damage | 3,580,145 |
| Environmental liability | 4,230,669 |
| Unallocated | 6,785,271 |
| Total | $129,080,630 |

The total estimates of unpaid claim liabilities of $129,080,630 at June 30, 2012, decreased by $3,177,555 from last year's balance of $132,258,185. Medical malpractice, auto physical damage, property, professional liability, environmental liability and unallocated claims all decreased.

Changes in the liabilities for unpaid auto, general, workers' compensation, medical malpractice, auto physical damage, property, professional liability, environmental property damage, environmental liability and unallocated claims follow:

| | FY 2011-12 | FY 2010-11 | FY 2009-10 |
|---|---|---|---|
| Balance July 1 | $132,258,185 | $90,415,628 | $62,429,120 |
| Current-Year Claims and Changes in Estimates | 12,637,627 | 53,447,553 | 37,749,796 |
| Claim Payments | (15,815,182) | (11,604,996) | (9,763,288) |
| Balance June 30 | $129,080,630 | $132,258,185 | $90,415,628 |

Of these liabilities, $34,609,208 were actuarially estimated to be payable within the next 12 months.

## NOTE 4 - Net Assets (Deficit)

The County Board of Supervisors elected not to fund the Risk Management Trust Fund's unpaid claims in fiscal years 1996 through 1999. Consequently, the Risk Management Trust Fund only billed user departments for operating costs and administrative expenses for those years. This resulted in a total net deficit of $23,321,519 at June 30, 1999. Starting July 1, 1999, the Risk Management Trust Fund implemented a funding plan that calls for the fiscal year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2012, the total net deficit was $79,771,881. This is primarily due to the Risk Management Trust Fund not being funded for accrued claim liabilities which are not considered when determining funding for each fiscal year.

## NOTE 5 - Transfers

The transfer in from the General Fund was $2,716,418. Transfers are budgeted and are used to move revenues from the fund that collects them to the fund that expends them.

## NOTE 6 - Letter of Credit

On July 1, 2011, the County maintained a $5,649,751 irrevocable standby letter of credit issued to the Industrial Commission of Arizona for unfunded workers' compensation claims. The irrevocable standby letter of credit matured on June 30, 2012. The letter of credit was reserved against the municipal revolving line of credit. During fiscal year 2011-12, the letter of credit had not been drawn upon. The irrevocable standby letter of credit was renewed to June 30, 2013, for $6,482,298. However, an amendment will be issued on January 1, 2013 for the new liability amount.

**NOTE 7 - Pollution Remediation Obligations**

The Fund has estimated and reported a pollution remediation obligation in the financial statements for the current or potential detrimental effects of existing pollution. These obligations are categorized under environmental property damage and environmental liability in Note 3 – Reserve for Losses and Loss Expenses. At June 30, 2012, the Fund reported $5,582,351 of reported but unpaid claims, which is comprised of the following pollution remediation obligations:

Cave Creek Landfill – The County has entered into a Consent Decree with the Arizona Department of Environmental Quality (ADEQ) to evaluate the Cave Creek Landfill as a source of groundwater contamination. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant. The estimate consists of mandated testing costs, completion of the remedial action plan, public meetings, and the recommended remediation at the landfill.

Hassayampa Landfill – On July 22, 1987 the Hassayampa Landfill was added to the Superfund National Priorities List by the United States Environmental Protection Agency (EPA), pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), 42 U.S.C. §9605(8), due to suspected groundwater contamination. On February 19, 1988, nine of the major potentially responsible parties (PRP) for the site entered into a Consent Order with the EPA to conduct the Remedial Investigation and Feasibility Study. On August 6, 1992 a Record of Decision was signed and detailed the EPA's selected cleanup remedy, which resulted in the formation of the Hassayampa Steering Committee (HSC). The HSC, an unincorporated association, consists of 11 PRP's that entered into a Unilateral Administrative Order with the EPA on March 30, 1993, to conduct additional investigation activities and to begin remedial design and action activities on the groundwater treatment system and soil cap. In September 1997, a Preliminary Close-Out Report was completed and the EPA certification of the completion of construction of the remedial action was issued in April 1998. The groundwater extraction and treatment system and soil vapor extraction and treatment system will continue to be run by the PRP's until the groundwater and soil meet cleanup levels.

The HSC hires consultants that recommend site actions, meet with regulators, and develop cost estimates for remediation of the Hassayampa Landfill. The County is responsible for 27.78% of the HSC's cost remediation. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant.

Vehicle Wash Facility – In June 2011, the Vehicle Wash Facility was removed as part of a project upgrade. During the removal process, possible soil contamination was observed. In order to determine if there was contamination pursuant to Arizona Department of

Environmental Quality Soil Remediation Levels, Arizona Administrative Code Title 18, Chapter 7, Article 2; the County began a characterization of possible contamination, if any. The County's reported pollution remediation liability is an estimate provided by a professional environmental consultant. The estimate consists of the costs for the site characterization.

The Fund pollution remediation liability is subject to change due to changes in the cost of goods and services, changes in remediation technology, or changes in laws and regulations governing the remediation effort. The Fund has no estimated recoveries at this time.

## NOTE 8 - Retirement Plan

**Plan Description—**The Fund contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System (ASRS). Benefits are established by state statute, and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 N. Central Ave., P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

**Funding Policy—**The Arizona State Legislature establishes and may amend active plan members' and the Fund's contribution rates. For the year ended June 30, 2012, active plan members and the Fund were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent retirement and 0.24 percent long-term disability) of the members' annual covered payroll. The Fund's contributions to the System for the years ended June 30, 2012, 2011 and 2010 were $147,110, $131,503 and $121,291, respectively.