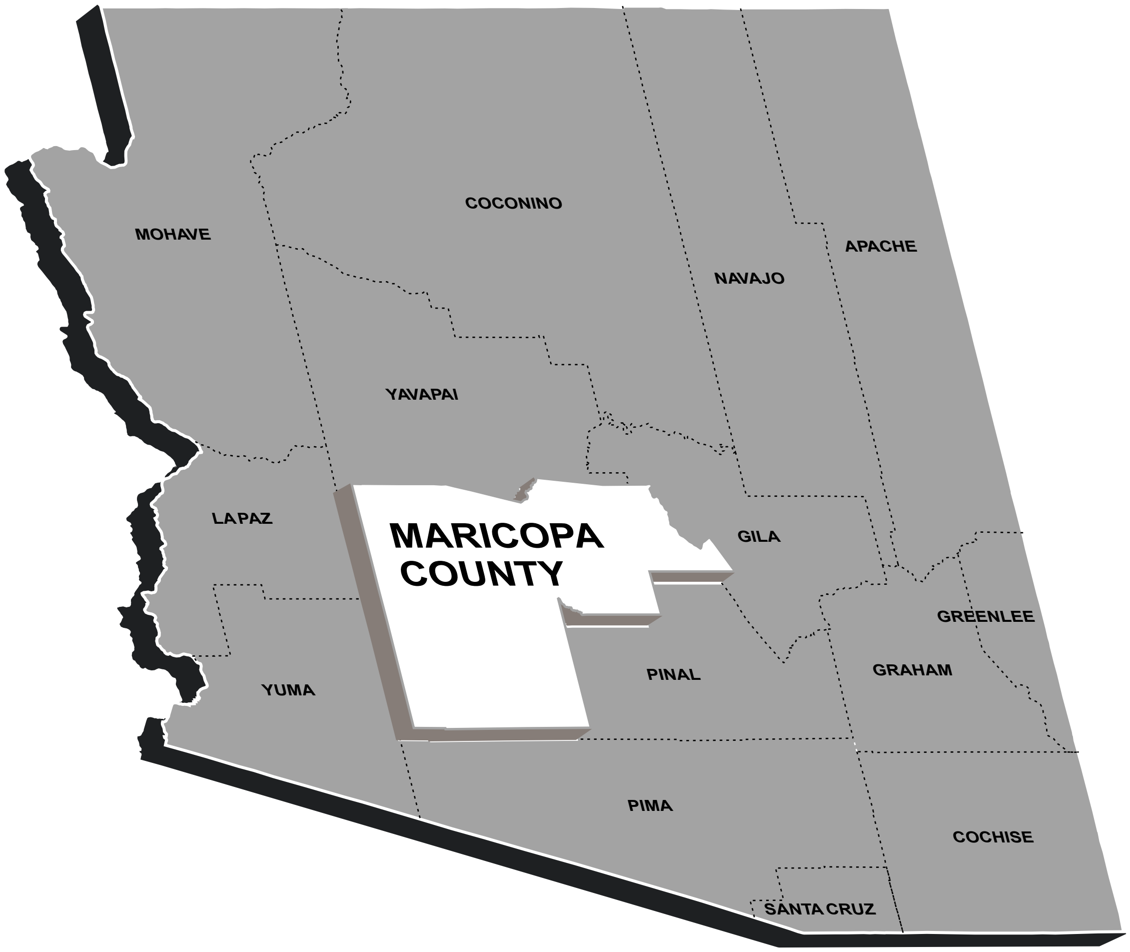
Risk Management Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2013



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT TRUST FUND
(An Internal Service Fund of Maricopa County)
Report on Audit of Financial Statements
June 30, 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Maricopa County Risk Management Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2013, and the related statements of revenues, expenses and changes in net position – internal service fund, and cash flows – internal service fund for the year then ended, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the Maricopa County Risk Management Trust Fund as of June 30, 2013, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 22, 2013, 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 an audit performed in accordance with *Government Auditing Standards* in considering Maricopa County Risk Management Trust Fund's internal control over financial reporting and compliance.

Phoenix, Arizona
November 22, 2013

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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*

Board of Supervisors of
Maricopa County Risk Management
Trust Fund
Maricopa 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 Maricopa County Risk Management Trust Fund (an internal service fund of Maricopa County), which comprise the statement of net position – internal service fund as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position – internal service fund and cash flows – internal service fund for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Maricopa County Risk Management Trust Fund's basic financial statements, and have issued our report thereon dated November 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we Maricopa County Risk Management Trust Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Maricopa County Risk Management Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Maricopa County Risk Management Trust Fund's internal control.

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a significant deficiency as follows:

While the Fund's claims administrator was providing reports to the Fund, management was not aware that a cash balance totaling $812,198 had accumulated by the Fund's workers' compensation claims administrator. The account balance accumulated as a result of the claims administrator depositing insurance reimbursements and other credits to the operating account rather than remitting the money directly to the Fund. The cash account was not identified through the Fund's monthly bank account reconciliation process resulting in an audit adjustment. Since the workers' compensation claims process has been brought in-house, we recommend that management document a process to account for all insurance reimbursements and credits.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maricopa County Risk Management Trust Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Phoenix, Arizona
November 22, 2013

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Management's Discussion and Analysis
June 30, 2013

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, 2013. 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 Statutes (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 Trust 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:

Statement of Net Position
This statement presents information reflecting the assets, liabilities, and accumulated net position of the Fund as of June 30, 2013.

Statement of Revenues, Expenses and Changes in Net Position
This statement reflects the revenues and expenses, as well as non-operating revenues during the year ended June 30, 2013.

Statement of Cash Flows
This statement reflects the cash flows from operating, investing, non- capital financing activities during the year ended June 30, 2013.

Financial Highlights

The more significant highlights of fiscal year 2013 as compared to fiscal year 2012 follows:

- Cash and cash equivalents decreased $15,240,803 from $49,797,864 as of June 30, 2012 to $34,557,061 as of June 30, 2013.
- Total assets decreased $13,581,678 from $50,811,019 as of June 30, 2012 to $37,229,341 as of June 30, 2013.
- Net position increased $38,403,316 from $(79,771,881) as of June 30, 2012 to $(41,368,566) as of June 30, 2013.

MARICOPA COUNTY
RISK MANAGEMENT TRUST FUND
Management's Discussion and Analysis
June 30, 2013

- Char1ge in net position increased $48,392,012 from $(9,988,696) for 2012 as compared to $38,403,315 for 2013.

The following tables and analysis discuss the financial position of the Fund as of June 30, 2013 and 2012 and the results achieved from the operations of the Fund for the year ended June 30, 2013 as compared to the year ended June 30, 2012.

Summary of Net Position

	June 30, 2013	June 30, 2012
Cash and cash equivalents	$ 34,557,061	$ 49,797,864
Prepaid insurance	1,810,110	966,376
Capital assets, net	10,782	12,952
All other assets	851,388	33,827
Total assets	$ 37.229.341	$ 50.811.019
Reserve for losses and loss expenses	$ 76,866,119	$ 129,080,630
Accounts payable	1,515,842	1,296,079
All other liabilities	215,946	206,191
Net position		
Invested in capital assets	10,782	12,952
Unrestricted (deficit)	(41,379,348)	(79,784,833)
Total liabilities and net position	$ 37,229,341	$ 50,811,019

Cash and cash equivalents decreased by $15.2 million or 44.1% as of June 30, 2013 compared to June 30, 2012. The decrease was primarily due to a drop in charges to user departments in fiscal year 2013.

Reserve for losses and loss expenses decreased by $52.2 million or 67.9%. The decrease resulted from the resolution of a significant flood claim that occurred in 1993, the separation of Maricopa County Special Health Care District, the estimates on a cluster of liability claims developed favorably down, and a favorable judgment in a coverage dispute with Insurance Company of the West.

Net position is 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, 2013, amounted to $10,782 net of accumulated depreciation. Capital assets consist of equipment and furnishings. No long-term debt was added in 2013.

Depreciation expense for fiscal year 2013 was $2,170 as compared to $2,176 in 2012.

Summary of Revenues, Expenses and Changes in Net Position

	Years ended June 30, 2013	2012
Operating revenues	$ 18,466,507	$ 15,756,191
Other income	825,108	242,165
Investment income	131,738	387,919
Total revenue	19,423,353	16,386,275
Losses and loss expenses	7,720,550	18,012,881
All other expenses	10,362,610	11,071,990
Total expenses	18,083,160	29,084,871
Transfers in	37,063,122	2,716,418
All other expenses		(6,518)
Total transfers	37,063,122	2,709,900
Change in net position	$ (38,403,315)	$ (9,988,696)

Operating revenue increased by $2.7 million. The increase in operating revenue is primarily a result of a slight increase in user charges in fiscal year 2013. This amount is determined annually by a funding analysis. The largest amount of other income is subrogation recoveries for workers compensation claims. Investment income decreased in fiscal year 2013 due to lower rates of return during the weak economy.

Total expenses decreased by approximately $11.0 million or 60.8%. This decrease is due to a large decrease in loss and loss expenses during the fiscal year ended June 30, 2013 which included large cases resolved.

The change in net position was $(38.4) million for 2013, an increase of approximately $48.4 million from the change in net position of $(10.0) million for 2012, primarily resulting from a few large claims that were resolved, the separation out of the Trust of Maricopa Special Health Care District, and favorable development on a cluster of liability claims.

Net Position

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 position 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, 2013, the total net position was $(41,368,566). 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 2014, County management was hopeful of signs of a recovering economy. Maricopa County's main revenue sources of sales tax, vehicle license tax and jail taxes declined for the past several years. The Arizona economy has shown signs of a slight recovery. The housing market is improving, although the level of building activity remains low.

As a result, County management lifted the hiring freeze and a capital purchase freeze they had implemented in prior fiscal years. In addition, County leadership asked each department to submit relatively flat budget requests with increases from the prior fiscal year requests only where approved. This included the Risk Management department.

The Risk Management Trust Fund projected claim and claims expense payments using a combination of historical experience and actuarial analysis. In the prior fiscal years, due to the economic problems, County management had used actuarial analysis at a 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 Position-Internal Service Fund June 30,
2013

		Risk Management
Assets		
Cash and cash equivalents	$	34,557,061
Accounts receivable		812,198
Interest receivable		39,190
Prepaid insurance		1,810,110
Capital assets, net		10,782
Total assets		37,229,341
Liabilities		
Accounts payable		1,515,842
Employee compensation payable		215,946
Reserve for losses and loss expenses		76,866,119
Total liabilities		78,597,907
Net Position		
Invested in capital assets		10,782
Unrestricted (deficit)		(41,379,348)
Total net position	$	(41,368,566)

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 Position-Internal Service Fund
Year Ended June 30, 2013

	Risk Management
Operating revenues:	
Charges for services	$ 18,466,507
Other income	825,108
Total operating revenues	19,291,615
Operating expenses:	
Personal services	2,155,471
Supplies and services	950,939
Legal expenses	6,806,458
Workers' compensation self-insurance tax	447,572
Loss and loss expenses	7,720,550
Depreciation	2,170
Total operating expenses	18,083,160
Operating income	1,208,455
Nonoperation revenues:	
Investment income	131,738
Total no operating revenues	131,738
Income before transfers	1,340,193
Other financing sources (uses):	
Transfers in	37,063,122
Total other financing sources (uses)	37,063,122
Increase in net position	38,403,315
Total net position, July 1, 2012	(79,771,881)
Total net position, June 30, 2013	$ (41,368,566)

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, 2013

	Risk Management
Cash flows from operating activities:	
Receipts from employees and other funds	$ 18,466,507
Other receipts	825,108
Payments for fees, supplies, and services	(7,985,204)
Payments for insurance claims	(56,553,583)
Payments for insurance premiums	(5,037,412)
Payments to employees	(2,145,716)
Net cash used in operating activities	(52,430,300)
Cash flows from non-capital financing activities:	
Cash transfers from other funds	37,063,122
Net cash provided by non- capital financing activities	37,063,122
Cash flows from investing activities:	
Interest received on investments	126,375
Net decrease in cash and cash equivalents	(15,240,803)
Cash and cash equivalents, July 1, 2012	49,797,864
Cash and cash equivalents, June 30, 2013	$ 34,557,061
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 1,208,455
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	2,170
Net change in RBUC and IBNR claims, noncurrent portion	(49,456,918)
Changes in assets and liabilities:	
Increase in:	
Accounts receivable	(812,198)
Prepaid insurance	(843,734)
Accounts payable	219,763
Employee compensation payable	9,755
Decrease in:	
RBUC and IBNR claims, current portion	(2,757,593)
Net cash used in operating activities	$ (52,430,300)
Schedule of noncash investing, capital, and non-capital financing activities:	
Accumulated depreciation from disposed capital assets	$ 16,897
Machinery and equipment disposed	$ (16,897)

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, 2013, will report the Fund as a 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 position, 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 position; statement of revenues, expenses, and changes in net position; and statement of cash flows.

The statement of net position provides information about the assets, liabilities, and net position 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 position (deficit) represents the balance of monies held in the Fund.

The 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. 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 non-operating 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 operating, investing, or non-capital financing.

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.

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 coverage's 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, 2013, 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 PI by Moody's investors service or Al 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, 2013, 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, 2013, 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, 2013, 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, 2013, the Fund had investments of $34,556,961 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 494 days, of which 44% (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 Position follows:

Cash, deposits, and investments:		
Cash on hand	$	100
Amount of deposits		
County Treasurer's Investment Pool		34,556,961
Total		$34.557.061

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, 2013, categorized by insurable area follow:

	Total Liabilities
Auto liability	$ 2,679,985
General liability	40,130,598
Workers' compensation	12,837,366
Medical malpractice	7,319,550
Auto physical damage	407,727
Property	258,487
Professional liability	711,268
Environmental property damage	2,808,549
Environmental liability	3,272,124
Unallocated	6,440,465
Total	$76,866,119

The total estimates of unpaid claim_ liabilities were $76,866,119 at June 30, 2013. The balance at June 30, 2012 was $129,080,630.

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 2012-13	FY 2011-12	FY2010-11
Balance July 1	$129,080,630	$132,258,185	$90,415,628
Current-Year Claims and Changes in Estimates	(13,056,180)	12,637,627	53,447,553
Claim Payments	(39.158.331}	(15.815,182}	(11.604,996}
Balance June 30	$76 8661119	$129,080,630	$132,258,185

Of these liabilities, $31,909,120 were actuarially estimated to be payable within the next 12 months.

NOTE 4 - Net Position

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 position (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, 2013, the total net position (deficit) was $(41,368,566). 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 transfers in from the General and Detention Funds were $17,957,818 combined. Transfers are budgeted and are used to move revenues from the fund that collects them to the fund that expends them.

The transfer in from the Flood Control District was for $19,105,304. It was for the resolution of a large claim that occurred in 1993.

NOTE 6 - Letter of Credit

On July 1, 2012, the County maintained a $6,482,298 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, 2013. On April 12, 2013, the letter of credit was increased to $15,239,045. The letter of credit was reserved against the municipal revolving line of credit. During fiscal year 2012-13, the letter of credit had not been drawn upon. The irrevocable standby letter of credit renewed to June 30, 2014, for
$15,239,045. However, an amendment will be issued on January 1, 2014 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, 2013, the Fund reported $4,218,739 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 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 CERCLA, 42 U.S.C. §9605(a)(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.

Durango Complex- In June 2013, radioactive material was discovered during a construction project. The Arizona Radiation Regulatory Agency conducted a radiation survey and concluded the material was no longer radioactive and could be disposed as solid waste. In addition, an unregistered underground storage tank (UST) was discovered at the construction site. Contaminated soils were excavated and samples were tested in accordance with ADEQ UST closure requirements. The results indicated that there was no remaining contamination. The liability accounts for material analysis, cleanup, and removal activities.

CERCLA Cost Recovery Claim – The County, along with numerous other entities, was named as a potential responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), 42 U.S.C. §9607(a). The Notice of Claim was based upon allegations that the County owned the properties which were acquired in the 1970's from a solvent manufacturer. In 2001, the County (and other parties) entered into a Consent Decree with ADEQ.

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, 2013, active plan members and the Fund were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 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, 2013, 2012 and 2011 were $122,586, $147,110, and $131,503, respectively.