

City of Peoria
Workers' Compensation Trust
Peoria, Arizona

Annual
Financial Report
For Fiscal Year Ended
June 30, 2015

Trust Board:
Keith Dines, Chairman
Nancy Golden
Judy Fahey
Frank Hinds
Brent Mattingly

Prepared by City of Peoria Finance Department

CITY OF PEORIA, ARIZONA
WORKERS' COMPENSATION TRUST
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2015

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Workers' Compensation Trust

Peoria, Arizona

November 24, 2015

Honorable Board of Directors:

The accompanying basic financial statements of the City of Peoria Workers' Compensation Trust (the Trust) for the year ended June 30, 2015, have been prepared for the use of the Trust Board, staff and other interested parties. This report includes Management's Discussion and Analysis, the basic fund financial statements for the Trust and footnotes, and a supplemental budget comparison schedule.

This report was prepared by the Financial Services Division of the Finance Department of the City of Peoria, Arizona (the City) as finance staff for the Trust. It is intended as Trust management's report to the Trust Board and other interested parties.

The Trust is a component unit of the City of Peoria, Arizona for financial reporting. As a component unit of the City, the accompanying financial statement information was included in the annual audit of the City's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2015. A copy of the City's CAFR may be obtained from the City's website www.peoriaaz.gov. Additionally, the auditors, Heinfeld, Meech & Co., P.C., have also expressed an opinion on the separate financial statements of the Trust included herein. That opinion may be found on page 1 of this financial report.

Questions about the financial statements included herein should be addressed to the City of Peoria, Finance Department at 8401 W Monroe Street, Peoria, Arizona 85345.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
City of Peoria, Arizona Workers' Compensation Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Peoria, Arizona Workers' Compensation Trust (Trust), a component unit of the City of Peoria, Arizona, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Trust's basic 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. 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 City of Peoria, Arizona Workers' Compensation Trust, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the City of Peoria, Arizona Worker's Compensation Trust are intended to present the financial position and the changes in financial position of only that portion of financial activity that is attributable to the Trust, a component unit of the City of Peoria, Arizona. They do not purport to, and do not, present fairly the financial position of the City of Peoria, Arizona, as of June 30, 2015, and the changes in its financial position and 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's Discussion and Analysis as listed in the table of contents, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The transmittal letter and supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the letter.

Heinfeld, Meech & Co., P.C.

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

November 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Peoria Workers' Compensation Trust (the Trust), we offer this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2015. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of the Trust's financial activity, (3) identify changes in the Trust's financial position, and (4) identify individual fund issues or concerns.

On July 1, 2009, the Trust was formed by petition to the City Council of the City of Peoria, Arizona (City). The Trust is for work-related injuries to City employees. The Trust is one of the City of Peoria's blended component units for the fiscal year ended June 30, 2015.

Financial Highlights

- The fiscal year 2015 contributions from the City of Peoria totaled \$1,381,364.
- There have been no settlements in excess of insurance in the past three years.
- The net position of the Trust at June 30, 2015, was \$1,757,606, an increase of \$628,843 from the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis introduces the Trust's basic financial statements. The basic financial statements are comprised of two components: (1) fund financial statement and (2) notes to the financial statements.

Fund Financial Statements and Notes to the Financial Statements

The statement of net position presents information on all of the Trust's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Trust's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows outlines the cash inflows and outflows related to the operation of the Trust for the year ended June 30, 2015. GASB Statement No. 34 requires that the basic financial statements include both government-wide financial statements and fund statements. As discussed more thoroughly in Note 1 to the financial statements, the operations of the Trust are accounted for in a single proprietary fund. As a result, only the financial statements required for a proprietary fund are presented. The Trust is reported as an internal service fund of the City. Internal service funds are used for activities where the primary customer is the City itself.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Trust are restricted as to use by law.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read in conjunction with the financial statements.

FINANCIAL ANALYSIS OF THE TRUST'S FUND

As of June 30, 2015, the assets of the Trust exceeded its liabilities by \$1,757,606 (net position). The purpose of the Trust is to fund workers' compensation benefit programs by the City in accordance with the provisions of Arizona law and the Workers' Compensation Trust First Amended and Restated Trust Agreement. Net position is useful in assessing the Trust's ability to pay direct payment of benefits, losses, claims, or any combination of insurance direct payments for the benefit of plan participants and beneficiaries.

The following table presents a summary of the Trust's net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	As of June 30, 2015	As of June 30, 2014
Current assets	\$ 1,255	\$ 368,894
Non-current assets	3,870,998	2,652,596
Total assets	<u>3,872,253</u>	<u>3,021,490</u>
Current liabilities	1,635,062	1,068,941
Long-term liabilities	479,585	823,786
Total liabilities	<u>2,114,647</u>	<u>1,892,727</u>
Net position:		
Restricted	1,757,606	1,128,763
Total net position	<u>\$ 1,757,606</u>	<u>\$ 1,128,763</u>

In fiscal year 2014, new fiscal policies were adopted by the Trust Board. One such policy addressed maintaining an appropriate level of assets in the trust. In fiscal year 2015, the City transferred \$600,000 from its Risk Management Fund to the Workers' Compensation Fund in order to establish the assets required by this policy.

Net position of the Trust increased \$628,843 (55.7%) from the prior year. Revenues totaled \$1,412,546 (up \$101,549 from 2014) in fiscal year ending June 30, 2015. The Trust's expenses were \$1,383,703 (down \$43,854 from 2014). The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

	Fiscal Year Ended June 30, 2015	Fiscal Year Ended June 30, 2014
Revenues:		
Operating revenues:		
Charges for services	\$ 1,381,364	\$ 1,297,719
Miscellaneous	22,967	6,022
Nonoperating revenues:		
Interest and investment income	8,215	7,256
Total revenues	<u>1,412,546</u>	<u>1,310,997</u>
Expenses:		
Salaries, wages and employee benefits	76,295	44,822
Contractual services, materials and supplies	210,954	217,601
Insurance claims and expenses	1,096,454	1,165,134
Total expenses	<u>1,383,703</u>	<u>1,427,557</u>
Transfer in	<u>600,000</u>	<u>-</u>
Change in net position	<u>\$ 628,843</u>	<u>\$ (116,560)</u>

ECONOMIC FACTORS

The biggest factors impacting the City of Peoria's workers' compensation program are continued rising medical costs with respect to injured employees and the aging of the City's workforce. Other external factors include an increasingly hardening excess workers' compensation marketplace due to catastrophic claims against public entities. Insurance companies that specialize in excess workers' compensation coverage are significantly increasing premium levels while mandating that self insured retentions are also raised. A major potential impact upon Arizona municipal rates and future pricing is the Prescott firefighters' tragedy.

Willis, the Trust's excess workers' compensation broker/consultant, will be providing both claims and safety (loss control) services during 2016 to proactively manage current open claims and also implement cost effective safety measures.

The adopted fiscal year 2016 budget for the Trust is \$2.36 million, a 5.4% increase from 2015.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the Trust's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to the City's Finance Department at the following address: City of Peoria, 8401 W. Monroe Street, Peoria, Arizona 85345.

BASIC FINANCIAL STATEMENTS

**CITY OF PEORIA, ARIZONA
STATEMENT OF NET POSITION
WORKERS' COMPENSATION TRUST
JUNE 30, 2015**

	Workers' Compensation Trust
ASSETS	
Current assets:	
Interest receivable	\$ 1,255
Total current assets	1,255
Non-current assets:	
Restricted assets:	
Pooled cash and investments	2,374,116
Investments	1,496,882
Total non-current assets	3,870,998
Total assets	3,872,253
LIABILITIES	
Current liabilities:	
Accounts payable	26,979
Current portion of claims payable	1,608,083
Total current liabilities	1,635,062
Non-current liabilities:	
Long-term portion of claims payable	479,585
Total long-term liabilities	479,585
Total liabilities	2,114,647
NET POSITION	
Restricted - trust purpose	1,757,606
Total net position	\$ 1,757,606

The accompanying notes are an integral part of the financial statements

**CITY OF PEORIA, ARIZONA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
WORKERS' COMPENSATION TRUST
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Workers' Compensation Trust</u>
OPERATING REVENUES	
Charges for services	\$ 1,381,364
Miscellaneous	22,967
Total operating revenues	<u>1,404,331</u>
OPERATING EXPENSES	
Salaries, wages and employee benefits	76,295
Contractual services, materials and supplies	210,954
Insurance claims and expenses	1,096,454
Total operating expenses	<u>1,383,703</u>
Operating income	20,628
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment income	<u>8,215</u>
Total non-operating revenues	<u>8,215</u>
Income (loss) before transfers	28,843
Transfers in	<u>600,000</u>
Change in net position	628,843
Total net position - beginning	<u>1,128,763</u>
Total net position - ending	<u><u>\$ 1,757,606</u></u>

The accompanying notes are an integral part of the financial statements

**CITY OF PEORIA, ARIZONA
STATEMENT OF CASH FLOWS
WORKERS' COMPENSATION TRUST
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Workers' Compensation Trust</u>
Increase (decrease) in cash and cash equivalents	
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,405,136
Payments to suppliers	(226,958)
Payments to employees	(76,295)
Self-insurance costs	(858,530)
Net cash provided (used) by operating activities	<u>243,353</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Transfers in	600,000
Net cash provided (used) by non-capital financing activities	<u>600,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(213,914)
Interest received on investments	6,960
Net cash provided (used) by investing activities	<u>(206,954)</u>
Net increase (decrease) in cash and cash equivalents	636,399
Cash and cash equivalents at beginning of year	1,737,717
Cash and cash equivalents at end of year	<u>\$ 2,374,116</u>
Classified as:	
Restricted assets - pooled cash and investments	\$ 2,374,116
Totals	<u>\$ 2,374,116</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 20,628
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
(Increase) decrease in assets:	
Accounts receivable	805
Increase (decrease) in liabilities:	
Accounts payable	(16,004)
Claims payable	237,924
Total adjustments	<u>222,725</u>
Net cash provided (used) by operating activities	<u>\$ 243,353</u>
Non-cash investing, capital and financing activities:	
Decrease in fair market value of investments	\$ (2,965)
Total non-cash investing, capital and financing activities	<u>\$ (2,965)</u>

The accompanying notes are an integral part of the financial statements

CITY OF PEORIA WORKERS' COMPENSATION TRUST
Peoria, Arizona

NOTES TO THE FINANCIAL STATEMENTS

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CITY OF PEORIA WORKERS' COMPENSATION TRUST
PEORIA, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Workers' Compensation Trust, a component unit of the City of Peoria, Arizona (City), conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of other significant accounting policies:

A. Financial Reporting Entity

The City of Peoria Workers' Compensation Trust (the Trust) was formed by petition to the City Council in 2009. The Trust's purpose is to fund workers' compensation benefit programs by the City in accordance with the provisions of Arizona law through a combination of self-insurance and commercial insurance. Plan premiums are paid by the City. The City Council Sub Committee on Boards and Commissions nominates individuals to serve as Trustees overseeing the management and administration of the Trust. For financial reporting purposes, the transactions of the Trust are included in the self-insurance fund, an internal service fund in the City's financial statements as if they were part of the City's operations.

B. Basic Financial Statements

The basic financial statements of the Trust are fund financial statements. According to GAAP, government-wide financial statements (statement of net position and statement of activities) report on all of the non-fiduciary activities of the Trust as a whole. The operations of the Trust are accounted for in a single proprietary fund. Given this, government-wide financial statements are not presented because these statements would be identical to the fund financial statements for the Trust.

On the proprietary fund financial statements, operating revenues are those that flow directly from the operations of that activity, i.e. charges to customers or users who purchase or use the goods or services of that activity. Operating expenses are those that are incurred to provide those goods or services. Non-operating revenues and expenses are items like investment income and interest expense that are not a result of the direct operations of the activity.

C. Basis of Presentation

The accounts of the Trust are organized and operated on the basis of funds. The Workers' Compensation Trust Fund is a sub-fund of the City's Self-Insurance Fund, an internal service fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Internal Service Funds account for operations that provide services to other departments or agencies of the City or to other governments on a cost-reimbursement basis.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on the flow of economic resources

CITY OF PEORIA WORKERS' COMPENSATION TRUST
PEORIA, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

measurement focus. This measurement focus emphasizes the determination of net income. The accrual basis of accounting is used for proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

E. Budgets and Budgetary Accounting

The Trust uses the following procedures in establishing the budgetary data reflected in the accompanying financial statements:

- According to the laws of the State of Arizona, all operating budgets must be approved by their governing board on or before the second Monday in August to allow sufficient time for legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August.
- In June, the proposed budget for the following fiscal year is presented by the Budget Manager to the Trust Board. The budget includes proposed expenditures and the means of financing them. Public meetings are held to obtain citizen comment.
- Prior to June 30, the Trust Board legally enacts the budget, through the passage of a resolution. The resolution sets the limit for expenditures for the year.
- The initial budget for the fiscal year may be amended during the year in a legally permissible manner.
- All unencumbered expenditure appropriations expire at the end of the fiscal year.
- Encumbered amounts are re-budgeted in the following year as deemed appropriate and necessary. Budgetary carry forwards are approved by the Trust Board.

The Trust prepares its annual budget in accordance with GAAP. The Trust prepares a budgetary comparison schedule for its fund for presentation in the annual financial statements of the Trust. This schedule displays original budget, amended budget and actual results (on a budgetary basis). The budgetary comparison schedule for the Trust Fund is presented as part of the supplemental information.

F. Deposits and Investments

The City's Investment Policy applies to the Trust funds held by the City. The City's Investment Policy authorizes the Trust to invest in obligations of the United States Government and its agencies, the State of Arizona's Local Government Investment Pool, SEC registered money market funds, certificates of deposit and repurchase agreements in eligible depositories: AA rated Corporate bonds, A-1/P-1 rated commercial paper or AA rated bonds of the State of Arizona counties, cities, towns, school districts or special districts. As required by statute, collateral is required for demand deposits, certificates of deposit and repurchase agreements at 102% of all deposits not covered by Federal depository insurance.

The Trust's deposits at June 30, 2015, were collateralized with securities held by the pledging financial institution's trust department in the City's name.

Investments, if any, are stated at fair value in accordance to GASB Statement #31. Interest income from investments is recorded as earned under the accrual basis of accounting.

CITY OF PEORIA WORKERS' COMPENSATION TRUST
PEORIA, ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

G. Cash Equivalents

The Trust considers short-term investments, including restricted investments, in mutual fund money market and U.S. Treasury bills and notes with maturities of less than three months at acquisition date to be cash equivalents.

H. 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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position/balance sheet and the reported amounts of revenue and expenses/expenditures during the reported period. Actual results could differ from those estimates.

2. CASH AND INVESTMENTS

The Trust participates in the pooled cash and investments of the City for daily transactions. At June 30, 2015, the Trust had \$1,214,674 in the City's pooled cash and investments. Given this, the Trust's investment in the City's pooled cash and investments cannot be identified with any specific investment types. In addition, the Trust held \$2,656,324 in a separate account in the Trust's name. Of this amount, \$1,159,442 was held in a bank deposit account that is collateralized by the Trust's agent in the Trust's name. Of the remaining funds, \$499,900 was invested in agency notes and \$996,982 was invested in commercial paper.

The City invests in obligations that fall within the authorization of State of Arizona laws, the City's regulations and investment policy and applicable legal and contractual commitments. Below are the City's policies with regard to interest rate risk, credit risk and custodial credit risk.

Interest rate risk: In order to limit interest and market rate risk, State law and the City's investment policy sets a maximum maturity on most investments of five years with a minimum of 35% of the Trust portfolio invested for a period of one year or less and no more than 20% of the Trust's portfolio be invested for a period greater than three years. At June 30, 2015, 67% of the Trust's investments of \$1,496,882 have a maturity of less than one year and no investments have a maturity greater than three years. At June 30, 2015, 70.3% of the City's investments have a maturity of less than one year and no investments have a maturity of greater than three years. The City's investment policy also sets a maximum weighted average maturity (WAM) not to exceed three years. The WAM at June 30, 2015 for the Trust's and the City's investments was in compliance with the City's policy.

Credit risk: State law and the City's investment policy limit the purchase of Commercial Paper to those securities rated A-1/P-1 or the equivalent by two nationally recognized statistical rating agencies. The City's investment policy also limits the purchase of Banker's Acceptances to those securities rated Aa or better by two nationally recognized rating agencies and with a maximum maturity of 180 days. State law and the City's investment policy also restrict investments in certificates of deposit (CD) to fully collateralized or insured from eligible Arizona depositories limited on a statewide basis by their capital structure on a quarterly basis. Such CDs are further collateralized to 110% with pledged securities held by an independent custodian approved by the City. City policy requires that securities underlying repurchase agreements must have a collateralization level of at least 102 percent of the market value of principal and accrued interest.

CITY OF PEORIA WORKERS' COMPENSATION TRUST
 PEORIA, ARIZONA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<u>Investment Type</u>	<u>Moody's Rating</u>
Federal Farm Credit Bank – Agency Note	Aaa
Federal Farm Credit Bank – Discount	P-1
Federal Home Loan Bank – Agency Note	Aaa
Fannie Mae – Agency Note	Aaa
Freddie Mac – Agency Note	Aaa
Commercial Paper	P-1

The City's investment in the State of Arizona local government investment pool is limited to a pool that invests only in government securities. At June 30, 2015, the State Treasurer's pool had a credit rating of AAAF/S1 by Standard and Poor's (S&P).

Concentration of credit risk: The City's investment policy sets diversification limits on both security types and length of maturity. As of June 30, 2015, the City's investments include 57.8% invested in U.S. Agency Coupon securities, 5.7% in U.S. Agency Discount Notes, 6.9% in U.S. Treasury Notes, 22.7% in Commercial Paper, and 6.9% in money market funds and the Arizona State Investment Pool. The Trust's investments of \$1,496,882 include 33% in U.S. Agency notes and 67% in Commercial Paper.

Custodial credit risk: To control custodial credit risk, State law and the City's investment policy requires all securities and collateral to be held by an independent third party custodian in the City's name. The custodian provides the City with monthly safekeeping statements.

The City's investment in the State of Arizona's local government investment pool is stated at fair value, which also approximates the value of the investment upon withdrawal.

3. RISK MANAGEMENT

On July 1, 2009, the City established a workers' compensation trust fund for work-related injuries to employees. For workers' compensation insurance, the City is self-insured up to \$850,000 per claim on public safety employees and \$750,000 for all other employees up to an aggregate stop loss of \$4,519,271 for fiscal year 2015. Commercial insurance is purchased to cover claims above the self-insurance amounts.

The City's operating funds with employees covered under the workers' compensation insurance program pay monthly premiums to the workers' compensation fund based upon staffing levels.

Premium payments to insurance carriers, as well as third party administrator costs are made directly from the workers' compensation trust fund. Employee wages while off work for workers' compensation injuries (two thirds of weekly wages) are also paid from this fund. There have been no settlements paid in excess of insurance in the last three years, nor has insurance coverage been significantly reduced in recent years.

Governmental Accounting Standards Board Statement #10 requires that claims liabilities be reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. As of June 30, 2015, claims liability of \$2,087,668 is reported in the Trust's financial statements. The claims liability includes an estimated amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. Changes in the Trust's claim liability amounts during the last two fiscal years are as follows:

CITY OF PEORIA WORKERS' COMPENSATION TRUST
 PEORIA, ARIZONA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2014
Beginning Claims Liability	\$ 1,849,744	\$ 1,378,432
Changes in Estimates	237,924	471,312
Current Year Claims	800,757	771,647
Claims Payments	(800,757)	(771,647)
Ending Claims Liability	<u>\$ 2,087,668</u>	<u>\$ 1,849,744</u>

4. NET POSITION RESTRICTIONS

The net position of the Trust is restricted by law as to use at fiscal year end. In accordance with the Trust Agreement, distributions from the Trust may only be made for (1) providing benefits to participants or beneficiaries and (2) paying all reasonable expenses of operating, administering or managing the Plan or Trust.

5. INTERFUND TRANSACTIONS

The Trust received an operating transfer in from the City's Risk Management Fund in order to comply with a new Trust policy requiring an appropriate level of assets to be maintained in the Trust.

SUPPLEMENTAL INFORMATION

**CITY OF PEORIA, ARIZONA
BUDGETARY COMPARISON SCHEDULE
WORKERS' COMPENSATION TRUST
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (budgetary basis)</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
OPERATING REVENUES:				
Charges for services	\$ 1,382,160	\$ 1,382,160	\$ 1,381,364	\$ (796)
Miscellaneous	1,500	1,500	22,967	21,467
Total operating revenues	<u>1,383,660</u>	<u>1,383,660</u>	<u>1,404,331</u>	<u>20,671</u>
OPERATING EXPENSES:				
Salaries, wages and benefits	-	-	76,295	76,295
Contractual services, materials and supplies	215,000	215,000	210,954	(4,046)
Insurance claims and expenses	1,175,000	1,175,000	1,096,454	(78,546)
Contingencies	850,000	850,000	-	(850,000)
Total operating expenses	<u>2,240,000</u>	<u>2,240,000</u>	<u>1,383,703</u>	<u>(856,297)</u>
Operating Income (loss)	<u>(856,340)</u>	<u>(856,340)</u>	<u>20,628</u>	<u>876,968</u>
NONOPERATING REVENUES (EXPENSES):				
Interest and investment income	7,000	7,000	8,215	1,215
Total nonoperating revenues	<u>7,000</u>	<u>7,000</u>	<u>8,215</u>	<u>1,215</u>
Transfers in	600,000	600,000	600,000	-
Excess (deficit) revenues over expenses - budgetary basis	<u>\$ (249,340)</u>	<u>\$ (249,340)</u>	<u>\$ 628,843</u>	<u>\$ 878,183</u>