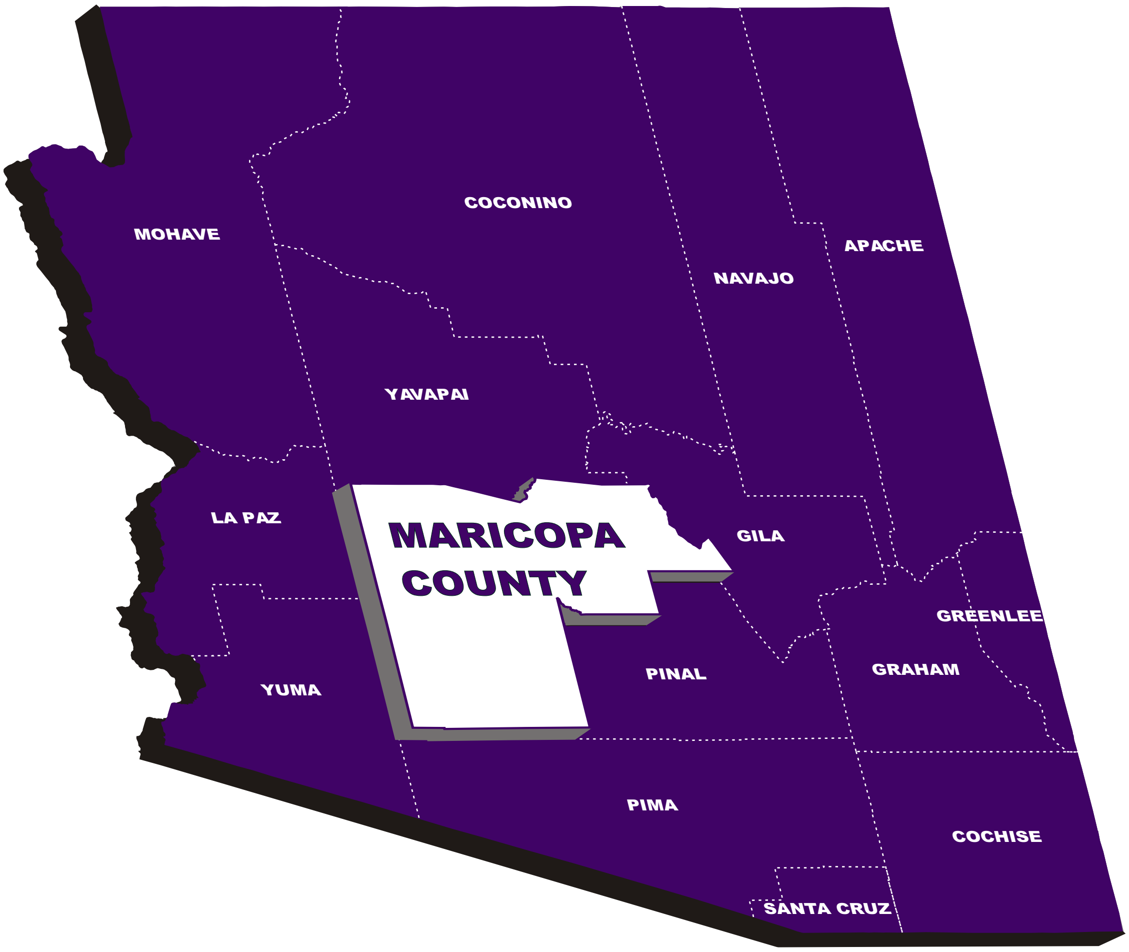
Risk Management and Employee Benefits Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2010



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2010

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2010

Table of Contents	**Page**

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

Board of Supervisors of
Maricopa County Risk Management
and Employee Benefits Trust Funds
Maricopa County, Arizona

We have audited the accompanying statements of net assets - internal service funds of the Maricopa County Risk Management and Employee Benefits Trust Funds (Funds) as of June 30, 2010, and the related statements of revenues, expenses and changes in fund net assets (deficit) – internal service funds, and cash flows – internal service funds 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 provide a reasonable basis for our opinion.

As described in Note 1, the Funds' financial statements are intended to present the financial position, changes in financial position and cash flows of only that portion of the governmental activities of Maricopa County, Arizona that is attributable to the Funds. They do not purport to and do not present fairly the financial position of Maricopa County, Arizona as of June 30, 2010, 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 and Employee Benefits Trust Funds as of June 30, 2010, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management Discussion and Analysis on pages 5 through 10 is not a required part of the basic financial statements, but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Member of HLB International

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the Maricopa County Risk Management and Employee Benefits Trust Funds' 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 audits.

Clifton Gunderson LLP

Phoenix, Arizona
November 10, 2010

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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
and Employee Benefits Trust Funds
Maricopa County, Arizona

We have audited the financial statements of Maricopa County Risk Management and Employee Benefits Trust Funds (the Funds) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 10, 2010. We conducted our audits 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 entity'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.

Clifton Gunderson LLP

Phoenix, Arizona
November 10, 2010

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Management's Discussion and Analysis
June 30, 2010

This section of the financial statements of the Maricopa County Risk Management and Employee Benefits Trust Funds presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2010. 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 Trust Funds 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 Funds are reported as the Maricopa County Risk Management and Employee Benefits Trust Funds (Funds). 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 primary purpose of the Employee Benefits Fund is to provide certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents.

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

Statement of Net Assets (Deficit)
This statement presents information reflecting the assets, liabilities, and accumulated net assets of each Fund as of June 30, 2010.

Statement of Revenues, Expenses and Changes in Net Assets (Deficit)
This statement reflects the revenues and expenses, as well as non-operating revenues during the year ended June 30, 2010.

Statement of Cash Flows
This statement reflects the cash flows from operating, investing, capital and related financing activities during the year ended June 30, 2010.

Financial Highlights

The more significant highlights of fiscal year 2010 as compared to fiscal year 2009 follows:

Risk Management

- Cash and cash equivalents increased $6,357,388 from $55,524,869 as of June 30, 2009 to $61,882,257 as of June 30, 2010.

- Total assets increased $6,214,173 from $56,920,496 as of June 30, 2009 to $63,134,669 as of June 30, 2010.

- Net deficit increased $21,903,018 from $(6,854,179) as of June 30, 2009 to $(28,757,197) as of June 30, 2010.

- Change in net assets decreased $29,478,067 from $7,575,049 for 2009 as compared to $(21,903,018) for 2010.

Employee Benefits

- Cash and cash equivalents decreased $2,580,449 from $59,849,493 as of June 30, 2009 to $57,269,044 as of June 30, 2010.

- Total assets decreased $2,561,861 from $61,326,061 as of June 30, 2009 to $58,764,200 as of June 30, 2010.

- Net assets decreased $865,906 from $44,941,935 as of June 30, 2009 to $44,076,029 as of June 30, 2010.

- Change in net assets decreased $6,538,344 from $5,732,408 for 2009 as compared to ($865,906) for 2010.

The following tables and analysis discuss the financial position of the Funds as of June 30, 2010 and 2009 and the results achieved from the operations of the Funds for the year ended June 30, 2010 as compared to the year ended June 30, 2009.

Summary of Net Assets

Risk Management

	June 30,	
	2010	**2009**
Cash and cash equivalents	$ 61,882,257	$ 55,524,869
Prepaid insurance	1,155,285	1,261,618
Capital assets, net	17,298	19,461
All other assets	79,829	114,548
Total assets	$ 63,134,669	$ 56,920,496
Reserve for losses and loss expenses	$ 90,415,628	$ 62,429,120
Accounts payable	1,301,868	1,213,024
All other liabilities	174,370	132,531
Net assets (deficit)		
Invested in capital assets	17,298	19,461
Unrestricted (deficit)	(28,774,495)	(6,873,640)
Total liabilities and net assets	$ 63,134,669	$ 56,920,496

Cash and cash equivalents increased by $6.4 million or 11.4% as of June 30, 2010 compared to June 30, 2009. The increase is primarily attributable to bringing in $29.6 million in revenue with $23.2 million of payouts, leaving $6.4 million of net cash. Capital assets decreased by $2,163 which is depreciation expense in 2010.

Reserve for losses and loss expenses increased by $28.0 million or 44.8%. The increase resulted from an increase in reported claims of $24.1 million and an increase in the provision for incurred but unreported losses (IBNR) of $3.9 million. This increase resulted from lower payments than expected this fiscal year still continuing to have reserved losses with the addition of some large new claims coming in.

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

Employee Benefits

	June 30, 2010	June 30, 2009
Cash and cash equivalents	$ 57,269,044	$ 59,849,493
Prepaid insurance	110,532	108,154
Capital assets, net	4,012	6,283
All other assets	1,380,612	1,362,131
Total assets	$ 58,764,200	$ 61,326,061
Reserve for losses and loss expenses	$ 8,505,030	$ 11,497,701
Accounts payable	3,919,715	4,747,476
All other liabilities	2,263,426	138,949
Net assets		
Invested in capital assets	4,012	6,283
Unrestricted	44,072,017	44,935,652
Total liabilities and net assets	$ 44,076,029	$ 61,326,061

Cash and cash equivalents decreased by $2.6 million or 4% as of June 30, 2010 compared to June 30, 2009. The decrease is primarily attributable to a $1.6 million drop of revenue over expenses and a decrease in investment income of $865,906.

Reserve for losses and loss expenses decreased over all by $2,992,671 or 26%. $1.8 million of the decrease was for Walgreen's Consumer Choice Rx plan which was re-classed as a liability. The remaining $1.1 million resulted from an increase in paid claims and the decrease in the provision for incurred but unreported losses (IBNR).

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

Capital Assets and Related Debt

The Funds investment in capital assets as of June 30, 2010, amounted to $17,298 net of accumulated depreciation for Risk Management and $4,012 for Employee Benefits. Capital assets consist of equipment and furnishings. No long-term debt was added in 2010.

Depreciation expense for Risk Management for fiscal year 2010 was $2,163 as compared to $3,556 in 2009. Depreciation expense for Employee Benefits for fiscal year 2010 was $2,270 as compared to $3,379 in 2009.

Summary of Revenues and Expenses and Changes in Net Assets

Risk Management

	Years Ended June 30, 2010	2009
Operating income	$ 28,772,379	$ 35,172,048
Other income	13,120	
Investment income	768,717	1,132,429
Total revenue	29,554,216	36,304,477
Losses and loss expenses	43,182,971	22,029,433
All other expenses	8,274,263	6,699,995
Total expenses	51,457,234	28,729,428
Excess of revenues over expenses	$ (21,903,018)	$ 7,575,049

Operating income decreased by $6.4 million. The decrease in operating income is primarily a result of a decrease in user charges in fiscal year 2010 due to a $12.4 net increase in cash in fiscal year 2009. When there is a large excess of cash in a fiscal year, the user charges will be decreased the next fiscal year. Investment income decreased $363,712 in fiscal year 2010 due to lower rates of return during the weakening economy compared to fiscal year 2009.

Total expenses increased by approximately $22,727,806 or 79.1%. This increase is due to a large increase in loss and loss expenses of approximately $21,153,538 and an increase of $1,574,268 for other expenses during the fiscal year ended June 30, 2010.

The excess of revenues over expenses was $(22.0) million for 2010, a decrease of approximately $29.5 million from the excess revenues over expenses of $7.6 million for 2009, primarily resulting from lower payments than expected this fiscal year still continuing to have reserved losses with the addition of some large new claims coming in.

Employee Benefits

	Years Ended June 30, 2010	2009
Operating income	$ 113,114,496	$ 129,607,798
Other income	97,894	54,131
Investment income	779,857	1,354,252
Total revenue	113,992,247	131,016,181
Losses and loss expenses	101,098,908	99,512,245
All other expenses	13,759,245	25,771,528
Total expenses	114,858,153	125,283,773
Excess of revenues over expenses	$ (865,906)	$ 5,732,408

Net revenue decreased by $17 million, $18.9 million is revenue from the fully insured products which were excluded from 2010 for more accurate reporting of the self funded products. The decrease in net revenue is primarily a result of a decrease in the charges for services and premiums. The investment income includes $779,857 thousand of interest and dividends, realized gains, and unrealized gains on investments for the year ended June 30, 2010.

Total expenses decreased by approximately $10.4 million, $14. 7 million is expense from the fully insured products which were excluded from 2010 for more accurate reporting of the self funded products. This increase is primarily due to the increase in claims and other expenses of approximately $4.3 million during the fiscal year ended June 30, 2010.

The deficit of revenues over expenses was $866 thousand for 2010, a decrease of approximately $6.5 million from $5.7 million for 2009, primarily from management's decision to hold premium rates relatively flat year to year.

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, 2010, the total net assets (deficit) was $(28,757,197). 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 2010, County management was 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 and Employee Benefits departments.

The Risk Management Trust Fund projected claim and claims expense payments using an eighty percent confidence level for the three prior fiscal years 2010, 2009 and 2008. 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 Funds 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 the Employee Health Initiatives Department, 301 S. 4th Ave., Suite B100, Phoenix, AZ 85003, or at www.maricopa.gov.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Net Assets (Deficit)—Internal Service Funds
June 30, 2010

	Risk Management	Employee Benefits
Assets		
Cash and cash equivalents	$ 61,882,257	$ 57,269,044
Interest receivable	79,829	81,358
Accounts receivable		1,299,254
Prepaid insurance	1,155,285	110,532
Capital assets, net	17,298	4,012
Total assets	63,134,669	58,764,200
Liabilities		
Accounts payable	1,301,868	3,919,715
Employee compensation payable	174,370	2,263,426
Reserve for losses and loss expenses	90,415,628	8,505,030
Total liabilities	91,891,866	14,688,171
Net Assets		
Invested in capital assets	17,298	4,012
Unrestricted (deficit)	(28,774,495)	44,072,017
Total net assets (deficit)	$ (28,757,197)	$ 44,076,029

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

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Net Assets (Deficit)—Internal Service Funds
Year Ended June 30, 2010

	Risk Management	Employee Benefits
Operating revenues:		
Charges for services	$ 28,772,379	$ 1,548,015
County and employee premiums		111,566,481
Other income	13,120	97,894
Total operating revenues	28,785,499	113,212,390
Operating expenses:		
Personal services	1,800,164	1,503,613
Supplies and services	1,156,173	12,253,362
Legal expenses	4,900,396	
Workers compensation self-insurance tax	415,367	
Losses and loss expenses	43,182,971	101,098,908
Depreciation	2,163	2,270
Total operating expenses	51,457,234	114,858,153
Operating loss	(22,671,735)	(1,645,763)
Nonoperating revenues:		
Investment income	768,717	779,857
Total nonoperating revenues	768,717	779,857
Decrease in net assets	(21,903,018)	(865,906)
Total net assets (deficit), July 1, 2009	(6,854,179)	44,941,935
Total net assets (deficit), June 30, 2010	$ (28,757,197)	$ 44,076,029

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

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 2010

	Risk Management	Employee Benefits
Cash flows from operating activities:		
Receipts from employees and other funds	$ 28,772,379	$113,055,361
Other receipts	13,120	97,894
Payments for goods and services	(21,473,222)	(117,175,078)
Payments to employees	(1,758,325)	620,864
Net cash provided by (used for) operating activities	5,553,952	(3,400,959)
Cash flows from investing activities:		
Interest received on investments	803,436	820,512
Net increase (loss) in cash and cash equivalents	6,357,388	(2,580,447)
Cash and cash equivalents, July 1, 2009	55,524,869	59,849,491
Cash and cash equivalents, June 30, 2010	$ 61,882,257	$ 57,269,044
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	$(22,671,735)	$ (1,645,763)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	2,163	2,270
Changes in assets and liabilities:		
Increase in:		
Accounts receivable		(59,135)
Prepaid insurance		(2,378)
Accounts payable	88,844	
Employee compensation payable	41,839	2,124,477
Reserve for losses and loss expenses	27,986,508	
Decrease in:		
Prepaid insurance	106,333	
Accounts payable		(827,759)
Reserve for losses and loss expenses		(2,992,671)
Net cash provided by (used for) operating activities	$ 5,553,952	$ (3,400,959)

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

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2010

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 trust funds and declares itself self-insured. For financial statement presentation purposes, the Self-insured Trust Fund is reported as Risk Management and Employee Benefits Trust Funds (Funds) and all monies held in these Funds are considered restricted for purposes of self-insurance. The Funds' 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 funds 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, 2010, will report the Funds as governmental activities on the government-wide financial statements since they predominantly service the County's governmental funds. A summary of the Funds' significant accounting policies follows.

A. Reporting Entity

The Funds are accounted for as internal service funds of Maricopa County, Arizona, under the direction of an administrator appointed by the County Board of Supervisors. In addition, the Funds are 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 Funds 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; natural disasters; and for certain health benefits (medical, dental, pharmacy, short-term disability, medical incentives, behavioral health and vision) to eligible County employees and their dependents.

B. Fund Accounting

The Funds' accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Funds' available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, net assets, revenues, and expenses.

The Funds' financial transactions are recorded and reported as internal service funds since their 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 financial statements include statements of net assets; statements of revenues, expenses, and changes in fund net assets; and statements of cash flows.

The statements of net assets provide information about the assets, liabilities, and net assets of the Funds 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 Funds.

The statements of revenues, expenses, and changes in fund net assets (deficit) provide information about the Funds' 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 and premiums 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 statements of cash flows provide information about the Funds' 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 Funds 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 Funds apply 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 Funds have 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 statements of cash flows, the Funds consider 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 Funds establish 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, 2010, 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 Trust Funds are a component unit of Maricopa County, Arizona, a governmental agency, and are exempt from federal and state income taxes.

NOTE 2 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the Funds 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 percent 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, 2010, the carrying amount of the Funds' deposits was $380,070, and the bank balance was $476,690. The Funds follow 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 Funds' investments at June 30, 2010, consisted of monies invested in the Maricopa County Treasurer's Investment Pool. The Funds' 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 Funds' portion in the pool is not identified with specific investments.

***Credit Risk*—**The Funds follow 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, 2010, the Funds' 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, 2010, the Funds had investments of $118,771,131 in the Maricopa County Treasurer's Investment Pool with a weighted average maturity of 607 days, of which 33% (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 Statements of Net Assets follows:

Cash, deposits, and investments:	
Cash on hand	$ 100
Amount of deposits	380,070
County Treasurer's Investment Pool	118,771,131
Total	$119,151,301

NOTE 3 - Reserve for Losses and Loss Expenses

The Funds provide 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.

Risk Management Trust Fund

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, 2010, categorized by insurable area follow:

	Total Liabilities
Auto liability	$ 1,285,598
General liability	55,156,716
Workers' compensation	12,406,026
Medical malpractice	14,777,957
Auto physical damage	251,850
Property	360,287
Unallocated	6,177,194
Total	$90,415,628

The total estimates of unpaid claim liabilities of $90,415,628 at June 30, 2010, increased by $27,986,508 from last year's balance of $62,429,120. The areas with the largest increases were general liability, workers' compensation, medical malpractice, and unallocated.

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

	FY 2009-10	**FY 2008-09**	**FY 2007-08**
Balance July 1	$62,429,120	$58,072,094	$57,730,019
Current-Year Claims and Changes in Estimates	37,749,796	13,180,821	13,460,325
Claim Payments	(9,763,288)	(8,823,795)	(13,118,250)
Balance June 30	$90,415,628	$62,429,120	$58,072,094

Of these liabilities, $38,110,343 were actuarially estimated to be payable within the next 12 months.

Employee Benefits Trust Fund

The liability for medical, dental, short-term disability, behavioral health and vision claims as shown below is based on the fiscal year 2009-10 actuarial reports.

Accrued claims liabilities at June 30, 2010, for each insurable area follow:

Medical	$7,444,935
Dental	374,756
Short-term disability	380,146
Behavioral Health	252,691
Vision	52,502
Total	$8,505,030

Changes in the liabilities for unpaid medical, dental, short-term disability, vision and behavioral health claims follow:

	FY 2009-10	FY 2008-09	FY 2007-08
Balance July 1	$11,497,701	$10,546,651	$2,206,068
Current-Year Claims and Changes in Estimates	98,619,427	99,512,245	95,933,611
Claim Payments	(101,612,098)	(98,479,540)	(87,449,314)
Other Payments	----	(81,653)	(143,714)
Balance June 30	$8,505,030	$11,497,701	$10,546,651

It is estimated that the June 30, 2010, liabilities balance of $8,505,030 will be paid 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, 2010, the total net deficit was $28,757,197. 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 - Letter of Credit

On July 1, 2009, the County renewed its workers' compensation insurance with a self-insured retention of $2,000,000 for the policy period July 1, 2009 through June 30, 2010. As a result, the Industrial Commission of Arizona required the County to secure an irrevocable letter of credit in the amount of $5.3 million with a financial institution to cover unfunded workers' compensation claims for that policy period. During fiscal year 2009-10, the letter of credit had not been drawn upon. The letter of credit was renewed on July 1, 2010 to June 30, 2011 for $5.6 million.

NOTE 6 - Retirement Plan

Plan Description—The Funds contribute 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 North Central Avenue, 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, 2010, active plan members and the Funds were each required by statute to contribute at the actuarially determined rate of 9.40 percent (8.90 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Fund's contributions to the System for the years ended June 30, 2010 and 2009 were $210,707 and $260,993, respectively.