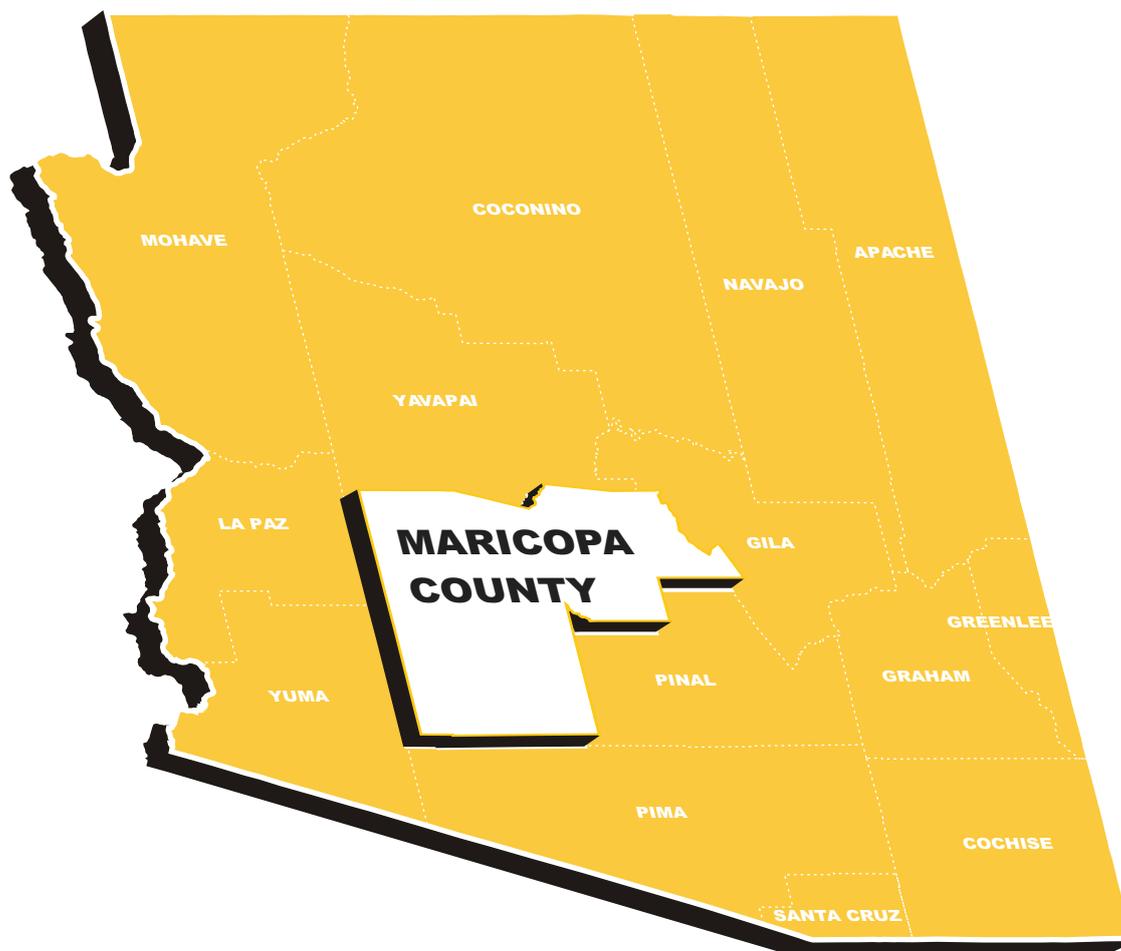


Risk Management and Employee Benefits Trust Report on Audit of Financial Statements

Fiscal Year Ended June 30, 2006



Maricopa County, Arizona

www.maricopa.gov

MARICOPA COUNTY, ARIZONA
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Report on Audit of Financial Statements
June 30, 2006

MARICOPA COUNTY
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Report on Audit of Financial Statements
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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Maricopa County, Arizona

We have audited the accompanying financial statements of the Maricopa County Risk Management and Employee Benefits Trust Funds as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Trust Funds' financial statements are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the governmental activities and aggregate remaining fund information of Maricopa County that is attributable to the Trust Funds. They do not purport to, and do not, present fairly the financial position of Maricopa County as of June 30, 2006, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

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, 2006, and the changes in its financial position and its cash flows, for the year then ended in conformity with U.S. generally accepted accounting principles.

Debbie Davenport
Auditor General

September 14, 2007

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Net Assets—Internal Service Funds
June 30, 2006

	<u>Risk Management</u>	<u>Employee Benefits</u>
Assets		
Current assets:		
Cash and cash equivalents-		
Risk management	\$ 33,830,392	
Environmental insurance claims recovery	825,891	
Employee benefits		\$ 28,960,489
Interest receivable	194,967	144,586
Accounts receivable		2,110,638
Prepaid insurance	1,750,717	254,304
Total current assets	<u>36,601,967</u>	<u>31,470,017</u>
Noncurrent assets:		
Machinery and equipment	86,951	
Less: accumulated depreciation	64,244	
Total noncurrent assets	<u>22,707</u>	
Total assets	<u>36,624,674</u>	<u>31,470,017</u>
Liabilities		
Current liabilities:		
Accounts payable	1,413,609	538,047
Employee compensation payable	128,076	
RBUC and IBNR claims	23,068,119	3,371,985
Total current liabilities	<u>24,609,804</u>	<u>3,910,032</u>
Noncurrent liabilities:		
RBUC and IBNR claims	32,848,274	
Total noncurrent liabilities	<u>32,848,274</u>	
Total liabilities	<u>57,458,078</u>	<u>3,910,032</u>
Net Assets		
Invested in capital assets	22,707	
Unrestricted (deficit)	(20,856,111)	27,559,985
Total net assets (deficit)	<u>\$ (20,833,404)</u>	<u>\$ 27,559,985</u>

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2006

	Risk Management	Employee Benefits
Operating revenues:		
Charges for services	\$ 22,460,153	
County and employee premiums		\$ 33,387,921
Other income	2,196,494	29,372
Total operating revenues	24,656,647	33,417,293
Operating expenses:		
Personal services	1,416,533	
Supplies and services	254,180	
Accounting and auditing fees	10,998	
Actuary fees	40,241	
Consulting and management fees	179,516	
Brokers' fees	93,488	
Claims administration service fees	470,081	1,521,461
Legal expenses	8,039,308	
Workers' compensation taxes	593,553	
Claims and insurance:		
Auto liability claims paid	565,241	
Auto liability RBUC and IBNR claims decrease in estimate	(66,792)	
Total auto liability	498,449	
General liability claims paid	3,808,717	
General liability RBUC and IBNR claims increase in estimate	4,706,025	
Total general liability	8,514,742	
Workers' compensation claims paid	3,857,860	
Workers' compensation RBUC and IBNR claims decrease in estimate	(342,501)	
Total workers' compensation	3,515,359	
Medical malpractice claims paid	3,439,084	
Medical malpractice RBUC and IBNR claims increase in estimate	795,052	
Total medical malpractice	4,234,136	
Auto physical damage claims paid	316,355	
Auto physical damage RBUC increase in estimate	59,407	
Total auto physical damage	375,762	
Property claims paid	192,602	
Property claims RBUC increase in estimate	274,651	
Total property	467,253	
Pharmacy claims paid		12,737,188
Pharmacy IBNR claims increase in estimate		990,265
Total pharmacy		13,727,453
Medical claims paid		8,506,138
Medical RBUC and IBNR claims decrease in estimate		(1,522,000)
Total medical		6,984,138

See accompanying notes to financial statements.

(Continued)

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Revenues, Expenses, and
Changes in Fund Net Assets—Internal Service Funds
Year Ended June 30, 2006
(Continued)

	Risk Management	Employee Benefits
Dental claims paid		\$ 3,924,648
Dental IBNR claims decrease in estimate		(188,000)
Total dental		3,736,648
Short-term disability claims paid		1,926,039
Short-term disability IBNR claims increase in estimate		10,785
Total short-term disability		1,936,824
Wellness incentives paid		56,326
Total wellness		56,326
External prosthetics appliances claims paid		5,484
Total general medical		5,484
Unemployment claims	\$ 776,128	
General liability insurance premiums	1,566,255	
Workers' compensation insurance premiums	547,869	
Crime insurance premiums	31,656	
Property insurance premiums	745,847	
Malpractice insurance premiums	1,479,157	
Stop loss insurance premiums		60,767
Depreciation	10,360	
Total operating expenses	33,860,871	28,029,101
Operating income (loss)	(9,204,224)	5,388,192
Nonoperating revenues:		
Investment income	1,073,671	685,209
Total nonoperating revenues	1,073,671	685,209
Increase (decrease) in net assets	(8,130,553)	6,073,401
Total net assets (deficit), July 1, 2005	(12,702,851)	21,486,584
Total net assets (deficit), June 30, 2006	\$ (20,833,404)	\$ 27,559,985

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Statements of Cash Flows—Internal Service Funds
Year Ended June 30, 2006

	Risk Management	Employee Benefits
Cash flows from operating activities:		
Receipts from other funds	\$ 22,460,153	\$ 33,998,087
Other receipts	2,196,494	948,935
Payments for fees, supplies, and services	(9,385,617)	(1,521,461)
Payments for insurance claims	(12,955,987)	(27,528,850)
Payments for insurance premiums	(4,316,744)	(60,767)
Payments to employees	(1,396,684)	
Net cash provided by (used for) operating activities	<u>(3,398,385)</u>	<u>5,835,944</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(15,521)</u>	
Cash flows from investing activities:		
Interest received on investments	<u>1,050,798</u>	<u>602,696</u>
Net increase (decrease) in cash and cash equivalents	(2,363,108)	6,438,640
Cash and cash equivalents, July 1, 2005	<u>37,019,391</u>	<u>22,521,849</u>
Cash and cash equivalents, June 30, 2006	<u><u>\$34,656,283</u></u>	<u><u>\$ 28,960,489</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (9,204,224)	\$ 5,388,192
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	10,360	
Net change in RBUC and IBNR claims, noncurrent portion	2,507,670	
Changes in assets and liabilities:		
Increase in:		
Accounts payable	295,748	
Employee compensation payable	19,849	
RBUC and IBNR claims, current portion	2,918,172	
Decrease in:		
Accounts receivable		610,166
Prepaid insurance	54,040	919,563
Accounts payable		(63,080)
Unearned revenue		(309,947)
RBUC and IBNR claims, current portion		(708,950)
Net cash provided by (used for) operating activities	<u><u>\$ (3,398,385)</u></u>	<u><u>\$ 5,835,944</u></u>

See accompanying notes to financial statements.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

NOTE 1 - Summary of Significant Accounting Policies

The County, in the exercise of the authority granted by Arizona Revised Statutes (A.R.S.) §11-981, has established a trust fund 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 unrestricted. The Funds' financial statements are prepared in conformity with U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). The Maricopa County *Comprehensive Annual Financial Report* for the year ended June 30, 2006, 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' more 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 risk 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 (pharmacy, medical, dental, short-term disability, medical incentives, and wellness incentives) to eligible 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.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

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 classified as either current or noncurrent. Net assets are classified according to the availability of assets to satisfy the Funds' obligations. 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 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 insurance 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, noncapital financing, capital financing, 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.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

The Funds apply only those applicable Financial Accounting Standards Board 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. 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 only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

E. Machinery and Equipment

Machinery and equipment are capitalized at cost. Depreciation of machinery and 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 machinery and equipment range from 3 to 10 years.

F. Employee Compensation Payable

Employee compensation payable consists of payroll and payroll-related costs incurred but not paid at June 30, and personal time off (PTO) earned by employees based on services already rendered. Employees may accumulate up to 240 hours of PTO, but any PTO hours in excess of the maximum amount that are unused at calendar year-end will be transferred to family medical leave (FML). FML benefits are used by employees for FML-qualifying events and are cumulative but do not vest with employees and, therefore, are not accrued. However, upon retirement, employees of the Funds with accumulated FML in excess of 1,000 hours are entitled to a \$3,000 bonus. The amount of such bonuses is accrued in the liability for employee compensation payable.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

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, 2006, the carrying amount of the Funds' deposits was \$12,396,972, and the bank balance was \$12,126,793. 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.

At June 30, 2006, \$11,066,384 of the Funds' bank balance was uninsured and uncollateralized. The deposits pertain totally to the Employee Benefits Trust Fund.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

Investments—The Funds’ investments at June 30, 2006, 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, 2006, 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, 2006, the Funds had investments of \$51,219,700 in the Maricopa County Treasurer’s Investment Pool with a weighted average maturity of 287 days.

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	12,396,972
County Treasurer’s Investment Pool	<u>51,219,700</u>
Total	<u>\$63,616,772</u>

NOTE 3 - Liabilities for Unpaid Claims

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.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

The following insurance deductibles, self-insurance retentions, and insurance limits were in effect during fiscal year 2005-06:

<u>Policy Type</u>	<u>Deductible</u>	<u>SIR</u>	<u>Limit</u>
General and auto liability		\$ 5,000,000	\$ 5,000,000
Excess general and auto liability		primary	25,000,000
Property/inland marine	\$ 100,000		250,000,000
Excess property	primary		50,000,000
Boiler and machinery	100,000		50,000,000
Earthquake	100,000		100,000,000
Flood zones except A and V	500,000		25,000,000
Flood zone A and V	500,000		10,000,000
Difference in conditions	primary		80,000,000
Employee theft	100,000		10,000,000
Faithful performance of duty	100,000		1,000,000
Theft and robbery	10,000		1,000,000
Computer and wire transfer fraud	100,000		10,000,000
Forgery alteration/property	10,000		1,000,000
Workers' compensation		1,000,000	25,000,000
Employer's liability			1,000,000
Medical malpractice		5,000,000	15,000,000
Excess medical malpractice		primary	10,000,000

Settled claims have not exceeded the above commercial insurance coverage limits over the past 3 years.

Risk Management Trust Fund

Liabilities for unpaid claims 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

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

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 4.25 percent annual rate of return on investments.

The total liabilities reported at June 30, 2006, categorized by insurable area follow:

	Total Liabilities
Auto liability	\$ 799,735
General liability	30,479,529
Workers' compensation	9,701,819
Medical malpractice	14,153,666
Auto physical damage	225,691
Property	555,953
Total	\$ 55,916,393

The total estimates of unpaid claim liabilities of \$55,916,393 at June 30, 2006, increased by \$5,425,842 from last year's balance of \$50,490,551. The areas that significantly increased were general liability and medical malpractice.

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

	Balance	Current-Year	Claims	Balance
	<u>July 1</u>	Changes in	<u>Payments</u>	<u>June 30</u>
		<u>Estimates</u>		
2003-04	\$ 41,047,771	\$ 8,992,628	\$ (7,507,786)	\$ 42,532,613
2004-05	42,532,613	15,923,337	(7,965,399)	50,490,551
2005-06	50,490,551	17,605,701	(12,179,859)	55,916,393

Of these liabilities, \$23,068,119 were actuarially estimated to be paid within the next 12 months.

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

Employee Benefits Trust Fund

The liability for pharmacy (Coinsurance Plan), medical, dental, and short-term disability claims as shown below is based on the fiscal year 2005-06 actuarial reports. The Consumer Choice Plan portion of the liability for pharmacy is based on the unused portion of the members' pharmacy accounts administered by Walgreens Health Initiatives. The liability for medical incentives as shown below is based on the contract with CIGNA HealthCare.

Accrued liabilities at June 30, 2006, for each insurable area follow:

Pharmacy	\$ 1,682,985
Medical	595,000
Dental	267,000
Short-term disability	227,000
Medical incentives	600,000
Total	<u>\$ 3,371,985</u>

Changes in the liabilities for unpaid pharmacy, medical, dental, short-term disability, and medical incentives claims follow:

	Balance	Current-Year	Claims	Balance
	<u>July 1</u>	Changes in	<u>Payments</u>	<u>June 30</u>
		<u>Estimates</u>		
2003-04	\$ 2,446,904	\$ 24,840,807	\$ (22,148,561)	\$ 5,139,150
2004-05	5,139,150	33,271,440	(34,329,655)	4,080,935
2005-06	4,080,935	26,446,873	(27,155,823)	3,371,985

It is estimated that the June 30, 2006, liabilities balance of \$3,371,985 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 1995-96 through 1998-99. 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, Risk Management implemented a funding plan that calls for the fiscal

MARICOPA COUNTY
RISK MANAGEMENT AND EMPLOYEE BENEFITS TRUST FUNDS
Notes to Financial Statements
June 30, 2006

year ending cash balance to equal the next year's estimated claims and claims related expenses. As of June 30, 2006, the total net assets deficit has been reduced to \$20,833,404.

NOTE 5 - Letter of Credit

On July 1, 2005, the County renewed its workers' compensation insurance with a self-insured retention of \$1,000,000. As a result, the Industrial Commission of Arizona required the County to secure an irrevocable letter of credit in the amount of \$8.0 million with a financial institution to cover unfunded workers' compensation claims. During fiscal year 2005-06, the letter of credit had not been drawn upon. The letter of credit was renewed to July 1, 2007 for \$9.7 million.

NOTE 6 - Retirement Plan

Plan Description—The Risk Management 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 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 Risk Management Fund's contribution rates. For the year ended June 30, 2006, active plan members and the Risk Management Fund were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Risk Management Fund's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$80,395, \$56,705, and \$54,687, respectively, which were equal to the required contributions for the year.