

REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

Subject

Maricopa County issues financial statements annually for its Risk Management and Employee Benefits Trust Funds. The County is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the County has met its responsibilities.

Our Conclusion

The information in the Risk Management and Employee Benefits Trust Funds' financial statements is fairly stated in all material respects and the financial statements can be relied on. Our auditors also determined that the Trust Funds maintained adequate internal controls over financial transactions.



2004

Year Ended June 30, 2004

The Trust Funds Manage the County's Self-Insurance Activities

The County manages its risk of loss related to liability, property, casualty, workers' compensation, unemployment, and certain employee health benefits coverage through self-insurance. The County accounts for its self-insurance activity in the Risk Management and Employee Benefits Trust Funds. The County's employee benefits-related activities are accounted for in the Employee Benefits Trust Fund. The table to the right lists the type of insurance coverage that each Fund provides.

State law requires annual audited financial statements for all self-insurance activities be made available to interested parties. The Self-Insurance Trust Funds' financial statements were prepared and audited for that purpose.

Type of Insurance Coverage

Risk Management Trust Fund

- General liability
- Workers' compensation
- Unemployment
- Medical malpractice
- Auto liability
- Auto physical damage
- Property

Employee Benefits Trust Fund

- Pharmacy
- Medical
- Dental
- Short-term disability
- Hospital co-pay reimbursements

The Employee Benefits Trust Fund Managed the HealthSelect Health Plan

On January 1, 2004, the Employee Benefits Trust Fund assumed the responsibility for managing and operating HealthSelect, a managed care health plan. HealthSelect provides healthcare coverage to Maricopa County employees electing this plan and their dependents. The Maricopa Integrated Health System (MIHS) previously managed and operated the plan; however, MIHS will become a special healthcare district since voters passed Proposition 414 in the

November 2003 special election. The County negotiated amended contracts with its existing general medical and pharmacy vendors to perform administrative services such as, but not limited to, claims and member management. As of June 30, 2004, the County had paid \$4.6 million in medical and pharmacy claims and estimated an accrued liability for outstanding claims of \$3.6 million at that date. Premiums totalling \$8.4 million were received from both the County and the employees enrolled in the program.

Risk Management and Employee Benefits Trust Funds' Expenses by Type

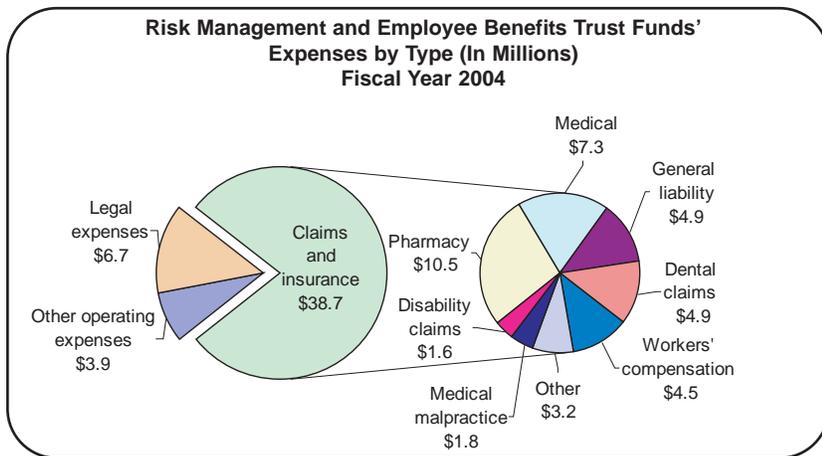
The table below summarizes the Trust Funds' operating expenses by type for fiscal year 2004.

Claims and insurance expenses account for 78 percent of the total fiscal year 2004 Trust Funds' expenses. Claims expense represents all losses recognized during the year, including an estimate of claims that have not yet been reported.

The County is responsible for any claim up to a certain self-insurance retention limit or an insurance deductible for each type of coverage. With the exception of pharmacy, dental, short-term disability,

and unemployment claims, the County purchases commercial insurance for claims exceeding those limits. For dental and short-term disability claims, the County has established benefit limits. There are no benefit limits for pharmacy claims. Benefit limits for unemployment claims are established by the State.

Legal expenses comprise about 14 percent of the total fiscal year 2004 expenses, and include attorney, expert witness, investigation, deposition, and arbitration costs. Other operating expenses, such as salaries and supplies comprise the remaining 8 percent of expenses.



Facts About Self-Insured Trust Funds' Liabilities

Reported but unpaid claims (RBUC) and incurred but not reported (IBNR) claims liabilities at June 30, 2004, represent 98 percent and 73 percent of Risk Management and Employee Benefits Trust Funds' total liabilities, respectively.

The RBUC and IBNR claims liabilities for Risk Management consist of auto, general, workers' compensation, medical malpractice, auto physical damage, and property. General and medical malpractice represent 76 percent of Risk Management's RBUC and IBNR claims liabilities.

The RBUC and IBNR claims liabilities for Employee Benefits consist of pharmacy, medical, dental, short-term disability, hospital co-pay reimbursements, and medical incentives. Medical represents 69 percent of Employee Benefits' RBUC and IBNR claims liabilities.

The liability for all categories of RBUC and IBNR other than hospital co-pay reimbursements and medical incentives are based on actuarial reports. The liability for hospital co-pay reimbursements and medical incentives were estimated by the County.

TO OBTAIN
MORE INFORMATION

A copy of the full report can be obtained by calling Maricopa County at (602) 506-2827



or by visiting our Web site at: www.auditorgen.state.az.us

Contact person for this report:
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(602) 553-0333

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Year Ended June 30, 2004