

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**Phoenix, Arizona**

**FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

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## Independent Auditor's Report

Board of Trustees and Members  
Arizona Public Employers Health Pool  
Phoenix, Arizona

We have audited the accompanying statements of net assets of Arizona Public Employers Health Pool (the Pool) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Pool'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. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arizona Public Employers Health Pool as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 5 and the Required Supplemental Information included on pages 19 through 20 of the financial statements, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

*Clifton Gunderson LLP*

Phoenix, Arizona  
October 12, 2011

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2011 and 2010**

This section of the financial statements of Arizona Public Employer's Health Pool (the Pool), presents a discussion and analysis of its financial performance for the fiscal years ended June 30, 2011 and 2010. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

**Overview of the Financial Statements**

The Pool's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental bodies and risk retention pools, as applicable. The Pool is organized as a public agency risk retention pool under the provisions of A.R.S. Section 11-952.01, and in further compliance with A.R.S. Sections 15-387, 15-382, 15-341 and 15-213. The primary purpose of the Pool is to provide life insurance, accident insurance and health benefits for public entities who qualify as members and join the Pool in the manner provided in the bylaws.

The basic financial statements with supplemental schedules are presented on an accrual basis of accounting. The three basic financial statements are as follows:

Statements of Net Assets

The statements present information reflecting the assets, liabilities, and accumulated net assets as of June 30, 2011 and 2010.

Statements of Revenues, Expenses and Changes in Net Assets

The statements reflect the revenues and expenses, as well as nonoperating revenues during the years ended June 30, 2011 and 2010.

Statements of Cash Flows

The statements reflect the cash flows from operating, investing, capital and related financing activities during the years ended June 30, 2011 and 2010.

**Financial Highlights**

The more significant highlights of 2011 as compared to 2010 follows:

- Cash, cash equivalents and investment securities increased \$1,085,335 from \$5,794,884 as of June 30, 2010 to \$6,880,219 as of June 30, 2011.
- Total assets increased \$946,164 from \$6,623,092 as of June 30, 2010 to \$7,569,256 as of June 30, 2011.
- Net assets increased \$541,342 from \$4,251,698 as of June 30, 2010 to \$4,793,040 as of June 30, 2011.
- Total net revenues increased \$1,993,409 from \$11,689,913 for 2010 as compared to \$13,683,322 for the year ended June 30, 2011.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2011 and 2010**

The following tables and analysis discuss the financial position of the Pool as of June 30, 2011 and 2010 and the results achieved from the operations of the Pool for the year ended June 30, 2011 as compared to the year ended June 30, 2010 and June 30, 2010 as compared to the year ended June 30, 2009.

**Summary of Net Assets**

	<u>June 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Cash, cash equivalents and investment securities	\$ 6,880,219	\$ 5,794,884	\$ 4,742,914
Contributions receivable	646,408	782,583	285,639
All other assets	<u>45,629</u>	<u>45,625</u>	<u>45,081</u>
<b>Total assets</b>	<b><u>\$ 7,569,256</u></b>	<b><u>\$ 6,623,092</u></b>	<b><u>\$ 5,073,634</u></b>
Reserve for losses and loss expenses	\$ 2,058,792	\$ 1,623,089	\$ 1,025,133
Deferred contributions	405,461	314,774	360,867
Unamortized capital contribution	200,000	400,000	-
All other liabilities	111,963	33,531	19,946
Unrestricted net assets	<u>4,793,040</u>	<u>4,251,698</u>	<u>3,667,688</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,569,256</u></b>	<b><u>\$ 6,623,092</u></b>	<b><u>\$ 5,073,634</u></b>

Cash, cash equivalents, and investment securities increased by \$1.1 million or 18.7% as of June 30, 2011, as compared to June 30, 2010. The increase is primarily attributable to approximately \$540,000 of revenue in excess of expenses and growth in member contributions.

Reserve for losses and loss expenses increased by approximately \$440,000 or 26.8% for the year ended June 30, 2011, compared to June 30, 2010. The increase resulted from an increase in reported claims of approximately \$40,000, and the increase in the provision for incurred but unreported losses (IBNR) of approximately \$400,000. Deferred contributions totaled approximately \$405,000 and \$315,000 as of June 30, 2011 and June 30, 2010, respectively. Unamortized capital contribution decreased by \$200,000 due to the amortization of the capital contribution from one of its members.

During 2011, the increase in reserve for claims incurred but not reported is due to increased losses, and expected loss experience resulting from the increase in costs in claims settlement. The other liabilities increased by approximately \$78,000.

Cash, cash equivalents, and investment securities increased by \$1.1 million or 22.2% as of June 30, 2010, as compared to June 30, 2009. The increase is primarily attributable to approximately \$600,000 of revenue in excess of expenses, and a \$600,000 capital contribution from one of its members.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2011 and 2010**

**Summary of Net Assets (Continued)**

Reserve for losses and loss expenses increased by approximately \$600,000 or 58.3% for the year ended June 30, 2010, compared to June 30, 2009. The increase resulted from an increase in reported claims of approximately \$50,000, increase in the provision for incurred but unreported losses (IBNR) of approximately \$500,000, and the increase in the unallocated loss adjustment expense of approximately \$50,000. Deferred contributions totaled approximately \$315,000 and \$361,000 as of June 30, 2010 and June 30, 2009, respectively. Unamortized capital contribution increased by \$400,000 due to the capital contribution from one of its members.

The increase in reserve for claims incurred but not reported is due to increased losses, and expected loss experience resulting from the increase in costs in claims settlement. The other liabilities increased by approximately \$14,000.

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

**Summary of Revenues and Expenses and Changes in Net Assets**

	<b>Years Ended June 30,</b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Net contributions	\$ 13,535,129	\$ 11,297,273	\$ 5,972,227
Other operating income	148,193	392,640	246,141
Total revenue	13,683,322	11,689,913	6,218,368
Losses and loss expense	11,770,457	9,930,812	6,027,589
All other expenses	1,371,523	1,175,091	812,682
Total expenses	13,141,980	11,105,903	6,840,271
<b>Change in net assets</b>	<b>\$ 541,342</b>	<b>\$ 584,010</b>	<b>\$ (621,903)</b>

Net contributions increased by \$2.2 million or 19.8% for the year ended June 30, 2011 as compared to the year ended June 30, 2010. The increase in net contribution revenue is primarily a result of increased contributions and the addition of one member.

Total expenses increased by \$2.0 million or 18.3% for the year ended June 30, 2011 as compared to the year ended June 30, 2010. This increase is primarily due to the increase in losses and loss expense of \$1.8 million.

The change in net assets was approximately \$541,000 for 2011, a decrease of \$43,000 from approximately \$584,000 for 2010. During 2011, the Pool amortized \$200,000 of the \$600,000 capital contribution from a new member to gross contributions.

Net contributions increased by \$5.3 million or 89.2% for the year ended June 30, 2010 as compared to the year ended June 30, 2009. The increase in net contribution revenue is primarily a result of one additional member during the year.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years Ended June 30, 2011 and 2010**

**Summary of Revenues and Expenses and Changes in Net Assets (Continued)**

Total expenses increased by \$4.3 million or 62.4% for the year ended June 30, 2010 as compared to the year ended June 30, 2009. This increase is primarily due to the increase in losses and loss expense of \$3.9 million.

The change in net assets was approximately \$584,000 for 2010, an increase of \$1.2 million from approximately \$(622,000) for 2009. During 2010, the Pool amortized \$200,000 of the \$600,000 capital contribution from a new member to gross contributions.

**Contact Information**

The management report is to provide our members, customers, consultants and financial advisor with a general overview of the Pool's finances. If you have any questions about this report or need additional information, contact the Arizona Public Employers Health Pool at 333 East Osborn Road, Suite 300, Phoenix, Arizona 85012.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**STATEMENTS OF NET ASSETS**  
June 30, 2011 and 2010

**ASSETS**

<b>ASSETS</b>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 2,714,617	\$ 106,626
Investment securities	4,165,602	5,688,258
Contributions receivable	646,408	782,583
Interest and other receivables	29,944	34,142
Flex benefits paid in excess of contributions	3,175	11,211
Prepaid expenses	2,328	-
Restricted asset - cash and cash equivalents	<u>7,182</u>	<u>272</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,569,256</u>	<u>\$ 6,623,092</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Reserve for losses and loss expenses:		
Reported claims	\$ 157,663	\$ 105,733
Claims incurred but not reported	1,766,000	1,392,000
Unallocated loss adjustment expense	135,129	125,356
Unearned contributions	405,461	314,774
Unamortized capital contribution	200,000	400,000
Accounts payable and other accrued expenses	101,606	22,048
Flex savings accounts payable	<u>10,357</u>	<u>11,483</u>
 Total liabilities	 2,776,216	 2,371,394

**NET ASSETS**

Unrestricted net assets	<u>4,793,040</u>	<u>4,251,698</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,569,256</u>	<u>\$ 6,623,092</u>

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

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>		
Contributions:		
Gross contributions	\$ 14,286,154	\$ 11,983,685
Cost of premiums and excess insurance	<u>(751,025)</u>	<u>(686,412)</u>
Net contributions	<u>13,535,129</u>	<u>11,297,273</u>
Interest and dividend income, net	137,322	177,289
Net increase in fair value on investments	<u>10,871</u>	<u>215,351</u>
Net investment income	<u>148,193</u>	<u>392,640</u>
Total revenues	<u>13,683,322</u>	<u>11,689,913</u>
<b>EXPENSES</b>		
Losses and loss expense	11,770,457	9,930,812
Claim service fees	864,880	695,066
Management fees	289,293	276,781
Administrative	207,002	200,797
Advertising	10,348	2,194
Other operating expenses	<u>-</u>	<u>253</u>
Total expenses	<u>13,141,980</u>	<u>11,105,903</u>
<b>INCREASE IN NET ASSETS</b>	541,342	584,010
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,251,698</u>	<u>3,667,688</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 4,793,040</u>	<u>\$ 4,251,698</u>

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

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions collected from members	\$ 14,319,926	\$ 11,230,016
Investment income received	160,064	175,955
Excess insurance premiums paid	(751,025)	(686,412)
Losses and loss expenses paid net of recoveries	(11,334,754)	(9,332,856)
Operating expenses paid	<u>(1,294,293)</u>	<u>(1,160,716)</u>
Net cash provided by operating activities	<u>1,099,918</u>	<u>225,987</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments securities	2,205,639	-
Purchases of investment securities	<u>(690,656)</u>	<u>(1,525,525)</u>
Net cash provided by (used in) investing activities	<u>1,514,983</u>	<u>(1,525,525)</u>
<b>CASH FLOWS FROM NON-CAPITAL RELATED FINANCING ACTIVITIES</b>		
Capital contribution	<u>        </u>	<u>600,000</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,614,901	(699,538)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>106,898</u>	<u>806,436</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 2,721,799</u>	<u>\$ 106,898</u>

(Continued)

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
STATEMENTS OF CASH FLOWS (CONTINUED)  
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF THE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 541,342	\$ 584,010
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Change in net unrealized (gain) loss on investment securities	7,673	(215,351)
Amortization of capital contribution	(200,000)	(200,000)
Effects of changes in operating assets and liabilities:		
Contributions receivables	136,175	(496,944)
Interest and other receivables	4,198	(1,334)
Flex benefits paid in excess of contributions	8,036	(10,592)
Prepaid expenses	(2,328)	750
Reserve for losses and loss expenses	435,703	597,956
Unearned contributions	90,687	(46,093)
Accounts payable and other accrued expenses	79,558	13,625
Flex savings accounts payable	<u>(1,126)</u>	<u>(40)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$ 1,099,918</u></b>	<b><u>\$ 225,987</u></b>
<b>CASH AND CASH EQUIVALENTS - RECONCILIATION</b>		
Unrestricted		
Cash and cash equivalents	\$ 2,714,617	\$ 106,626
Restricted		
Cash and cash equivalents	<u>7,182</u>	<u>272</u>
	<b><u>\$ 2,721,799</u></b>	<b><u>\$ 106,898</u></b>

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

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 – ORGANIZATION**

**General**

Arizona Public Employers Health Pool (the Pool) was organized in the State of Arizona in June 1985 as a not-for-profit entity. The Pool is designed as a risk-retention group of certain cities, towns, public school districts, counties, and fire districts (members) in the State of Arizona. As of June 30, 2011, there were eleven members participating in the Pool. Any net income earned by the Pool may be returned to its members in the form of dividends or reductions in future premiums. The Pool enters into contracts forming a risk retention pool as authorized by the Arizona Revised Statutes (ARS) section 11-952.01, for the payment of life, accident, and health claims on a cooperative basis. The Pool is engaged in providing life insurance, accident insurance or health benefits for public entities who qualify as members and join the Pool in the manner provided in the bylaws.

The Pool is governed by the Board of Trustees, while daily operations are conducted by an administrator, Ashton Tiffany, LLC (the Administrator), in exchange for an annual fee. Services provided by the administrator include underwriting, loss control, accounting, recordkeeping, member relations, promotion, marketing and new program development.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, specifically standards applicable to public entity risk pools. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 20 requires that governments with proprietary activities apply all applicable GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Governments are given the option whether or not to apply all FASB statements and interpretations after November 30, 1989, except for those that conflict or contradict GASB pronouncements. The Pool has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

**Use of Estimates in Preparing Financial Statements**

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. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the entity evaluates their estimates and assumptions based upon historical experience and various other factors and circumstances. Management of the entity believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

The Pool receives annual contributions from members to meet their pro rata share of the anticipated liabilities and expenses of the upcoming fiscal year. A State of Arizona statute provides that in the event the Pool becomes insolvent or is unable to discharge its liabilities, members will be assessed one additional pro rata contribution for the then current fiscal year. The additional contributions are to be an amount necessary to discharge such obligations; however, the additional contributions are limited to a maximum of each member's required annual contribution for the year of assessment. If a member has withdrawn from participation in the Pool, the member will remain liable, after withdrawal, for assessments of additional contributions incurred during the period the member participated in the Pool.

Contributions for the Pool are earned on a pro rata basis over the rating period which coincides with the entity's fiscal year. Unearned contributions represent contributions received in advance of the related rating period. Contributions receivable represents contributions due from members for contributions. The unamortized capital contribution is being amortized over the three year agreement period.

**Fund Accounting**

The Pool reports in a manner consistent with a special purpose entity for their ongoing operations and activities, which are similar to those often found in the private sector as a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The principle operating revenues of the Pool's proprietary fund are fees charged to members for premium revenues less costs for excess insurance and net investment earnings. Operating expenses for the Pool include losses and loss expenses, claim service fees, management fees, administrative expenses, advertising and other operating expenses.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of 90 days or less from the date of purchase.

The Pool has a sweep arrangement with Wells Fargo Bank, N.A. Under this arrangement, available cash balances are applied from one bank account to another on each banking business day to cover claim related disbursements.

**Investment Securities**

All investment securities are carried at estimated fair value. Fair value is estimated based on quoted market prices. In recording realized gains and losses on the sale of investment securities, cost is determined using the specific identification method.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reserve for Losses and Loss Expense**

The Pool may experience variability in the development of its annual reserve for loss and loss expense as a result of its changing coverage terms, changing demographics, and recent growth. There is a level of uncertainty inherent in the establishment of the required loss and loss adjustment expense reserves for the Pool. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the claims liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments to reserves are reflected in the operating results in the periods in which they are made.

**Excess Insurance**

The Pool uses excess insurance to reduce exposure to losses. Excess insurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the entities as direct insurer of the risks reinsured.

Excess insurance recoverables (including amounts related to losses incurred but not reported) are reported as assets and are recognized in a manner consistent with the liabilities relating to the underlying excess insurance contracts. Excess insurance premiums are recorded based on management's best estimate of the ultimate amounts to be incurred. At both June 30, 2011 and 2010, the Pool had \$0 in excess insurance receivables.

**Risks and Uncertainties**

The Pool invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

**Income and Premium Taxes**

The Pool is not subject to federal or state income taxes and as a result state premium taxes have not been provided for in the accompanying financial statements.

**NOTE 3 – CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS**

The Pool's investment policy, as approved by the Board of Trustees, is to match investment maturities with cash requirements. The fair value of investment securities as of June 30, 2011 and 2010, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 – CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

As of June 30, 2011, the Pool had the following investments and maturities:

	Credit Quality Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Greater Than 10
Corporate bonds	Aaa	\$ 913,889	\$ 913,889	\$ -	\$ -	\$ -
Corporate bonds	Aa3	540,825	-	540,825	-	-
Corporate bonds	A1	567,055	-	-	567,055	-
Corporate bonds	A3	298,830	-	298,830	-	-
Corporate bonds	Not rated	<u>243,090</u>	<u>243,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total corporate bonds		<u>2,563,689</u>	<u>1,156,979</u>	<u>839,655</u>	<u>567,055</u>	<u>-</u>
Municipal bonds	Aaa	549,045	-	549,045	-	-
Municipal bonds	Baa2	<u>503,018</u>	<u>-</u>	<u>503,018</u>	<u>-</u>	<u>-</u>
Total municipal bonds		<u>1,052,063</u>	<u>-</u>	<u>1,052,063</u>	<u>-</u>	<u>-</u>
Preferred stock	Not rated	<u>549,850</u>	<u>549,850</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total investment securities</b>		<u>\$ 4,165,602</u>	<u>\$ 1,706,829</u>	<u>\$ 1,891,718</u>	<u>\$ 567,055</u>	<u>\$ -</u>

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 – CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

As of June 30, 2010, the Pool had the following investments and maturities:

	Credit Quality Rating	Fair Value	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	Greater Than 10
Corporate bonds	Aaa	\$ 922,353	\$ -	\$ 922,353	\$ -	\$ -
Corporate bonds	A1	562,070	-	-	562,070	-
Corporate bonds	A2	506,215	-	506,215	-	-
Corporate bonds	Baa1	545,415	-	545,415	-	-
Corporate bonds	Baa3	<u>601,152</u>	<u>601,152</u>	-	-	-
Total corporate bonds		<u>3,137,205</u>	<u>601,152</u>	<u>1,973,983</u>	<u>562,070</u>	<u>-</u>
Municipal bonds	Aaa	543,445	-	-	543,445	-
Municipal bonds	Aa3	600,000	-	-	-	600,000
Municipal bonds	A2	506,250	506,250	-	-	-
Municipal bonds	Baa2	<u>493,058</u>	-	<u>493,058</u>	-	-
Total municipal bonds		<u>2,142,753</u>	<u>506,250</u>	<u>493,058</u>	<u>543,445</u>	<u>600,000</u>
Preferred stock	Not rated	<u>408,300</u>	<u>408,300</u>	-	-	-
<b>Total investment securities</b>		<u>\$ 5,688,258</u>	<u>\$ 1,515,702</u>	<u>\$ 2,467,041</u>	<u>\$ 1,105,515</u>	<u>\$ 600,000</u>

The above credit quality ratings are based on Moody's rating system. Those investments with credit ratings of Baa1, Baa2, and Baa3 under the Moody's system have Standard & Poor credit rating of A- or better.

Net realized gains on investments were \$18,544 and \$0 for the year ended June 30, 2011 and 2010, respectively. The calculation of realized gains is independent of the calculation of the change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in the prior years and the current year.

**Interest Rate Risk**

In accordance with its investment policy, the Pool manages its exposure to declines in fair value due to interest rate fluctuations, by actively managing portfolio duration. Duration is the measure of the price sensitivity of a fixed income investment to a change in the interest rates.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 – CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

**Credit Risk**

The Pool's investment policies mandate the quality of investments allowable for purchase. Specifically: repurchase agreements must be collateralized; variable rate demand notes and corporate bonds must be rated A3/A- or better by Moody's or Standard & Poor's, or an equivalent by a second major rating agency; mutual funds must be rated three stars or higher by Morningstar; and commercial paper must be rated A1 by Moody's or P1 by Standard & Poor's, or an equivalent by a second major rating agency. At the time of purchase, all investments met the Pool's investment policy.

**Concentration of Credit Risk**

The Pool's investment policies limit unreasonable risks inherent in over-weighting in certain financial institutions. The Pool Portfolio Diversification statement directs that: investments must be limited to no more than 15% of Pool funds in any one corporate entity; no more than \$100,000 may be invested in certificates of deposit of any one issue; and no more than 15% of the Pool's funds may be invested in stock of any one corporate entity or in any one investment fund.

Investments in any one issuer that represents 5% or more of total Pool's investments as of June 30, 2011, are as follow:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Citi Group Inc.	Corporate Bonds	\$ 1,009,869
Northern Trust Company	Corporate Bonds	567,055
Stanford University	Municipal Government Agency Securities	549,045
Pepsi Americas Inc.	Corporate Bonds	540,825
Arizona Public Service Co.	Municipal Government Agency Securities	503,018

Investments in any one issuer that represents 5% or more of total Pool's investments as of June 30, 2010, are as follow:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Citi Group Inc.	Corporate Bonds	\$ 717,157
Union Planter Corp.	Corporate Bonds	601,152
Scottsdale Arizona	Municipal Government Agency Securities	600,000
Northern Trust Company	Corporate Bonds	562,070
Pepsi Americas Inc.	Corporate Bonds	545,415
Stanford University	Municipal Government Agency Securities	543,445
Detroit Edison Company	Corporate Bonds	506,250
Boeing Co.	Corporate Bonds	506,215
Arizona Public Service Co.	Municipal Government Agency Securities	493,058

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned to the Pool.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 3 – CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

**Custodial Credit Risk – Deposits (Continued)**

At June 30, 2011, the carrying amount of the Pool's cash and cash equivalents was \$2,721,799 and the bank balance was \$3,200,382. The difference represents deposits in transit, outstanding checks and other reconciling items. The Pool's deposits with the bank are entirely covered by federal depository insurance or by collateral held by the Pool's fiscal agent.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Pool will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pool utilizes third party custodial agent for investment transactions, all of which are held in the Pool's name.

**NOTE 4 – RESERVES FOR LOSSES AND LOSS EXPENSES**

As discussed in Note 2, the Pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses. Changes in those aggregate liabilities for the Pool as of June 30 are as follows:

	<u>2011</u>	<u>2010</u>
Reserves for losses and loss expenses, beginning of year	\$ <u>1,623,089</u>	\$ <u>1,025,133</u>
Incurring losses and loss expenses:		
Provision for insured events of the current year	10,330,977	9,753,360
Provision for insured events of prior year	<u>1,439,480</u>	<u>177,452</u>
Total incurred losses and loss expenses	<u>11,770,457</u>	<u>9,930,812</u>
Payments:		
Losses and loss expenses attributable to insured events of the current year	9,717,822	9,098,775
Losses and loss expenses attributable to insured events of prior years	<u>1,616,932</u>	<u>234,081</u>
Total payments	<u>11,334,754</u>	<u>9,332,856</u>
<b>Reserves for losses and loss expenses, end of year</b>	<b>\$ <u>2,058,792</u></b>	<b>\$ <u>1,623,089</u></b>

The reserves were determined by the Administrator, Ashton Tiffany, LLC. The Pool has engaged an independent actuary to review and evaluate the reserves calculated by the Pool's management. The actuary has provided a recommended reserve of \$1,766,000 and \$1,392,000 as of June 30, 2011 and 2010, respectively.

**NOTE 5 – RELATED PARTY TRANSACTION**

Compensation paid to the Administrator for the operation of the Pool was \$289,293 and \$276,781 for the years ended June 30, 2011 and 2010, respectively.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 6 – CAPITAL CONTRIBUTION**

During 2010, the Pool received a capital contribution from a new member, Navajo County, totaling \$600,000. This contribution is unrestricted and the Pool intends on using the contribution to fund the Pool's ongoing operations, if necessary. Under the applicable governmental accounting principles, the \$600,000 capital contribution is required to be treated as unearned premiums and recognized over the period for which coverage is expected to be provided by the Pool; the three year agreement period. For the years ended June 30, 2011 and 2010, the Pool recognized \$200,000 of the amount as premium revenue.

**NOTE 7 – CONTINGENCIES**

The Pool is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Pool. No provision has been made in the accompanying financial statements for losses, if any, that might result from the ultimate outcome of these matters.

Financial markets as a whole have incurred significant volatility over the past two years. Because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Pool might recognize in future financial statements, if any, cannot be determined.

**NOTE 8 – SIGNIFICANT CUSTOMERS**

The Pool received a significant portion of its contribution revenues from four members for the year ended June 30, 2011. These four members accounted for approximately 76.9% of total contribution revenues and 82.6% of total contributions receivable as of and for the year ended June 30, 2011.

The Pool received a significant portion of its contribution revenues from three members for the year ended June 30, 2010. These three members accounted for approximately 75.2% of total contribution revenues and 80.6% of total contributions receivable as of and for the year ended June 30, 2010.

**NOTE 9 – SUBSEQUENT EVENTS**

Management evaluated subsequent events through October 12, 2011, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to October 12, 2011, that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the financial statement for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2011.

This information is an integral part of the accompanying financial statements.

**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
REQUIRED SUPPLEMENTAL INFORMATION  
(UNAUDITED)  
June 30, 2011**

The following table illustrates how contributions, net of excess insurance, and investment income compare to the related costs of losses and loss expenses, net of losses assumed by excess insurance carriers, and other expenses for each of the last ten years for the Pool. The rows of the table are defined as follows:

- Total of each fiscal year's net contributions and investment income.
- Each fiscal year's administrative and other expenses.
- The Pool's incurred losses and loss expenses attributable to insured events of the current year (both paid and accrued), as originally reported at the end of the fiscal year.
- Cumulative amount of losses and loss expenses paid as of the end of successive years.
- How each year's losses and loss expenses increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- Comparison of the latest reestimated incurred loss and loss expense amounts to the amount originally established (line 3) and whether this latest estimate is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature fiscal years. The columns of the table show data as of June 30 for successive policy years.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
 (UNAUDITED)  
 Years Ended June 30, 2011

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1 Net Contributions and investment income	\$4,473,966	\$6,200,346	\$6,302,165	\$6,623,027	\$6,394,130	\$6,218,561	\$6,272,744	\$6,218,368	\$11,689,913	\$13,683,322
2 Administration and other expenses:										
Claim service fees						344,985	412,852	472,664	695,066	864,880
Management fees						165,240	156,750	187,238	276,781	289,293
Administration						147,548	144,113	129,725	200,797	207,002
Advertising						656	1,021	599	2,194	10,348
Other operating expenses (income)						(3,203)	(2,662)	22,456	253	-
Total administration and other expenses						655,226	712,074	812,682	1,175,091	1,371,523
3 Estimated losses and loss expenses attributable to insured event of the current year						3,936,384	4,907,134	5,993,296	9,753,360	10,330,997
4 Cumulative payments as of:										
End of policy year	3,233,874	4,036,114	3,743,708	4,244,620	3,688,741	3,574,753	4,359,388	5,309,245	9,098,775	9,717,822
One year later	3,899,247	4,877,566	4,345,160	5,129,065	4,185,528	4,363,295	5,145,251	5,551,393	10,715,707	-
Two years later	3,899,247	4,877,566	4,345,160	5,142,980	4,187,616	4,359,867	5,137,184	5,543,633	-	-
Three years later	3,899,247	4,877,566	4,345,160	5,145,919	4,187,616	4,359,867	5,137,184	-	-	-
Four years later	3,899,247	4,877,566	4,345,160	5,145,921	4,187,616	4,359,867	-	-	-	-
Five years later	3,899,247	4,877,566	4,345,160	5,145,921	4,187,616	-	-	-	-	-
Six years later	3,899,247	4,877,566	4,345,160	5,145,921	-	-	-	-	-	-
Seven years later	3,899,247	4,877,566	4,345,160	-	-	-	-	-	-	-
Eight years later	3,899,247	4,877,566	4,345,160	-	-	-	-	-	-	-
Nine years later	3,899,247	-	-	-	-	-	-	-	-	-
5 Estimated incurred claims and expenses:										
End of policy year	4,038,360	4,521,721	4,720,596	5,332,163	4,420,504	3,936,384	4,907,134	5,993,296	9,753,360	10,330,977
One year later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	4,139,640	5,581,417	6,170,748	11,192,840	-
Two years later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	4,139,640	5,581,417	6,170,748	-	-
Three years later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	4,139,640	5,581,417	-	-	-
Four years later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	4,139,640	5,581,417	-	-	-
Five years later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	4,139,640	-	-	-	-
Six years later	4,231,987	4,533,130	4,376,048	5,230,608	4,165,206	-	-	-	-	-
Seven years later	4,231,987	4,533,130	4,376,048	-	-	-	-	-	-	-
Eight years later	4,231,987	4,533,130	4,376,048	-	-	-	-	-	-	-
Nine years later	4,231,987	-	-	-	-	-	-	-	-	-
6 Increase (decrease) in estimated losses and loss expenses and reestimated incurred claims and expenses	\$ 193,627	\$ 11,409	\$ (344,548)	\$ (101,555)	\$ (255,298)	\$ 203,256	\$ 674,283	\$ 177,452	\$ 1,439,480	\$ -