Self-Insurance Trust Internal Service Fund

For the Fiscal Year Ended June 30, 2007

2007

Pima County, Arizona

PIMA COUNTY, ARIZONA
Self Insurance Trust Internal Service Fund
June 30, 2007

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BEACH, FLEISCHMAN & CO., P.C.
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Independent Auditors' Report

Board of Supervisors of Pima County, Arizona
Tucson, Arizona

We have audited the accompanying basic financial statements of Pima County Self Insurance Trust Internal Service Fund as of June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board and the standards applicable to financial audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

As discussed in Note 1, the financial statements present only the Pima County Self Insurance Trust Internal Service Fund and do not purport to, and do not, present fairly the financial position of the Pima County, Arizona as of June 30, 2007, or the changes in its financial position or, where applicable, 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 Pima County Self Insurance Trust Internal Service Fund as of June 30, 2007, and changes in its financial position and its cash flows for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007 on our consideration of Pima County Self Insurance Trust Internal Service Fund's 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. Accordingly, we express no such opinion. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Pima County Self Insurance Trust Internal Service Fund previously adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments which requires that Management's Discussion and Analysis be presented supplementary information to the financial statements. Pima County Self Insurance Trust Internal Service Fund has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Beach, Fleischman + Co., P.C.

October 29, 2007

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PIMA COUNTY, ARIZONA
Self Insurance Trust Internal Service Fund
Statement of Net Assets
June 30, 2007

Assets		
Current assets:		
Cash and cash equivalents	$	41,569,576
Interest receivable		321,910
Due from other funds		204,443
Accounts receivable		201,879
Prepaid expenses		731,433
Total current assets		43,029,241
Noncurrent assets:		
Due from other funds		613,331
Capital assets:		
Land		592,353
Equipment		161,764
Less accumulated depreciation		(81,282)
Capital in process		60,183
Total capital assets, net		733,018
Total noncurrent assets		1,346,349
Total assets		44,375,590
Liabilities		
Current liabilities:		
Accounts payable		1,133,481
Accrued employee compensation		125,218
Due to other funds		1,529
Reported but unpaid losses, current portion		4,200,099
Incurred but not reported, current portion		1,785,240
Total current liabilities		7,245,567
Noncurrent liabilities:		
Reported but unpaid losses		18,739,460
Incurred but not reported losses		8,132,760
Total noncurrent liabilities		26,872,220
Total liabilities		34,117,787
Net assets		
Invested in capital assets		733,018
Unrestricted		9,524,785
Total net assets	$	10,257,803

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self Insurance Trust Internal Service Fund
Statement of Revenues, Expenses,
and Changes in Net Assets
Year Ended June 30, 2007

Operating revenues:	
Charges for services	$ 17,587,655
Other	654,668
Total operating revenues	18,242,323
Operating expenses:	
Employee compensation	1,881,945
Operating supplies	226,200
Utilities	25,972
Incurred losses	8,118,032
Insurance premiums	3,938,646
General and administrative	712,209
Repairs and maintenance	66,269
Professional services	392,671
Depreciation	10,572
Total operating expenses	15,372,516
Operating income	2,869,807
Nonoperating revenues :	
Investment income	2,206,697
Total nonoperating revenues	2,206,697
Income before contributions:	5,076,504
Capital contributions	40,063
Increase in net assets	5,116,567
Net assets, July 1, 2006	5,141,236
Net assets, June 30, 2007	$ 10,257,803

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self Insurance Trust Internal Service Fund
Statement of Cashflows
Year Ended June 30, 2007

Cash flows from operating activities:	
Receipts from other funds for goods and services provided	$ 17,587,655
Other receipts	687,756
Payments to suppliers for goods and services	(3,674,833)
Payments to other funds for goods and services	(739,787)
Payments to employees	(1,857,169)
Payments for incurred losses	(10,767,961)
Net cash provided by operating activities	1,235,661
Cash flows from noncapital financing activities:	
Loans with other Pima County Funds	94,609
Net cash provided by noncapital financing activities	94,609
Cash flows from capital and related financing activities:	
Purchases of capital assets	(45,747)
Construction in progress	(30,091)
Net cash used for capital and related financing activities	(75,838)
Cash flows from investing activities:	
Interest received on investments	2,016,732
Net cash provided by investing activities	2,016,732
Net increase in cash and cash equivalents	3,271,164
Cash and cash equivalents, July 1, 2006	38,298,412
Cash and cash equivalents, June 30, 2007	$ 41,569,576

(continued)

See accompanying notes to financial statements

PIMA COUNTY, ARIZONA
Self Insurance Trust Internal Service Fund
Statement of Cash Flows
Year Ended June 30, 2007
(continued)

Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$	2,869,807
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization		10,572
Decrease (increase) in assets:		
Accounts receivable		33,088
Prepaid expenses		53,033
Increase (decrease) in liabilities:		
Accounts payable		894,740
Employee compensation payable		24,776
Due from other governments		(106)
Incurred but not reported losses		174,000
Reported but unpaid losses		(2,824,249)
Net cash provided by operating activities	$	1,235,661

Noncash investing, capital, and noncapital financing activities:

During the year ended June 30, 2007, the Fund transferred in assets from Wastewater Management Enterprise Fund $9,971, and the County's general government $30,091.

See accompanying notes to financial statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Pima County (County) and its Self-Insurance Trust Internal Service Fund (Fund) conform to U.S. generally accepted accounting principles (GAAP) applicable to governmental units as promulgated by the Governmental Accounting Standards Board (GASB) and the regulatory requirements of the State of Arizona. A summary of the County's significant accounting policies affecting the Fund follows.

A. Reporting Entity

The Fund is accounted for as an internal service fund of Pima County, Arizona, and the ultimate financial accountability for the Fund remains with Pima County. The Fund's management is responsible for managing the operation and 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; medical malpractice; environmental claims; unemployment; natural disasters; and for self-insured dental benefits to eligible employees and their dependents.

The financial statements present only the Self Insurance Trust Internal Service Fund as one of the funds of Pima County and are not intended to present the balances and activity of Pima County in its entirety.

B. Fund Accounting

The Fund's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the Fund's 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 comprise its assets, liabilities, net assets, revenues, and expenses.

The Fund's financial transactions are recorded and reported as a proprietary fund because its operations are financed and operated in a manner similar to private business enterprises. It is the intent of the Board of Supervisors that the costs (expenses, including depreciation) of services provided by the Fund on a continuing basis be financed or recovered primarily through user charges.

C. Basis of Accounting

Basis of accounting relates to the timing of the measurements made and determines when revenues and expenses are recognized in the accounts and reported in the financial statements. The financial statements of the Fund are reported using the economic resources measurement focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. When both restricted and unrestricted net assets are available to finance Fund expenses, restricted resources are used before unrestricted resources. Interfund transactions that would be treated as revenues or expenses if they involved parties external to the County are recorded in the appropriate revenue or expense accounts. Intrafund transactions within the fund are eliminated for the consolidated financial statement presentation.

Unless in conflict with GASB pronouncements, the Fund follows Financial Accounting Standard Board Statements and Interpretations, issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Basis of Presentation

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. A statement of net assets provides information about the assets, liabilities, and net assets of the Fund at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy the Fund's obligations. Invested in capital assets represents the cost of capital assets, net of accumulated depreciation. Restricted net assets represent grants, contracts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in net assets provides information about the Fund's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and transfers. Generally, charges for services and other fees are deposited in the Fund and are considered to be operating revenues. Other revenues, such as investment income, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of providing risk services, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Fund's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital and related financing, or investing.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer, investments with the State Treasurer, and deposits held in escrow accounts from both restricted and unrestricted sources. Unrestricted cash and cash equivalents consist of cash on hand, cash and investments held by the Pima County Treasurer in an investment pool, and investments with the State Treasurer. Restricted cash and cash equivalents consist of cash and investments held by the Pima County Treasurer in an investment pool, and deposits held in escrow accounts. All investments are stated at fair value.

F. Accounts Receivables

Accounts receivable consist primarily of insurance claims recoveries unpaid at the end of the fiscal year. In addition, unpaid employment and dental premiums due from other County funds are also reported as accounts receivable.

G. Capital Assets

Purchased capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. The Fund capitalizes all land regardless of cost and all equipment costing at least $5,000 or above. Costs for internally constructed capital assets include material, direct labor, engineering, and allocated portions of other indirect cost related to the construction of the asset. Depreciation on equipment is calculated over the assets' estimated useful lives of 4 to 15 years with no salvage value, and is charged as an expense against operations using the straight-line method.

Note 1 - Summary of Significant Accounting Policies (continued)

H. Liability for Unpaid Claims

The Fund provides for claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The ultimate cost of claims includes incremental claim adjustment expenses that have been allocated to specific claims, as well as salvage and subrogation. No other claim adjustment expenses have been included. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts recoverable from excess insurers, if any, are deducted from the liability for unpaid claims or shown as an asset for paid claims. Because actual claims costs are dependent upon such complex factors as inflation, changes in doctrines of legal liability, exposures, and damage awards, the process used in computing claims liabilities cannot yield an exact result, particularly for liability coverages.

Claims liabilities are recomputed annually and, except for those related to environmental, unemployment and dental claims, are estimates determined by an independent actuary using selected loss development factors based on unadjusted data.

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. Environmental claims liabilities are estimates based on reported claims and the County risk manager's knowledge and experience. Unemployment and dental claims liabilities are based on claims that have been submitted but not yet paid by the Fund. Given the complexity of the estimating process, the ultimate liability may be more or less than such estimates indicate. Consequently, adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

I. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 240 hours of vacation depending upon years of service, but any vacation hours in excess of the maximum amount that are unused at the year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1,920 sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Sick leave benefits do not vest with employees; however employees who are eligible to retire from County service to Arizona State retirement System, Public Safety Personnel Retirement System, or Corrections Officer Retirement Plan may request sick leave be converted to annual leave, on a predetermined conversion basis. An estimate of those retirement payouts is accrued as a liability.

Note 2 - Cash and Investments

Cash and cash equivalents consist of; $100 of cash on hand, $8,911,979 of deposits with the County Treasurer; and $32,657,497 of deposits with the State Treasurer.

Deposits with the County Treasurer are available on demand and are pooled with other County monies for investment. The Fund's deposits are included in the Treasurer's investment pool but are not identified with specific investments or shares and, therefore, are not subject to custodial credit risk.

Note 2 - Cash and Investments (continued)

Deposits with the State Treasurer are invested in the State Treasurer's Local Government Investment Pool and are available on demand. The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the State Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal investment policy with respect to credit risk. Both the County Treasurer's and the State Treasurer's investment pools are unrated.

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. 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. The County does not have a formal investment policy with respect to interest rate risk. The County Treasurer's investment pool had a weighted average maturity of 119 days.

Legal Provisions-Arizona Revised Statutes authorize counties 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.

Concentration of Credit Risk – Statutes do not include any requirements for concentration of credit risk.

Foreign Currency Risk – Statutes do not allow foreign investments.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated:				
Land	$ 592,353			$ 592,353
Construction in progress		$ 60,183		60,183
Total capital assets not being depreciated	592,353	60,183		652,536
Capital assets being depreciated:				
Equipment	94,775	76,178	9,189	161,764
Less accumulated depreciation	(59,439)	(31,032)	(9,189)	(81,282)
Total capital assets being depreciated, net	35,336	45,146		80,482
Total capital assets, net	$ 627,689	$ 105,329		$ 733,018

Note 4 - Claims, Judgments and Risk Management

The Fund is liable for any single general or automobile liability claim up to $2,000,000 per occurrence, any workers' compensation claim up to $750,000 per occurrence, and any single medical malpractice claim up to $1,000,000 per occurrence or any medical malpractice claims in aggregate up to $5,000,000 in any policy year. The County purchases commercial insurance for claims in excess of coverage provided by the Fund. Settled claims have not exceeded insurance coverage in any of the last 3 fiscal years.

Payment of unemployment and dental claims is fully self-funded. Payment of environmental claims is generally self-funded, although some claims filed could result in past insurers being liable for such losses.

All of the County's departments participate in the Fund. With the exception of environmental, dental, and unemployment losses, charges are based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Charges for environmental losses are based on historical experience. Charges for dental and unemployment losses are based on actual claims paid.

Claims liabilities at June 30, 2007, for each insurable area follow:

	Reported But Unpaid Losses	Incurred But Not Reported Losses	Total
General liability	$ 10,168,000	$ 3,812,000	$ 13,980,000
Automobile liability	241,000	374,000	615,000
Medical malpractice	439,000	202,000	641,000
Workers' compensation	12,005,000	4,530,000	16,535,000
Dental	86,559		86,559
Environmental		1,000,000	1,000,000
Total	$ 22,939,559	$ 9,918,000	$ 32,857,559

Note 4 - Claims, Judgments and Risk Management (continued)

The above amounts, excluding environmental, unemployment and dental, are reported at their present value using an expected future investment yield assumption of 4 percent.

Changes in the Fund's claims liability amount for the years ended June 30, 2007 and 2006 were as follows:

	2007	2006
Claims liability - beginning	$ 35,507,808	$ 30,272,532
Current-year claims and changes in estimates	8,118,032	12,185,222
Claims payment	(10,768,281)	(6,949,946)
Claims liability balance - ending	$ 32,857,559	$ 35,507,808

	Balance 30-Jun-2006	Additions	Reductions	Balance 30-Jun-2007	Due within 1 year
Reported but unpaid losses	$ 25,763,808	$ 7,944,032	$ 10,768,281	$ 22,939,559	$ 4,200,099
Incurred but not reported	9,744,000	174,000		9,918,000	1,785,240
Total	$ 35,507,808	$ 8,118,032	$ 10,768,281	$ 32,857,559	$ 5,985,339

Note 5 - Interfund Receivable from Other Pima County Funds

The interfund receivable from Pima County Special Districts Fund is for two of the County's improvement districts totaling $817,774. This amount represents the receivable of $728,683 from the La Cholla Boulevard Improvement District, and $89,091 from the Camino Ojo De Agua Improvement District.

Note 6 - Annuity Contracts

In prior fiscal years, the Fund purchased several annuities in claimants' names to fund future payments to these claimants. The Fund believes there is no material contingent liability related to these annuities. Accordingly, the amount of $1,000,000 has not been reported as an asset or as a liability on the Statement of Net Assets as of June 30, 2007.

Note 7 - Retirement Plan

Plan Description—The 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 ASRS is governed bythe Arizona State Retirement System Board according to the provisions of Arizona Revised Statutes Title 38, Chapter 5, Article 2.

Note 7 - Retirement Plan (continued)

The ASRS 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 at 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910, or by calling (602) 240-2000 or on-line, at http://www.asrs.state.az.us/web/Aboutus.do

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, 2007, active plan members and the Fund were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The Fund's contributions to the ASRS for the years ended June 30, 2007, 2006, and 2005, were $86,069, $80,804, and $60,080, respectively, which were equal to the required contributions for the year.

Note 8 - Subsequent Events

On June 19, 2007 the County's Board of Supervisors approved a legal settlement and payment of $1,950,000. The Fund paid, in September, the full amount and the defense cost totaling $1,997,030.

On October 2, 2007, the County's Board of Supervisors approved a legal settlement and payment of $2,290,000 as a result of employee negligence.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Arizona State Legislature
Board of Supervisors of Pima County, Arizona

We have audited the financial statements of Pima County Self Insurance Trust Internal Service Fund as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board 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 Pima County Self Insurance Trust Internal Service 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 Pima County Self Insurance Trust Internal Service Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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 that might be 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.

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Compliance

As part of obtaining reasonable assurance about whether Pima County Self Insurance Trust Internal Service 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 solely for the information and use of the management, members of the Arizona State Legislature and the Board of Supervisors of Pima County Arizona and is not intended to be and should not be used by anyone other than these specified parties.

Beach, Fleischman + Co., P.C.

October 29, 2007