

**NORTHERN ARIZONA PUBLIC EMPLOYEES
BENEFIT TRUST**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021



WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

CLAconnect.com

THIS PAGE BLANK

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2021**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	7
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	8
STATEMENT OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
CLAIMS DEVELOPMENT INFORMATION	17
NOTES TO THE CLAIMS DEVELOPMENT INFORMATION	18
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	19

THIS PAGE BLANK



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Northern Arizona Public Employees Benefit Trust
Flagstaff, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Arizona Public Employees Benefit Trust (Trust), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Arizona Public Employees Benefit Trust, as of June 30, 2021, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the claims development information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2022, on our consideration of Northern Arizona Public Employees Benefit Trust'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 solely 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 effectiveness of Northern Arizona Public Employees Benefit Trust's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northern Arizona Public Employees Benefit Trust's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 8, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS PAGE BLANK

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

As management of the Northern Arizona Public Employees Benefit Trust (Trust), we offer readers of the Trust's financial statements this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2021. The management's discussion and analysis is presented as required supplementary information to supplement the basic financial statements.

FINANCIAL HIGHLIGHTS

- The Trust's total net position of business-type activities increased \$0.7 million which represents a 76% decrease from fiscal year 2019-2020 as a result of an increase in claims expenses.
- The Trust had \$32.3 million in operating revenue, an increase of \$1.4 million from fiscal year 2019-2020. The Trust had approximately \$31.6 million in operating expenses. Operating expenses increased \$3.5 million due primarily to increased claims expenses.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Trust's financial statements. The Trust's financial statements comprise two components: 1) proprietary financial statements, and 2) notes to the financial statements.

The statement of net position presents information on all of the Trust's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

The statement of revenues, expenses, and changes in net position presents information showing how the Trust's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows outlines the cash inflows and outflows related to the operation of the Trust for the current fiscal year-end.

As discussed more thoroughly in Note 1 to the financial statements, the operations of the Trust are accounted for in a single proprietary fund. As a result, only the financial statements required for a proprietary fund are presented.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the financial statements.

Other information. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Trust's claims development information. A table representing claims development information for the 10-year period ended June 30, 2021 is presented as required supplementary information.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Trust, assets exceeded liabilities by \$9.4 million at the current fiscal year-end.

The following table presents a summary of the Trust's net position for the fiscal years ended June 30, 2021 and 2020.

	June 30,	
	2021	2020
Current and Other Assets	\$ 15,026,860	\$ 13,488,209
Capital Assets, Net	50,513	81,323
Total Assets	15,077,373	13,569,532
Current and Other Liabilities	5,674,322	4,873,691
Net Position:		
Investment in Capital Assets	50,513	81,323
Unrestricted	9,352,538	8,614,518
Total Net Position	<u>\$ 9,403,051</u>	<u>\$ 8,695,841</u>

At the end of the current fiscal year the Trust reported positive balances in both categories of net position.

Investment in Capital Assets decreased from the prior year due to depreciation recognized. Unrestricted net position increased \$0.7 million from the prior year, representing the cumulative effect of decreased participant claims expenses in the current year.

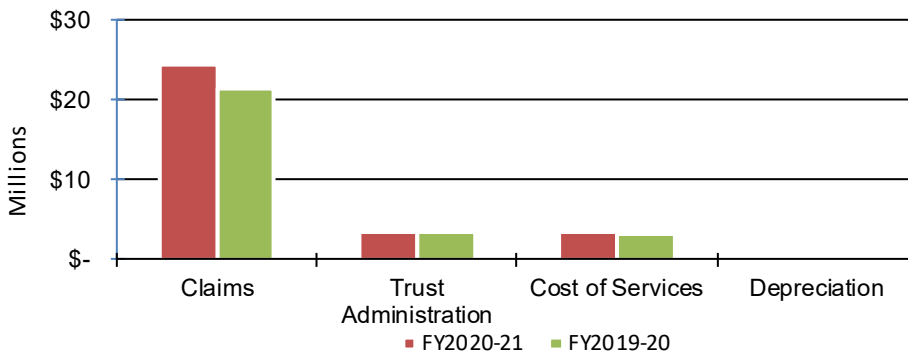
**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL ANALYSIS (CONTINUED)

Changes in net position. The Trust's total revenues for the current fiscal year were \$32.3 million. The total expenses were \$31.6 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2021 and 2020.

	Year Ended June 30,	
	2021	2020
REVENUES		
Operating Revenues:		
Contributions	\$ 32,250,593	\$ 30,876,142
Nonoperating Revenues:		
Investment Income	8,963	105,511
Total Revenues	<u>32,259,556</u>	<u>30,981,653</u>
EXPENSES		
Claims	24,576,620	21,358,365
Trust Administration	3,557,994	3,424,832
Cost of Services	3,386,922	3,268,130
Depreciation	30,810	30,810
Total Expenses	<u>31,552,346</u>	<u>28,082,137</u>
CHANGE IN NET POSITION	707,210	2,899,516
Net Position - Beginning of Year	<u>8,695,841</u>	<u>5,796,325</u>
NET POSITION - END OF YEAR	<u><u>\$ 9,403,051</u></u>	<u><u>\$ 8,695,841</u></u>

Expenses



Contribution revenue increased \$1.4 million as a result of higher premium costs charged to participant organizations. Expenses increased by \$3.5 million, which is primarily driven by an increase in medical claims due to participants receiving treatment in the current year after foregoing appointments and delaying procedures as a result of the COVID-19 pandemic.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

CAPITAL ASSETS

At year-end, the Trust had a net investment of \$50,513 invested in capital assets, which includes leasehold improvements, furniture, computers, and other equipment. The amount invested is net of accumulated depreciation of \$623,150. Total depreciation expense for the current fiscal year was \$30,810.

Capital assets for fiscal years June 30, 2021 and 2020, net of accumulated depreciation were as follows:

	2021	2020
Leasehold Improvements	\$ 25,861	\$ 40,276
Furniture and Equipment	24,652	41,047
Total Capital Assets, Net	\$ 50,513	\$ 81,323

Additional information on the Trust's capital assets can be found in Note 3.

CLAIM RESERVES

As of June 30, 2021, the Trust had \$4.3 million designated for claim payments. The following table presents a summary of the Trust's unpaid claims for the fiscal years ended June 30, 2021 and 2020.

	2021	2020
Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	\$ 4,323,826	\$ 3,375,747

Additional information on the Trust's claim reserves can be found in Note 5.

ECONOMIC FACTORS

The primary factors considered by the Trust's administration during the process of developing the fiscal year 2021-2022 contribution rates were the prior year claims experiences, projected health trend rates, negotiated administrative expenses, insurance premiums, and compliance with reserve policy for the plan year.

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the Trust, COVID-19 may impact various parts of its 2022 operations and financial results. Management believes the Trust is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown including the long-term health risks associated with participants choosing to delay care during the pandemic.

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Trust's finances and to demonstrate the Trust's accountability for the resources it receives. If you have questions about this report or need additional information, contact City of Flagstaff, Arizona, Northern Arizona Public Employee Benefit Trust, 211 West Aspen Avenue, Flagstaff, Arizona 86001.

FINANCIAL STATEMENTS

THIS PAGE BLANK

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF NET POSITION
JUNE 30, 2021

ASSETS

CURRENT ASSETS

Cash and Investments	\$ 14,461,093
Deposits	535,000
Accounts Receivable	15,401
Prepaid Expenses	15,366
Total Current Assets	<u>15,026,860</u>

NONCURRENT ASSETS

Property and Equipment (Net of Accumulated Depreciation of \$623,150)	50,513
Total Assets	<u>15,077,373</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	361,490
Unearned Revenue	989,006
Claims Payable	4,323,826
Total Liabilities	<u>5,674,322</u>

NET POSITION

Investment in Capital Assets	50,513
Unrestricted	9,352,538
Total Net Position	<u>\$ 9,403,051</u>

See accompanying Notes to Financial Statements.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2021**

OPERATING REVENUES

Contributions - City of Flagstaff	\$ 8,449,767
Contributions - Coconino Community College	1,440,288
Contributions - Coconino County	11,464,337
Contributions - Coconino County Accommodation School District	183,612
Contributions - Flagstaff Unified School District	9,868,487
Contributions - Kachina Village Improvement District	73,639
Contributions - Mountain Line	<u>770,463</u>
Total Operating Revenues	<u>32,250,593</u>

OPERATING EXPENSES

Claims	24,576,620
Trust Administration	3,557,994
Cost of Services	3,386,922
Depreciation	<u>30,810</u>
Total Operating Expenses	<u>31,552,346</u>

OPERATING INCOME

698,247

NONOPERATING REVENUES

Investment Income	<u>8,963</u>
-------------------	--------------

CHANGES IN NET POSITION

707,210

Net Position - Beginning of Year

8,695,841

NET POSITION - END OF YEAR

\$ 9,403,051

See accompanying Notes to Financial Statements.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Contributions	\$ 32,340,517
Cash Payment for Claims	(23,628,541)
Cash Payments for Supplies for Goods and Services	<u>(7,070,059)</u>
Net Cash Provided by Operating Activities	1,641,917

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>8,963</u>
-------------------	--------------

NET INCREASE IN CASH AND CASH EQUIVALENTS

1,650,880

Cash and Cash Equivalents - Beginning of Year

12,810,213

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 14,461,093

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income	\$ 698,247
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Depreciation	30,810
Decrease in Accounts Receivable	107,522
Decrease in Prepaid Expenses	4,707
Decrease in Accounts Payable	(129,850)
Decrease in Unearned Revenue	(17,598)
Increase in Claims Payable	<u>948,079</u>
Total Adjustments	<u>943,670</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,641,917</u></u>

See accompanying Notes to Financial Statements.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The financial statements of the Northern Arizona Public Employees Benefit Trust (Trust) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units since the Trust is a cooperative group of governmental entities joined together to form a public entity risk pool. The operations of the Trust are presented in the accompanying financial statements as a single proprietary fund. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The Trust was formed July 1, 1993 between the city of Flagstaff, Coconino Community College, Coconino County, and Flagstaff Unified School District No. 1. Currently, the Trust has seven participants, of which four are the original participating employers and three are nonvoting participants. The Board of Trustees consists of four people who are employees or governing body members of the four original participating employers.

The purpose of this Trust is to provide benefits, including but not limited to, accidental death and dismemberment, disability, basic or major medical coverage for accidents or sickness, dental, and any other benefits as determined by the Board of Trustees for beneficiaries, provided such benefits are related to health, death, or disability.

Effective July 1, 2006, the Trust became self-funded for medical and prescription benefits. Additional benefits, including but not limited to, accidental death or dismemberment, dental, and vision, are fully insured and the premiums are paid directly by the participants to the insurers. In the self-funded arrangement, the employer and employee contributions are set aside in the Trust in order to accumulate amounts necessary to pay benefits and administrative expenses. A third-party processes the medical and prescription claims on the plan and then notifies the Trust of the amount of claims to be paid on a monthly basis.

Basis of Accounting/Measurement Focus

The Trust's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. The principal operating revenues of the Trust are contributions from the participants. Operating expenses include the cost of claims, premiums, wellness clinic operating expenses, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investments

For purposes of the statement of cash flows, the Trust considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents at year-end were cash in bank and cash-equivalent investments held with the State Treasurer.

Arizona Statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102% of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

Investments are stated at fair value. It is management's intent and ability to hold all investments until maturity. Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Accounts Receivable

Accounts receivable, including contributions receivable are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. Prepaid items are recorded as expenses when consumed.

Capital Assets

Capital assets, which include leasehold improvements, and furniture and equipment, are reported in the statements. Capital assets are defined per the Trust's capital asset policy as assets with a useful life minimum of three years and individual, initial costs of \$5,000 for leasehold improvements and \$1,000 for furniture and equipment. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Leasehold Improvements	Shorter of Useful Life or Remaining Lease Term
Furniture and Equipment	7 Years

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Claims Reserves

The Trust establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made. Given the inherent uncertainty in the nature of such estimates, future losses will likely deviate, perhaps materially, from those estimates.

Contributions

The Trust agreement provides that each participating employer contribute a specified amount to the Trust. The contribution rates are determined by the Board of Trustees on an annual basis.

Premiums received in excess of finalized amounts are generally applied to the participants' premiums for the following year and are included in the accompanying statement of net position as unearned revenue.

Reinsurance

The Trust uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. Reinsurance permits recovery of a portion of losses from reinsurance, although it does not discharge the primary liability of the Trust as direct insurer of the risks reinsured.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net Position

In the financial statements, net position is reported within three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because capital assets make up a portion of total net position. Restricted net position accounts for the portion of net position restricted by parties outside the Trust, however, as of June 30, 2021, the Trust did not have any portion of net position subject to external restriction and, therefore, did not report any restricted net position. Unrestricted net position is the remaining net position not included in the previous two categories.

The Trust applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

In April 2018 the Board of Trustees adopted a policy in order to smooth out premium increases to members by setting requirements for the Trust to maintain a targeted reserve in an amount equivalent to 3.5 months' operating expenses and claim losses, or 29% of total operating expenses and claim losses. The minimum and maximum reserve amounts are three months or 25% and four months or 33%, respectively. The Trust includes adjustments to member premiums as a result of the Trust exceeding or falling below its target reserve. Adjustments to premiums are based on the actual reserve percentage compared to target and are amortized over a three- to five-year period by the Trust.

NOTE 2 CASH AND INVESTMENTS

The Trust is authorized to invest monies in interest bearing savings accounts or one of the Arizona State Treasurer's Office Local Government Investment Pools (LGIP), as specified by the Board of Trustees.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of bank failure the Pool's deposits may not be returned to the Trust. The Trust does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the Trust's deposits was \$3,132,706 and the bank balance was \$3,147,839. Of the bank balance, \$250,000 was covered by federal depository insurance and \$2,897,839 was collateralized through the Arizona State Treasurer's pooled collateral program. As required by state law, the total amount of collateral pledged, and insurance coverage provided must be greater than or equal to 102% of the bank balance of the Trust.

Fair Value Measurements

The Trust categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 – Inputs are quoted prices in active markets for identical assets

Level 2 – Inputs are significant other observable inputs

Level 3 – Inputs are significant unobservable inputs

The Trust maintains its investments in the Arizona State Treasurer's Office Local Government Investment Pool 5. The pools are not required to register (and are not registered) with the Securities and Exchange Commission. The activity and performance of the pools are reviewed monthly by the State Board of Investment. The fair value of each participant's position in the State Treasurer investment pools approximates the value of the participant's shares in the pool and the participants' shares are not identified with specific investments. Participants in the pool are not required to categorize the value of shares in accordance with the fair value hierarchy.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Fair Value Measurements (Continued)

At year-end, the Trust's investments consisted of the following.

	<u>Average Maturities</u>	<u>Fair Value</u>
State Treasurer's Investment Pool 5	< 1 year	\$ 11,328,387

Interest Rate Risk

The Trust has adopted a formal investment policy that limits investment maturities to a term not exceeding more than five years as a means of managing its exposure to declines in fair value due to fluctuations in interest rates.

Credit Risk

The Trust's investment policy mandates the quality of investments allowable for purchase. The Arizona State Treasurer's Office Local Government Investment Pool 5 had a weighted average rating of AAA by S&P at year-end and meets the requirements of the Trust's investment policy.

Custodial Credit Risk – Investments

The Trust's investment in the State Treasurer's investment pool represents a proportionate interest in the pool's portfolio; however, the Trust's portion is not identified with specific investments and is not subject to custodial credit risk.

NOTE 3 CAPITAL ASSETS

A summary of capital asset activity for the current fiscal year follows:

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated:				
Leasehold Improvements	\$ 554,659	\$ -	\$ -	\$ 554,659
Furniture and Equipment	119,004	-	-	119,004
Total Capital Assets, Being Depreciated	673,663	-	-	673,663
Less Accumulated Depreciation for:				
Leasehold Improvements	(514,383)	(13,809)	-	(528,192)
Furniture and Equipment	(77,957)	(17,001)	-	(94,958)
Total Accumulated Depreciation	(592,340)	(30,810)	-	(623,150)
 Total Capital Assets, Being Depreciated, Net	 81,323	 (30,810)	 -	 50,513
Business-Type Activities Capital Assets, Net	<u>\$ 81,323</u>	<u>\$ (30,810)</u>	<u>\$ -</u>	<u>\$ 50,513</u>

Depreciation expense for the fiscal year was \$30,810.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 4 OBLIGATIONS UNDER OPERATING LEASES

The Trust leases a clinic building under the provisions of a long-term lease agreement classified as an operating lease for accounting purposes. Rental expenditures under the terms of the operating lease totaled \$68,363 for the current fiscal year. The operating lease has a remaining noncancelable lease term of through May of 2023. The future minimum rental payments required under the operating lease at year-end were as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 53,976
2023	49,478
Total Minimum Payments Required	<u>\$ 103,454</u>

NOTE 5 CLAIM RESERVES

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during the past two years, for comparability purposes.

	<u>2021</u>	<u>2020</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 3,375,747	\$ 3,722,194
Incurred Claims and Claim Adjustment Expenses: Provision for Insured Events of the Current Fiscal Year	<u>24,576,620</u>	<u>21,358,365</u>
Total Incurred Claims and Claim Adjustment Expenses	27,952,367	25,080,559
Payments:		
Claims and Claim Adjustment Payments Attributable to Insured Events of the Current Fiscal Year	22,295,383	19,865,160
Claims and Claim Adjustment Payments Attributable to Insured Events of the Prior Fiscal Years	<u>1,333,158</u>	<u>1,839,652</u>
Total Payments	<u>23,628,541</u>	<u>21,704,812</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 4,323,826</u>	<u>\$ 3,375,747</u>

At June 30, 2021 and 2020, \$4,323,826 and \$3,375,747, respectively, of unpaid claims and claim adjustment expenses are presented at their estimated ultimate loss. These claims are not discounted and include an estimate for claims incurred but not reported (IBNR) of \$2,465,000 and \$1,806,000 respectively.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 6 CONTINGENCIES

The COVID-19 pandemic continues to have significant effects on global markets, supply chains, businesses, and communities. Specific to the Trust, COVID-19 may impact various parts of its 2022 operations and financial results. Management believes the Trust is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown including the long-term health risks associated with participants choosing to delay care during the pandemic.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

THIS PAGE BLANK

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
CLAIMS DEVELOPMENT INFORMATION
TEN-YEAR PERIOD ENDED JUNE 30, 2021**

	Fiscal and Policy Year Ended									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
1. Net Earned Required Contribution and Investment Revenues	\$ 32,259,556	\$ 30,981,653	\$ 30,793,858	\$ 27,976,269	\$ 24,714,142	\$ 23,359,477	\$ 23,349,693	\$ 23,502,230	\$ 23,080,906	\$ 24,799,437
2. Unallocated Expenses	6,975,726	6,723,772	6,701,307	6,620,256	6,603,077	5,748,853	3,574,800	3,300,074	2,869,192	2,721,355
3. Estimated Incurred Claims and Expense, End of Policy Year	24,576,620	21,358,365	24,255,505	21,041,839	22,662,837	21,948,932	21,014,615	18,908,953	18,077,822	21,614,273
4. Paid (Cumulative) as of:										
End of Policy Year	22,295,383	19,865,160	22,114,655	20,634,754	20,879,974	21,737,312	18,301,975	16,390,174	15,973,995	18,345,745
One Year Later		21,299,488	23,951,645	21,531,241	21,913,233	23,093,111	20,380,101	17,215,875	19,751,748	19,866,833
Two Years Later			23,857,306	21,533,902	21,906,116	23,094,196	20,375,617	18,041,576	19,754,592	23,189,288
Three Years Later				21,527,072	21,906,116	23,095,281	20,375,261	18,047,732	19,754,592	23,189,793
Four Years Later					21,906,116	23,118,409	20,375,261	18,047,732	19,754,592	23,189,793
Five Years Later						23,118,409	20,375,261	18,047,732	19,754,592	23,189,793
Six Years Later							20,375,261	18,047,732	19,754,592	23,189,793
Seven Years Later								18,047,732	19,754,592	23,189,793
Eight Years Later									19,754,592	23,189,793
Nine Years Later										23,189,793
5. Re-estimated Incurred Claims and Expense:										
End of Policy Year	24,576,620	21,358,365	24,255,505	21,041,839	22,662,837	21,948,932	21,014,615	18,908,953	18,077,822	21,614,273
One Year Later		21,358,365	24,255,505	21,531,241	22,239,096	22,146,731	22,171,938	19,734,654	19,582,541	23,189,866
Two Years Later			24,161,166	21,533,902	21,906,116	23,118,409	20,375,261	18,041,576	19,754,592	23,189,288
Three Years Later				21,527,072	21,906,116	23,118,409	20,375,261	18,047,732	19,754,592	23,189,793
Four Years Later					21,906,116	23,118,409	20,375,261	18,047,732	19,754,592	23,189,793
Five Years Later						23,118,409	20,375,261	18,047,732	19,754,592	23,189,793
Six Years Later							20,375,261	18,047,732	19,754,592	23,189,793
Seven Years Later								18,047,732	19,754,592	23,189,793
Eight Years Later									19,754,592	23,189,793
Nine Years Later										23,189,793
6. Increase (Decrease) in Estimated Incurred Claims and Expense from End of Policy Year	N/A	-	(94,339)	485,233	(756,721)	1,169,477	(639,354)	(861,221)	1,676,770	1,575,520

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
NOTES TO THE CLAIMS DEVELOPMENT INFORMATION
TEN-YEAR PERIOD ENDED JUNE 30, 2021**

The table on the previous page illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsures) and other expenses assumed by the Trust as of the end of the last year. The rows of the table are defined as follows:

- (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
- (2) This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims.
- (3) This line shows the Trust's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (4) This section shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation 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.
- (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

The columns of the table show data for successive policy years.

GOVERNMENTAL AUDITING STANDARDS REPORT

THIS PAGE BLANK



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

Board of Trustees
Northern Arizona Public Employees Benefit Trust
Flagstaff, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Northern Arizona Public Employees Benefit Trust (Trust), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Northern Arizona Public Employees Benefit Trust's basic financial statements, and have issued our report thereon dated June 8, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northern Arizona Public Employees Benefit Trust's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northern Arizona Public Employees Benefit Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Northern Arizona Public Employees Benefit Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

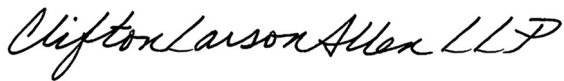
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northern Arizona Public Employees Benefit Trust’s financial statements are free from 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 financial statements. 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 8, 2022

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor. CLA is an independent member of Nexia International, a leading, global network of independent accounting and consulting firms. See [nexia.com/member-firm-disclaimer](https://www.nexia.com/member-firm-disclaimer) for details. **CliftonLarsonAllen LLP**

