



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

We have audited the financial statements of the business-type activities of the Northern Arizona Public Employees Benefit Trust (Trust) as of and for the year ended June 30, 2020, and have issued our report thereon dated March 22, 2021. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant audit findings**

#### ***Qualitative aspects of accounting practices***

##### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Trust are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2020.

We noted no transactions entered into by the Trust during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

##### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the remaining useful lives of capital assets is based on an analysis of the current rate of use of certain assets, or upon the remaining term of lease agreements held by the Trust. We evaluated the key factors and assumptions used to develop the capital assets' remaining useful lives in determining that they are reasonable in relation to the financial statements taken as a whole.

- Management's estimate of claims incurred but not reported (IBNR), included as a component of total claims payable within the financial statements, is based upon an actuarial analysis of the unreported claims, reported but unprocessed claims, and claims processed but unpaid by the plan administrator. We evaluated the key factors and assumptions used to develop the IBNR in determining that it is reasonable in related to the financial statements taken as a whole.

#### Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

#### **Difficulties encountered in performing the audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Uncorrected misstatements**

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

#### **Corrected misstatements**

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

#### **Disagreements with management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

#### **Management representations**

We have requested certain representations from management that are included in the management representation letter dated March 22, 2021.

#### **Management consultations with other independent accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Trust's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Trust's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \*

This communication is intended solely for the information and use of the Board of Trustees and management of Northern Arizona Public Employees Benefit Trust and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Phoenix, Arizona  
March 22, 2021

**NORTHERN ARIZONA PUBLIC EMPLOYEES  
BENEFIT TRUST**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2020**



[CLAconnect.com](http://CLAconnect.com)

**WEALTH ADVISORY  
OUTSOURCING  
AUDIT, TAX, AND  
CONSULTING**

THIS PAGE BLANK

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2020**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>FINANCIAL STATEMENTS</b>	
<b>STATEMENT OF NET POSITION</b>	<b>7</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>8</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>9</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>10</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&amp;A</b>	
<b>CLAIMS DEVELOPMENT INFORMATION</b>	<b>17</b>
<b>NOTES TO THE CLAIMS DEVELOPMENT INFORMATION</b>	<b>18</b>
<b>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></b>	<b>19</b>

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 business-type activities of the Northern Arizona Public Employees Benefit Trust (Trust), as of and for the year ended June 30, 2020, and the related notes to the 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 respective financial position of the business-type activities of the Northern Arizona Public Employees Benefit Trust, as of June 30, 2020, and the respective changes in financial position and cash flows thereof 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, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 March 22, 2021, 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  
March 22, 2021

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

THIS PAGE BLANK

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

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, 2020. 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 \$2.9 million which represents a 50% increase from fiscal year 2018-2019 as a result of a decrease in claims expenses combined with an increase in contributions from members.
- The Trust had \$30.9 million in operating revenue, an increase of \$0.2 million from fiscal year 2018-2019. The Trust had approximately \$28.1 million in operating expenses. Operating expenses decreased \$2.9 million due primarily to decreased 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.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)**

**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, 2020 is presented as required supplementary information.

**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 \$8.7 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, 2020 and 2019.

	June 30,	
	2020	2019
Current and Other Assets	\$ 13,488,209	\$ 10,871,300
Capital Assets, Net	81,323	58,048
<b>Total Assets</b>	13,569,532	10,929,348
Current and Other Liabilities	4,873,691	5,133,023
Net Position:		
Net Investment in Capital Assets	81,323	58,048
Unrestricted	8,614,518	5,738,277
<b>Total Net Position</b>	<b>\$ 8,695,841</b>	<b>\$ 5,796,325</b>

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

Net Investment in Capital Assets increased slightly from the prior year as a result of additional leasehold improvements. Unrestricted net position increased \$2.9 million from the prior year, representing the cumulative effect of decreased participant claims expenses in the current year.

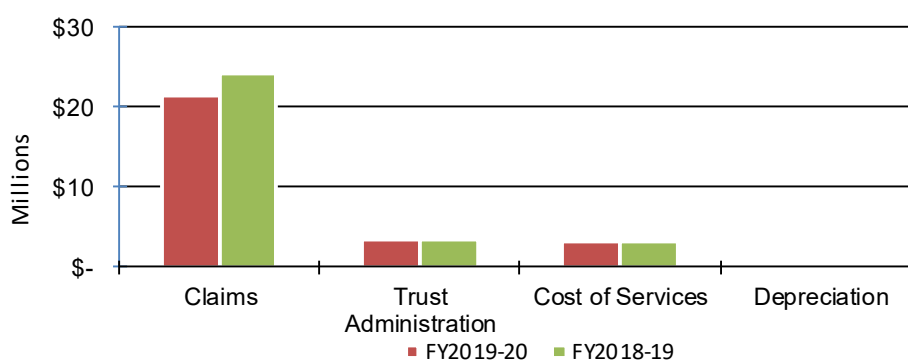
**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**FINANCIAL ANALYSIS (CONTINUED)**

**Changes in net position.** The Trust's total revenues for the current fiscal year were \$31 million. The total expenses were \$28.1 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and 2019.

	Year Ended June 30,	
	2020	2019
<b>REVENUES</b>		
Operating Revenues:		
Contributions	\$ 30,876,142	\$ 30,637,749
Nonoperating Revenues:		
Investment Income	105,511	155,836
Total Revenues	<u>30,981,653</u>	<u>30,793,585</u>
<b>EXPENSES</b>		
Claims	21,358,365	24,255,505
Trust Administration	3,424,832	3,448,719
Cost of Services	3,268,130	3,102,642
Depreciation	30,810	149,946
Total Expenses	<u>28,082,137</u>	<u>30,956,812</u>
<b>CHANGE IN NET POSITION</b>	2,899,516	(163,227)
Net Position - Beginning of Year	<u>5,796,325</u>	<u>5,959,552</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 8,695,841</u>	<u>\$ 5,796,325</u>

**Expenses**



Contribution revenue increased \$0.2 million as a result of higher premium costs charged to participant organizations. Expenses decreased by \$2.9M, which is primarily driven by a decrease in medical claims due to participants foregoing appointments and delaying procedures as a result of the COVID-19 pandemic, and also an increase to prescription rebates, which was the result of the transition to Employer's Health Coalition.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**CAPITAL ASSETS**

At year-end, the Trust had a net investment of \$81,323 invested in capital assets, which includes leasehold improvements, furniture, computers, and other equipment. The amount invested is net of accumulated depreciation of \$592,340. Total depreciation expense for the current fiscal year was \$30,810.

Capital assets for fiscal years June 30, 2020 and 2019, net of accumulated depreciation were as follows:

	<u>2020</u>	<u>2019</u>
Leasehold Improvements	\$ 40,276	\$ -
Furniture and Equipment	41,047	58,048
Total Capital Assets, Net	<u>\$ 81,323</u>	<u>\$ 58,048</u>

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

**CLAIM RESERVES**

As of June 30, 2020, the Trust had \$3.4 million designated for claim payments. The following table presents a summary of the Trust's unpaid claims for the fiscal years ended June 30, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 5,215,399</u>	<u>\$ 4,612,648</u>

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 2019-20 contribution rates was 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 is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Trust, COVID-19 may impact various parts of its 2021 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 and cannot be reasonably estimated as these events are still developing.

**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, 2020**

**ASSETS**

**CURRENT ASSETS**

Cash and Investments	\$ 12,810,213
Deposits	535,000
Accounts Receivable	122,923
Prepaid Expenses	20,073
Total Current Assets	<u>13,488,209</u>

**NONCURRENT ASSETS**

Property and Equipment (Net of Accumulated Depreciation of \$592,340)	81,323
Total Assets	<u>13,569,532</u>

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses	491,340
Unearned Revenue	1,006,604
Claims Payable	3,375,747
Total Liabilities	<u>4,873,691</u>

**NET POSITION**

Net Investment in Capital Assets	81,323
Unrestricted	8,614,518
Total Net Position	<u><u>\$ 8,695,841</u></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, 2020**

**OPERATING REVENUES**

Contributions - City of Flagstaff	\$ 8,234,482
Contributions - Coconino Community College	1,320,754
Contributions - Coconino County	10,883,529
Contributions - Coconino County Accommodation School District	189,845
Contributions - Flagstaff Unified School District	9,413,478
Contributions - Kachina Village Improvement District	54,688
Contributions - Mountain Line	<u>779,366</u>
Total Operating Revenues	<u>30,876,142</u>

**OPERATING EXPENSES**

Claims	21,358,365
Trust Administration	3,424,832
Cost of Services	3,268,130
Depreciation	<u>30,810</u>
Total Operating Expenses	<u>28,082,137</u>

**OPERATING INCOME**

2,794,005

**NONOPERATING REVENUES**

Investment Income	<u>105,511</u>
-------------------	----------------

**CHANGES IN NET POSITION**

2,899,516

Net Position - Beginning of Year

5,796,325

**NET POSITION - END OF YEAR**

\$ 8,695,841

See accompanying Notes to Financial Statements.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash Received from Contributions	\$ 31,393,111
Cash Payment for Claims	(21,704,812)
Cash Payments for Supplies for Goods and Services	<u>(6,581,879)</u>
Net Cash Provided by Operating Activities	3,106,420

**CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES**

Cash Payments for Property and Equipment	(54,085)
--	----------

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	<u>105,511</u>
-------------------	----------------

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

3,157,846

Cash and Cash Equivalents - Beginning of Year

9,652,367

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 12,810,213

**RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES**

Operating Income	\$ 2,794,005
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Depreciation	30,810
Decrease in Accounts Receivable	542,573
Increase in Prepaid Expenses	(1,636)
Increase in Accounts Payable	112,719
Decrease in Unearned Revenue	(25,604)
Decrease in Claims Payable	<u>(346,447)</u>
Total Adjustments	<u>312,415</u>
Net Cash Provided by Operating Activities	<u><u>\$ 3,106,420</u></u>

See accompanying Notes to Financial Statements.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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, 2020**

**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 market 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, 2020**

**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, 2020, 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, 2020**

**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 \$5,490,789 and the bank balance was \$5,514,348. Of the bank balance, \$250,000 was covered by federal depository insurance and \$5,264,348 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, 2020**

**NOTE 2 CASH AND INVESTMENTS (CONTINUED)**

**Fair Value Measurements**

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

	Average Maturities	Fair Value
State Treasurer's Investment Pool 5	< 1 year	\$ 7,319,424

**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:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Business-type Activities</u>				
Capital Assets, Being Depreciated:				
Leasehold Improvements	\$ 500,574	\$ 54,085	\$ -	\$ 554,659
Furniture and Equipment	119,004	-	-	119,004
Total Capital Assets, Being Depreciated	619,578	54,085	-	673,663
Less Accumulated Depreciation for:				
Leasehold Improvements	(500,574)	(13,809)	-	(514,383)
Furniture and Equipment	(60,956)	(17,001)	-	(77,957)
Total Accumulated Depreciation	(561,530)	(30,810)	-	(592,340)
Total Capital Assets, Being Depreciated, Net	58,048	23,275	-	81,323
Business-Type Activities Capital Assets, Net	\$ 58,048	\$ 23,275	\$ -	\$ 81,323

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

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**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 \$68,998 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>
2021	\$ 52,535
2022	53,976
2023	49,478
Total Minimum Payments Required	<u>\$ 155,989</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>2020</u>	<u>2019</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 3,722,194	\$ 2,638,460
Incurred Claims and Claim Adjustment Expenses: Provision for Insured Events of the Current Fiscal Year	<u>21,358,365</u>	<u>24,255,505</u>
Total Incurred Claims and Claim Adjustment Expenses	25,080,559	26,893,965
Payments:		
Claims and Claim Adjustment Payments Attributable to Insured Events of the Current Fiscal Year	19,865,160	22,281,317
Claims and Claim Adjustment Payments Attributable to Insured Events of the Prior Fiscal Years	<u>1,839,652</u>	<u>890,454</u>
Total Payments	<u>21,704,812</u>	<u>23,171,771</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 3,375,747</u>	<u>\$ 3,722,194</u>

At June 30, 2020 and 2019, \$3,375,747 and \$3,722,194, 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 \$1,806,000 and \$1,728,000 respectively.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 6 CONTINGENCIES**

The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Trust, COVID-19 may impact various parts of its 2021 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 and cannot be reasonably estimated as these events are still developing.

**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, 2020**

	Fiscal and Policy Year Ended									
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
1. Net Earned Required Contribution and Investment Revenues	\$ 30,981,653	\$ 30,793,585	\$ 27,976,269	\$ 24,714,142	\$ 23,359,477	\$ 23,349,693	\$ 23,502,230	\$ 23,080,906	\$ 24,799,437	\$ 24,194,879
2. Unallocated Expenses	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	2,895,864
3. Estimated Incurred Claims and Expense, End of Policy Year	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	20,839,277
4. Paid (Cumulative) as of:										
End of Policy Year	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	18,140,987
One Year Later		23,951,645	21,531,241	21,913,233	23,093,111	20,380,101	17,215,875	19,751,748	19,866,833	19,561,463
Two Years Later			21,533,902	21,906,116	23,094,196	20,375,617	18,041,576	19,754,592	23,189,288	20,824,577
Three Years Later				21,906,116	23,095,281	20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Four Years Later					23,118,409	20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Five Years Later						20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Six Years Later							18,047,732	19,754,592	23,189,793	20,824,577
Seven Years Later								19,754,592	23,189,793	20,824,577
Eight Years Later									23,189,793	20,824,577
Nine Years Later										20,824,577
5. Re-estimated Incurred Claims and Expense:										
End of Policy Year	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	20,839,277
One Year Later		24,255,505	21,531,241	22,239,096	22,146,731	22,171,938	19,734,654	19,582,541	23,189,866	20,816,685
Two Years Later			21,533,902	21,906,116	23,118,409	20,375,261	18,041,576	19,754,592	23,189,288	20,824,577
Three Years Later				21,906,116	23,118,409	20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Four Years Later					23,118,409	20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Five Years Later						20,375,261	18,047,732	19,754,592	23,189,793	20,824,577
Six Years Later							18,047,732	19,754,592	23,189,793	20,824,577
Seven Years Later								19,754,592	23,189,793	20,824,577
Eight Years Later									23,189,793	20,824,577
Nine Years Later										20,824,577
6. Increase (Decrease) in Estimated Incurred Claims and Expense from End of Policy Year	N/A	-	492,063	(756,721)	1,169,477	(639,354)	(861,221)	1,676,770	1,575,520	(14,700)

**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, 2020**

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 business-type activities of the Northern Arizona Public Employees Benefit Trust (Trust), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Northern Arizona Public Employees Benefit Trust's financial statements, and have issued our report thereon dated March 22, 2021.

**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) to determine the 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 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*.

### **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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
March 22, 2021

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,  
an SEC-registered investment advisor. | CliftonLarsonAllen LLP

