

**NORTHERN ARIZONA PUBLIC EMPLOYEES
BENEFIT TRUST**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019



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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

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	16
NOTES TO THE CLAIMS DEVELOPMENT INFORMATION	17
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>	18

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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, 2019, 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, 2019, and the respective changes in financial position and, where applicable, 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 January 23, 2019, 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
January 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, 2019. 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 decreased \$0.2 million which represents a 2.7% decrease from fiscal year 2017-2018 as a result of an increase in claims expenses that exceeded the increase in contributions from members.
- The Trust had \$30.6 million in operating revenue, an increase of \$2.7 million from fiscal year 2017-2018. The Trust had approximately \$31.0 million in operating expenses. Operating expenses increased \$3.3 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.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, 2019 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 \$5.8 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, 2019 and 2018.

	June 30,	
	2019	2018
Current and Other Assets	\$ 10,871,300	\$ 9,821,294
Capital Assets, Net	58,048	207,994
Total Assets	10,929,348	10,029,288
Current and Other Liabilities	5,133,023	4,069,736
Net Position:		
Net Investment in Capital Assets	58,048	207,994
Unrestricted	5,738,277	5,751,558
Total Net Position	<u>\$ 5,796,325</u>	<u>\$ 5,959,552</u>

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

Net Investment in Capital Assets decreased 72.1% from the prior year as a result of the depreciation of the wellness clinic assets. Unrestricted net position decreased 0.2% from the prior year, representing the cumulative effect of participant claims expenses and operating costs exceeding contributions in the current year.

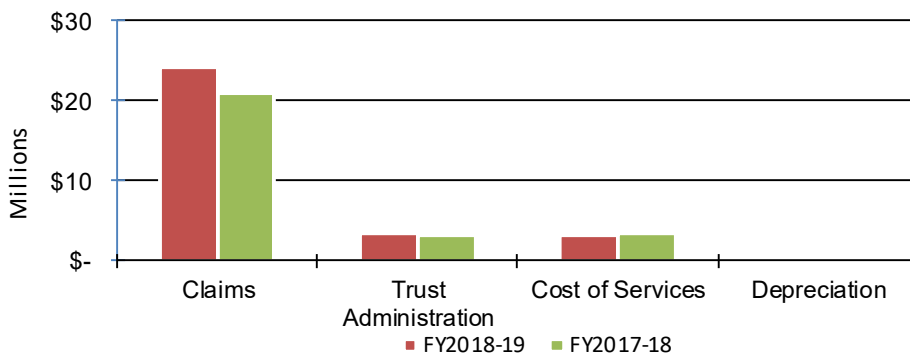
**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS (CONTINUED)

Changes in net position. The Trust's total revenues for the current fiscal year were \$30.8 million. The total expenses were \$31 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2019 and 2018.

	Year Ended June 30,	
	2019	2018
REVENUES		
Operating Revenues:		
Contributions	\$ 30,637,749	\$ 27,888,280
Nonoperating Revenues:		
Investment Income	155,836	87,989
Total Revenues	<u>30,793,585</u>	<u>27,976,269</u>
EXPENSES		
Claims	24,255,505	21,041,839
Trust Administration	3,448,719	3,132,374
Cost of Services	3,102,642	3,325,851
Depreciation	149,946	162,031
Total Expenses	<u>30,956,812</u>	<u>27,662,095</u>
CHANGE IN NET POSITION	(163,227)	314,174
Net Position - Beginning of Year	<u>5,959,552</u>	<u>5,645,378</u>
NET POSITION - END OF YEAR	<u>\$ 5,796,325</u>	<u>\$ 5,959,552</u>

Expenses



Contribution revenue increased \$2.7 million as a result of higher premium costs charged to participant organizations. Expenses were higher in the current year, which were driven by increased claims costs of \$3.2 million, and increased trust administration costs of \$0.3 million primarily due to a new employee assistance program and increased medical administrative fees. The decrease in cost of services was due to lower monthly per participant per month administrative fees and decreased operating costs for the wellness clinic of \$0.2 million, which completed its third full year of operation.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS

At year-end, the Trust had a net investment of \$58,048 invested in capital assets, which includes leasehold improvements, furniture, computers, and other equipment. The amount invested is net of accumulated depreciation of \$561,530. Total depreciation expense for the current fiscal year was \$149,946.

Capital assets for fiscal years June 30, 2019 and 2018, net of accumulated depreciation were as follows:

	<u>2019</u>	<u>2018</u>
Leasehold Improvements	\$ -	\$ 132,946
Furniture and Equipment	58,048	75,048
Total Capital Assets, Net	<u>\$ 58,048</u>	<u>\$ 207,994</u>

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

CLAIM RESERVES

As of June 30, 2019, the Trust had \$3.7 million designated for claim payments. The following table presents a summary of the Trust's unpaid claims for the fiscal years ended June 30, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 3,722,194</u>	<u>\$ 2,638,460</u>

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

ECONOMIC FACTORS

The primary factor 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, and insurance premiums for the plan year.

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

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NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 9,652,367
Deposits	535,000
Accounts Receivable	665,496
Prepaid Expenses	18,437
Total Current Assets	<u>10,871,300</u>

NONCURRENT ASSETS

Property and Equipment (Net of Accumulated Depreciation of \$561,530)	58,048
Total Assets	<u>10,929,348</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	378,621
Unearned Revenue	1,032,208
Claims Payable	3,722,194
Total Liabilities	<u>5,133,023</u>

NET POSITION

Net Investment in Capital Assets	58,048
Unrestricted	<u>5,738,277</u>
Total Net Position	<u><u>\$ 5,796,325</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, 2019**

OPERATING REVENUES

Contributions - City of Flagstaff	\$ 8,109,840
Contributions - Coconino Community College	1,284,369
Contributions - Coconino County	10,702,301
Contributions - Coconino County Accommodation School District	165,066
Contributions - Flagstaff Unified School District	9,615,466
Contributions - Northern Arizona Intergovernmental Public Transportation Authority	<u>760,707</u>
Total Operating Revenues	<u>30,637,749</u>

OPERATING EXPENSES

Claims	24,255,505
Trust Administration	3,448,719
Cost of Services	3,102,642
Depreciation	<u>149,946</u>
Total Operating Expenses	<u>30,956,812</u>

OPERATING LOSS

(319,063)

NONOPERATING REVENUES

Investment Income	<u>155,836</u>
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CHANGES IN NET POSITION

(163,227)

Net Position - Beginning of Year

5,959,552

NET POSITION - END OF YEAR

\$ 5,796,325

See accompanying Notes to Financial Statements.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Contributions	\$ 30,005,546
Cash Payment for Claims	(23,171,771)
Cash Payments for Supplies for Goods and Services	<u>(6,546,019)</u>
Net Cash Provided by Operating Activities	287,756

CASH FLOWS FROM INVESTING ACTIVITIES

Investment Income	<u>155,836</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS

443,592

Cash and Cash Equivalents - Beginning of Year

9,208,775

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 9,652,367

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Loss	\$ (319,063)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Depreciation	149,946
Increase in Accounts Receivable	(597,051)
Increase in Prepaid Expenses	(9,363)
Increase in Accounts Payable	14,705
Decrease in Unearned Revenue	(35,152)
Increase in Claims Payable	<u>1,083,734</u>
Total Adjustments	<u>606,819</u>
Net Cash Provided by Operating Activities	<u><u>\$ 287,756</u></u>

See accompanying Notes to Financial Statements.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 six participants, of which four are the original participating employers and two 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, 2019

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 by the Trust as assets with an initial, individual cost in excess of \$1,000 or a group of similar assets acquired simultaneously with a combined cost in excess of \$1,000, as well as an estimated useful life of more than one year. 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:

<u>Leasehold Improvements</u>	<u>Shorter of Useful Life or Remaining Lease Term</u>
Furniture and Equipment	7 Years

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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, 2019, 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, 2019

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 \$3,188,453 and the bank balance was \$4,816,561. Of the bank balance, \$250,000 was covered by federal depository insurance and \$4,657,893 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, 2019

NOTE 2 CASH AND INVESTMENTS (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	\$ 6,463,914

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	\$ 500,574	\$ -	\$ -	\$ 500,574
Furniture and Equipment	119,004	-	-	119,004
Total Capital Assets, Being Depreciated	619,578	-	-	619,578
Less Accumulated Depreciation for:				
Leasehold Improvements	(367,628)	(132,946)	-	(500,574)
Furniture and Equipment	(43,956)	(17,000)	-	(60,956)
Total Accumulated Depreciation	(411,584)	(149,946)	-	(561,530)
Total Capital Assets, Being Depreciated, Net	207,994	(149,946)	-	58,048
Business-Type Activities Capital Assets, Net	\$ 207,994	\$ (149,946)	\$ -	\$ 58,048

Depreciation expense for the fiscal year was \$149,946.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 \$65,491 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>
2020	\$ 52,404
2021	52,535
2022	53,976
2023	49,478
Total Minimum Payments Required	<u>\$ 208,393</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.

	<u>2019</u>	<u>2018</u>
Unpaid Claims and Claim Adjustment Expenses at Beginning of the Fiscal Year	\$ 2,638,460	\$ 3,288,491
Incurred Claims and Claim Adjustment Expenses: Provision for Insured Events of the Current Fiscal Year	<u>24,255,505</u>	<u>21,041,839</u>
Total Incurred Claims and Claim Adjustment Expenses	26,893,965	24,330,330
Payments: Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Fiscal Year	<u>23,171,771</u>	<u>21,691,870</u>
Total Unpaid Claims and Claim Adjustment Expenses at End of the Fiscal Year	<u>\$ 3,722,194</u>	<u>\$ 2,638,460</u>

At June 30, 2019 and 2018, \$3,722,194 and \$2,638,460, 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 \$1,728,000 and \$1,027,000, respectively.

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REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A

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**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A
CLAIMS DEVELOPMENT INFORMATION
TEN-YEAR PERIOD ENDED JUNE 30, 2019**

	Fiscal and Policy Year Ended									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1. Net Earned Required Contribution and Investment Revenues	\$ 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	\$ 25,072,725
2. Unallocated Expenses	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	2,562,102
3. Estimated Incurred Claims and Expense, End of Policy Year	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	24,896,107
4. Paid (Cumulative) as of:										
End of Policy Year	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	21,721,321
One Year Later		21,531,241	21,913,233	23,093,111	20,380,101	17,215,875	19,751,748	19,866,833	19,561,463	23,101,358
Two Years Later			21,906,116	23,117,324	20,375,617	18,041,576	19,753,170	23,189,288	20,824,577	23,087,124
Three Years Later				23,118,409	20,375,261	18,047,732	19,754,592	23,189,793	20,824,577	23,138,651
Four Years Later					20,375,261	18,047,732	19,754,592	23,189,793	20,824,577	23,138,651
Five Years Later						18,047,732	19,754,592	23,189,793	20,824,577	23,138,651
Six Years Later							19,754,592	23,189,793	20,824,577	23,138,651
Seven Years Later								23,189,793	20,824,577	23,138,651
Eight Years Later									20,824,577	23,138,651
Nine Years Later										23,138,651
5. Re-estimated Incurred Claims and Expense:										
End of Policy Year	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	24,896,107
One Year Later		21,938,326	22,239,096	22,146,731	22,171,938	19,734,654	19,582,541	23,189,866	20,816,685	24,640,871
Two Years Later			22,231,979	22,170,944	22,167,454	19,759,849	19,581,119	23,189,288	20,806,220	24,626,636
Three Years Later				22,172,029	22,167,098	19,766,005	19,581,119	23,189,793	20,806,220	24,626,636
Four Years Later					22,167,098	19,766,005	19,581,119	23,189,793	20,806,220	24,626,636
Five Years Later						19,766,005	19,581,119	23,189,793	20,806,220	24,626,636
Six Years Later							19,581,119	23,189,793	20,806,220	24,626,636
Seven Years Later								23,189,793	20,806,220	24,626,636
Eight Years Later									20,806,220	24,626,636
Nine Years Later										24,626,636
6. Increase (Decrease) in Estimated Incurred Claims and Expense from End of Policy Year	N/A	896,487	(430,858)	223,097	1,152,483	857,052	1,503,297	1,575,520	(33,057)	(269,471)

**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, 2019**

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

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**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, 2019, 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 January 23, 2019.

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 Northern Arizona Public Employees Benefit 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 Northern Arizona Public Employees Benefit Trust’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Phoenix, Arizona
January 23, 2019

