



Northern Arizona Public Employees Benefit Trust
Financial Statements
Year Ended June 30, 2016

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
JUNE 30, 2016

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4
FINANCIAL STATEMENTS	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12
REQUIRED SUPPLEMENTARY INFORMATION	
Claims Development Information	20
REPORT ON INTERNAL CONTROL AND ON COMPLIANCE	23

REPORT ON AUDIT OF FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northern Arizona Public Employees Benefit Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Northern Arizona Public Employees Benefit Trust (Trust), as of and for the year ended June 30, 2016, 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 entity'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 entity'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Northern Arizona Public Employees Benefit Trust, as of June 30, 2016, 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.

Change in Accounting Principle

As described in Note 1, the Trust implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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 May 8, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

Heinfeld, Meech & Co., P.C.
Flagstaff, Arizona
May 8, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
(Required Supplementary Information)

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

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, 2016. 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 governmental activities decreased \$4.3 million which represents a 30 percent decrease from fiscal year 2015-16 as a result of increased costs due in part to the opening of the wellness clinic.
- Operating revenues accounted for \$23.3 million in revenue. Operating revenues decreased \$8,848. The Trust had approximately \$27.7 million in operating expenses. Operating expenses increased \$3.1 million due primarily to increased costs from the opening of the wellness clinic.

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 and deferred inflows/outflows or resources, 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 (MD&A)
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF FINANCIAL STATEMENTS

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 nine-year period ended June 30, 2016 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 \$10.2 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, 2016 and June 30, 2015.

	As of June 30, 2016	As of June 30, 2015
Current and other assets	\$ 14,125,416	\$ 18,732,445
Capital assets, net	532,056	
Total assets	<u>14,657,472</u>	<u>18,732,445</u>
Current and other liabilities	4,460,322	4,196,987
Total liabilities	<u>4,460,322</u>	<u>4,196,987</u>
Net position:		
Net investment in capital assets	532,056	
Unrestricted	9,665,094	14,535,458
Total net position	<u>\$ 10,197,150</u>	<u>\$ 14,535,458</u>

At the end of the current fiscal year the Trust reported positive balances in both categories of net position. The same situation held true for the prior fiscal year.

The Trust's financial position is the product of several financial transactions including the net results of activities. The following is a significant current year transaction that had an impact on the Statement of Net Position.

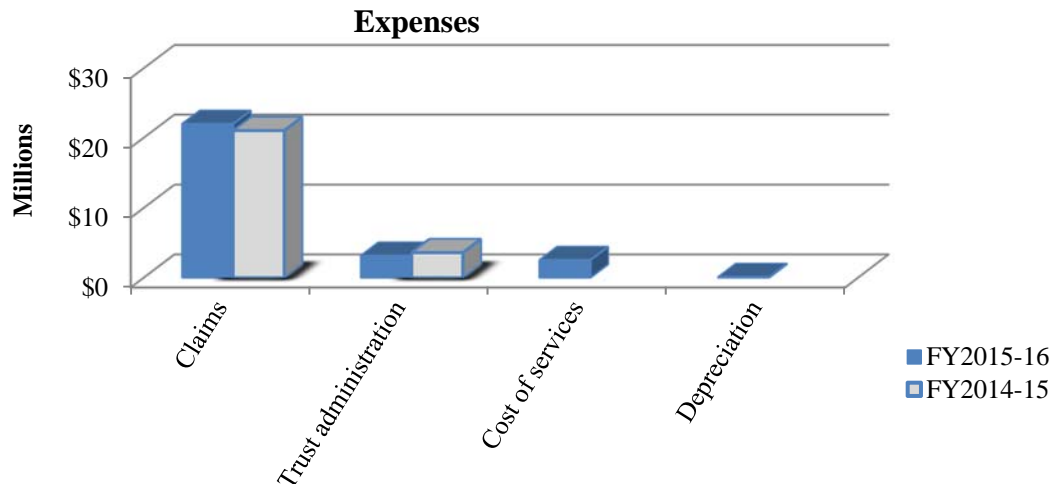
- A decrease of approximately \$4.6 million in cash and cash equivalents primarily as a result of an increase in costs due to the opening of a wellness center.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS

Changes in net assets. The Trust's total revenues for the current fiscal year were \$23.4 million. The total expenses were \$27.7 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

	Fiscal Year Ended <u>June 30, 2016</u>	Fiscal Year Ended <u>June 30, 2015</u>
Revenues:		
Operating revenues:		
Contributions	\$ 23,330,618	\$ 23,339,466
Non-operating revenues:		
Investment income	28,859	10,227
Total revenues	<u>23,359,477</u>	<u>23,349,693</u>
Expenses:		
Claims	21,948,932	21,014,615
Trust administration	3,142,019	3,574,800
Cost of services	2,519,312	
Depreciation	87,522	
Total expenses	<u>27,697,785</u>	<u>24,589,415</u>
Changes in net position	<u>(4,338,308)</u>	<u>(1,239,722)</u>
Net position, beginning	<u>14,535,458</u>	<u>15,775,180</u>
Net position, ending	<u>\$ 10,197,150</u>	<u>\$ 14,535,458</u>



The following is a significant current year transaction that had an impact on the change in net position.

- The increase of approximately \$3.1 million in operating expenses due primarily to costs associated with opening and operating the new wellness clinic.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS

At year end, the Trust had invested \$619,578 in capital assets, including computers and other equipment. Total depreciation expense for the current fiscal year was \$87,522.

The capital asset balances for the fiscal year ended June 30, 2016 was \$532,056 net of depreciation. The Trust had no capital asset balances for the fiscal year ended June 30, 2015.

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

CLAIM RESERVES

As of June 30, 2016, the Trust had \$2.9 million designated for claim payments. The following table presents a summary of the Trust's unpaid claims activity for the fiscal years ended June 30, 2016 and June 30, 2015.

	<u>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 2,712,640	\$ 2,518,779
Incurred claims and claim adjustment expenses: Provision for insured events of the current fiscal year	<u>21,948,932</u>	<u>21,014,615</u>
Total incurred claims and claim adjustment expenses	<u>24,661,572</u>	<u>23,533,394</u>
Payments: Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>21,798,473</u>	<u>20,820,754</u>
Total payments	<u>21,798,473</u>	<u>20,820,754</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 2,863,099</u>	<u>\$ 2,712,640</u>

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

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2016**

ECONOMIC FACTORS

The primary factor considered by the Trust's administration during the process of developing the fiscal year 2016-17 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 Coconino County, Arizona, Northern Arizona Public Employee Benefit Trust, 219 East Cherry Avenue, Flagstaff, Arizona 86004.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF NET POSITION
JUNE 30, 2016

Assets:

Current Assets

Cash and investments	\$ 13,406,740
Deposits	660,000
Reinsurance receivable	51,176
Prepaid expenses	<u>7,500</u>

Total current assets 14,125,416

Noncurrent Assets

Property and equipment (net of accumulated depreciation of \$87,522)	\$ <u>532,056</u>
--	-------------------

Total noncurrent Assets 532,056

Total assets 14,657,472

Liabilities:

Current Liabilities-

Accounts payable	374,453
Unearned revenue	1,222,770
Claims payable	<u>2,863,099</u>

Total liabilities 4,460,322

Net position:

Net investment in capital assets	532,056
Unrestricted	<u>9,665,094</u>

Total net position \$ 10,197,150

The notes to the financial statements are an integral part of this statement.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Operating revenues:

Contributions - City of Flagstaff	\$	6,355,970
Contributions - Coconino Community College		847,990
Contributions - Coconino County		8,023,907
Contributions - Coconino County Accommodation School District		121,899
Contributions - Flagstaff Unified School District		7,415,899
Contributions - Northern Arizona Intergovernmental Public Transportation Authority		<u>564,953</u>
Total operating revenues		<u>23,330,618</u>

Operating expenses:

Claims		21,948,932
Trust administration		3,142,019
Cost of services		2,519,312
Depreciation		<u>87,522</u>
Total operating expenses		<u>27,697,785</u>

Operating loss (4,367,167)

Nonoperating revenues:

Investment income		<u>28,859</u>
Total nonoperating revenues		<u>28,859</u>

Changes in net position (4,338,308)

Net position, beginning of year 14,535,458

Net position, end of year \$ 10,197,150

The notes to the financial statements are an integral part of this statement.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Decrease in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from contributions	\$ 23,243,730
Cash payment for claims	(21,737,312)
Cash payments to suppliers for goods and services	<u>(5,469,067)</u>
Net cash used by operating activities	<u>(3,962,649)</u>
Cash flows from capital and related financing activities:	
Cash payments for property and equipment	<u>(619,578)</u>
Net cash used by capital and related financing activities	<u>(619,578)</u>
Cash flows from investing activities:	
Investment income	<u>28,859</u>
Net cash provided by investing activities	<u>28,859</u>
Net decrease in cash and cash equivalents	<u>(4,553,368)</u>
Cash and cash equivalents, beginning of year	<u>17,960,108</u>
Cash and cash equivalents, end of year	<u>\$ 13,406,740</u>

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

Operating loss	\$ (4,367,167)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Change in assets and liabilities:	
Depreciation	87,522
Decrease in reinsurance receivable	61,161
Increase in prepaid expenses	(7,500)
Increase in accounts payable	199,764
Decrease in unearned revenue	(86,888)
Increase in claims payable	<u>150,459</u>
Total adjustments	<u>404,518</u>
Net cash used by operating activities	<u>\$ (3,962,649)</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

During the year ended June 30, 2016, the Trust implemented the provisions of GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements and establishes a hierarchy of inputs to valuation techniques used to measure fair value. This Statement also enhances accountability and transparency through revised note disclosures.

The more significant of the Trust's accounting policies are described below.

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. 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 Trustees for beneficiaries, provided such benefits are related to health, death, or disability.

Effective July 1, 2006, the Trust became self-funded. 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 insurance company processes the claims on the plan and then notifies the Trust of the amount of claims to be paid on a monthly basis.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 members. Operating expenses include the cost of claims, premiums and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Investments – 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.

Contributions – The Trust agreement provides that each participating member 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 members’ premiums for the following year and are included in the accompanying statement of net position as unearned revenue.

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. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Given the inherent uncertainty in the nature of such estimates, future losses will likely deviate, perhaps materially, from those estimates.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 with 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 percent 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.

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. The Trust has adopted the provision that amounts receivable from reinsurers for unpaid losses and loss expenses be reported separately on the statement of net position as assets. These amounts are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not considered necessary.

Income Tax Status – The Trust is not subject to federal or state income taxes.

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 fair 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.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Leasehold improvements	15 years
Furniture, and equipment	7 years

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Trust did not have any items that qualified for reporting in this category.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Trust did not have any items that qualified for reporting in this category.

Net Position Flow Assumption – The Trust applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

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.

NOTE 2 – CASH AND INVESTMENTS

The Trust is authorized to invest monies in interest bearing savings accounts, as specified by the Board.

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 \$4,242,907 and the bank balance was \$4,420,798. At year end, \$4,170,798 of the Trust's deposits were covered by collateral held by the pledging financial institution's trust department or agent but not in the District's name.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2 – CASH AND INVESTMENTS

Fair Value Measurements. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 State Treasurer’s pools are external investment pools, the Local Government Investment Pool (Pool 5) and Local Government Investment Pool-Government (Pool 7), with no regulatory oversight. 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.

NOTE 2 – CASH AND INVESTMENTS

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

	Average Maturities	Fair Value
State Treasurer’s investment pool 5	21.9 days	\$ 9,163,833
Total		\$ 9,163,833

Interest Rate Risk. The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Trust has no investment policy that would further limit its investment choices. The State Treasurer’s investment pool 5 had a weighted average rating of AAA+/S1+ by Standard and Poor’s at year end.

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 portion is not identified with specific investments and is not subject to custodial credit risk.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – CAPITAL ASSETS

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

Governmental Activities	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets, being depreciated:				
Leasehold improvements	\$	\$ 500,574	\$	\$ 500,574
Furniture and equipment		119,004		119,004
Total capital assets being depreciated		<u>619,578</u>		<u>619,578</u>
Less accumulated depreciation for:				
Leasehold improvements		(77,568)		(77,568)
Furniture and equipment		(9,954)		(9,954)
Total accumulated depreciation		<u>(87,522)</u>		<u>(87,522)</u>
Total capital assets, being depreciated, net		<u>532,056</u>		<u>532,056</u>
Governmental activities capital assets, net	\$	<u>\$ 532,056</u>	\$	<u>\$ 532,056</u>

Depreciation expense for the fiscal year was \$87,522.

NOTE 4 – OBLIGATIONS UNDER OPERATING LEASES

The District 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 \$32,865 for the current fiscal year. The operating lease has a remaining noncancelable lease term of three years and provides renewal options. The future minimum rental payments required under the operating lease at year end were as follows:

Year Ending June 30:	
2017	\$ 49,527
2018	50,880
2019	<u>50,880</u>
Total minimum payments required	<u>\$ 151,287</u>

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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>2016</u>	<u>2015</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 2,712,640	\$ 2,518,779
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	<u>21,948,932</u>	<u>21,014,615</u>
Total incurred claims and claim adjustment expenses	<u>24,661,572</u>	<u>23,533,394</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>21,798,473</u>	<u>20,820,754</u>
Total payments	<u>21,798,473</u>	<u>20,820,754</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 2,863,099</u>	<u>\$ 2,712,640</u>

At June 30, 2016 and June 30, 2015, \$2,863,099 and \$2,712,640 respectively of unpaid claims and claim adjustment expenses are presented at their estimated ultimate loss. These claims are not discounted.

REQUIRED SUPPLEMENTARY INFORMATION

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2016**

The table on the next 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.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
REQUIRED SUPPLEMENTARY INFORMATION
CLAIMS DEVELOPMENT INFORMATION
FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2016**

Fiscal and Policy Year Ended:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
1. Net earned required contribution and investment revenues	\$ 23,359,477	\$ 23,349,693	\$ 23,502,230	\$ 23,080,906	\$ 24,799,437	\$ 24,194,879	\$ 25,072,725	\$ 24,419,119	\$ 24,997,464	\$ 27,931,040
2. Unallocated expenses	5,748,853	3,574,800	3,300,074	2,869,192	2,721,355	2,895,864	2,562,102	3,146,641	2,959,788	2,869,959
3. Estimated incurred claims and expense, end of policy year	21,948,932	21,014,615	18,908,953	18,077,822	21,614,273	20,839,277	24,896,107	22,918,789	20,018,350	17,179,248
4. Paid (cumulative) as of:										
End of policy year	21,737,312	18,301,975	16,390,174	15,973,995	18,345,745	18,140,987	21,721,321	18,872,826	17,617,433	14,229,304
One year later		20,380,101	17,215,875	19,751,748	19,866,833	19,561,463	23,101,358	20,779,632	18,760,349	15,889,566
Two years later			18,041,576	19,753,170	23,189,288	20,824,577	23,087,124	20,773,079	18,773,636	15,900,556
Three years later				19,754,592	23,189,793	20,824,577	23,138,651	20,775,503	18,764,624	15,904,972
Four years later					23,189,793	20,824,577	23,138,651	20,776,700	18,764,657	15,906,110
Five years later						20,824,577	23,138,651	20,776,700	18,773,823	15,906,110
Six years later							23,138,651	20,776,700	18,773,823	15,907,101
Seven years later								20,776,700	18,773,823	15,907,101
Eight years later									18,773,823	15,907,101
Nine years later										15,907,101
5. Re-estimated incurred claims and expense										
End of policy year	21,948,932	21,014,615	18,908,953	18,077,822	21,614,273	20,839,277	24,896,107	22,918,789	20,018,350	17,179,248
One year later		22,171,938	19,734,654	19,582,541	23,189,866	20,816,685	24,640,871	23,398,501	19,469,608	17,254,774
Two years later			19,759,849	19,581,119	23,189,288	20,806,220	24,626,636	23,391,944	19,497,379	17,272,149
Three years later				19,581,119	23,189,793	20,806,220	24,626,636	23,391,944	19,497,379	17,272,149
Four years later					23,189,793	20,806,220	24,626,636	23,391,944	19,497,379	17,272,149
Five years later						20,806,220	24,626,636	23,391,944	19,497,379	17,272,149
Six years later							24,626,636	23,391,944	19,497,379	17,272,149
Seven years later								23,391,944	19,497,379	17,272,149
Eight years later									19,497,379	17,272,149
Nine years later										17,272,149
6. Increase (decrease) in estimated incurred claims and expense from end of policy year	N/A	1,157,323	850,896	1,503,297	1,575,520	(33,057)	(269,471)	473,155	(520,971)	92,901

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE

**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***

Independent Auditor's Report

Board of Trustees
Northern Arizona Public Employees Benefit Trust

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 Northern Arizona Public Employees Benefit Trust, as of and for the year ended June 30, 2016, 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 May 8, 2017.

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 opinions 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 entity'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Heinfeld, Meech & Co., P.C.
Flagstaff, Arizona
May 8, 2017