

Please include this email as a cover sheet to the audit report:

Each year, around February, Yavapai County Benefits Trust (YCT) signs an engagement letter with Heinfeld Meech to perform an audit of Trust financials for the most recent plan year.

In February 2021 the Trust signed an engagement letter for Heinfeld Meech to conduct an audit for the year ending June 30, 2020.

In August the audit was 100% complete and YCT paid the final invoice resulting in release of the audit.

The first YCT Board meeting following the audit release was October 7, 2021. .

This explains why, upon first glance, the information may appear to be dated.

At the October 7, 2021, YCT Board meeting the report was reviewed and no substantive issues identified for follow up actions. Please note as the DGB considers its' fiduciary responsibility that the report shows the Trust is in good standing.

Dr. Emily L. Weinacker, SPHR, SHRM-CP  
Chief Human Resources Officer  
Yavapai College  
1100 East Sheldon St.  
Prescott, AZ 86301  
Phone: 928-776-2344  
FAX: 928-776-2202





**Yavapai Combined Trust**  
**Financial Statements**  
Year Ended June 30, 2020

**YAVAPAI COMBINED TRUST**  
**JUNE 30, 2020**

<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	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11
REQUIRED SUPPLEMENTARY INFORMATION	
Claims Development Information	17
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 <i>Governmental Auditing Standards</i>	20

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Yavapai Combined Trust

**Report on the Financial Statements**

We have audited the accompanying financial statements of Yavapai Combined Trust (Trust), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's 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.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Yavapai Combined Trust, as of June 30, 2020, 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.

***Report on Summarized Comparative Information***

We have previously audited the Trust's 2019 financial statements, and our report dated April 10, 2020, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and 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 July 23, 2021, on our consideration of Yavapai Combined 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 the Yavapai Combined 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 Yavapai Combined Trust's internal control over financial reporting and compliance.

*Heinfeld Meech & Co. PC*

Heinfeld, Meech & Co., P.C.

Scottsdale, Arizona

July 23, 2021

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

**YAVAPAI COMBINED TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

As management of the Yavapai Combined 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 increased \$2.7 million, which represents a 27 percent increase from fiscal year 2018-19 primarily as a result of an increase in contributions from member entities and a decrease in claim costs.
- Operating revenues accounted for \$28.8 million of revenues. Operating revenues increased \$2.2 million primarily due to increased contribution rates and participation. The Trust had approximately \$26.3 million in operating expenses. Operating expenses decreased \$653,008 primarily as a result of decreased claim costs.

**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. This report also contains other supplementary information in addition to the financial statements themselves.

The statement of net position presents information on all of the Trust's assets and liabilities, and deferred inflows/outflows of 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 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.



**YAVAPAI COMBINED TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**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 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 \$12.6 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 June 30, 2019.

	As of June 30, 2020	As of June 30, 2019
Current assets	\$ 14,912,460	\$ 13,995,532
Total assets	<u>14,912,460</u>	<u>13,995,532</u>
Current liabilities	2,299,850	4,040,908
Total liabilities	<u>2,299,850</u>	<u>4,040,908</u>
Net position:		
Unrestricted	12,612,610	9,954,624
Total net position	<u>\$ 12,612,610</u>	<u>\$ 9,954,624</u>

At the end of the current fiscal year the Trust reported a positive balance in 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.

- Current liabilities decreased \$1.7 million due to the decrease in the estimate for the incurred but not reported claims.

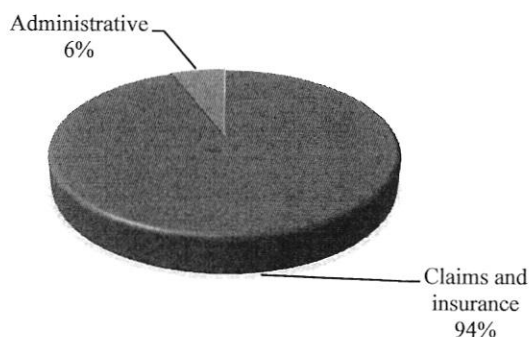
**YAVAPAI COMBINED TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**FINANCIAL ANALYSIS**

**Changes in net position.** The Trust's total revenues for the current fiscal year end were \$29.0 million. The total expenses were \$26.3 million. The following table presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019.

	Fiscal Year Ended <u>June 30, 2020</u>	Fiscal Year Ended <u>June 30, 2019</u>
<b>Revenues:</b>		
Operating revenues:		
Contributions	\$ 28,761,100	\$ 26,544,642
Other	221	325
Non-operating revenues:		
Interest income	206,773	193,280
<b>Total revenues</b>	<u>28,968,094</u>	<u>26,738,247</u>
<b>Expenses:</b>		
Operating expenses:		
Claims and insurance	24,734,114	25,768,230
Administrative	1,575,994	1,194,886
<b>Total expenses</b>	<u>26,310,108</u>	<u>26,963,116</u>
<b>Changes in net position</b>	<u>2,657,986</u>	<u>(224,869)</u>
<b>Net position, beginning</b>	<u>9,954,624</u>	<u>10,179,493</u>
<b>Net position, ending</b>	<u>\$ 12,612,610</u>	<u>\$ 9,954,624</u>

**Expenses - Fiscal Year 2020**



The following are significant current year transactions that had an impact on the Statement of Revenues, Expenses, and Changes in Net Position.

- Contribution revenues increased \$2.2 million due to an increase in the contribution rates and participation in the plan.
- Claim and insurance expenses decreased \$1.0 million primarily due to a decrease in claim activity due in part to the stay at home orders in place for the COVID-19 pandemic.

**YAVAPAI COMBINED TRUST  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2020**

**CLAIM RESERVES**

At year end, the Trust had \$2.3 million in claims payable. The following table presents a summary of the Trust's unpaid claims activity for the fiscal years ended June 30, 2020 and June 30, 2019.

	2020	2019
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 4,028,669	\$ 5,741,916
Provision for insured events of the current fiscal year	23,075,241	24,282,410
Total incurred claims and claim adjustment expenses	27,103,910	30,024,326
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	24,812,013	25,995,657
Total payments	24,812,013	25,995,657
Total unpaid claims and claim adjustment expenses at end of the fiscal year	\$ 2,291,897	\$ 4,028,669

Additional information on the Trust's claim reserves can be found in Note 3.

**ECONOMIC FACTORS**

The primary factors considered by the Trust's administration during the process of developing the fiscal year 2020-21 contribution rates were claims experiences, administrative expenses, and actuarial studies.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** – The Trust does not maintain any capital assets

**Debt Administration** – The Trust has no long-term debt outstanding as of June 30, 2020.

**CONTACTING THE TRUST'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and 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 Human Resources, Yavapai Combined Trust, 1015 Fair Street, Prescott, Arizona 86305-1852.

**YAVAPAI COMBINED TRUST**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)**

	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Current -		
Cash and investments	\$ 12,540,528	\$ 13,253,627
Accounts receivable	1,863	1,863
Contributions receivable	1,849,689	431,444
Reinsurance receivable	<u>520,380</u>	<u>308,598</u>
Total assets	<u>14,912,460</u>	<u>13,995,532</u>
<b>Liabilities:</b>		
Current -		
Accounts payable	7,953	12,239
Claims payable	<u>2,291,897</u>	<u>4,028,669</u>
Total liabilities	<u>2,299,850</u>	<u>4,040,908</u>
<b>Net position:</b>		
Unrestricted	<u>12,612,610</u>	<u>9,954,624</u>
Total net position	<u>\$ 12,612,610</u>	<u>\$ 9,954,624</u>

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

**YAVAPAI COMBINED TRUST**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)**

	<u>2020</u>	<u>2019</u>
<b>Operating revenues:</b>		
Contributions	\$ 28,761,100	\$ 26,544,642
Prior plan year refunds	221	325
Total operating revenues	<u>28,761,321</u>	<u>26,544,967</u>
<b>Operating expenses:</b>		
<b>Claims and insurance expenses</b>		
Health claims	19,728,630	21,752,404
Prescription	3,346,611	2,530,006
Insurance premiums	1,438,154	1,308,499
Wellness programs	98,961	78,173
Employee assistance programs	65,864	44,231
Utilization review	55,894	54,917
Total claims and insurance expenses	<u>24,734,114</u>	<u>25,768,230</u>
<b>Administrative expenses</b>		
Administration fees	830,887	557,109
Network access fees	453,195	415,590
Consulting fees	132,035	112,000
Prescription administration fees	49,234	-
Other administration fees	65,841	60,451
Accounting and auditing fees	12,263	15,645
Printing and supplies	9,819	14,743
Other payments	22,720	19,348
Total administrative expenses	<u>1,575,994</u>	<u>1,194,886</u>
Total operating expenses	<u>26,310,108</u>	<u>26,963,116</u>
<b>Operating income/(loss)</b>	<u>2,451,213</u>	<u>(418,149)</u>
<b>Nonoperating revenues:</b>		
Interest income	<u>206,773</u>	<u>193,280</u>
Total nonoperating revenues	<u>206,773</u>	<u>193,280</u>
<b>Changes in net position</b>	<u>2,657,986</u>	<u>(224,869)</u>
<b>Net position, beginning of year</b>	<u>9,954,624</u>	<u>10,179,493</u>
<b>Net position, end of year</b>	<u>\$ 12,612,610</u>	<u>\$ 9,954,624</u>

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

**YAVAPAI COMBINED TRUST**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)**

	<b>2020</b>	<b>2019</b>
<b>Operating revenues:</b>		
Contributions	\$ 28,761,100	\$ 26,544,642
Prior plan year refunds	221	325
Total operating revenues	28,761,321	26,544,967
<b>Operating expenses:</b>		
<b>Claims and insurance expenses</b>		
Health claims	19,728,630	21,752,404
Prescription	3,346,611	2,530,006
Insurance premiums	1,438,154	1,308,499
Wellness programs	98,961	78,173
Employee assistance programs	65,864	44,231
Utilization review	55,894	54,917
Total claims and insurance expenses	24,734,114	25,768,230
<b>Administrative expenses</b>		
Administration fees	830,887	557,109
Network access fees	453,195	415,590
Consulting fees	132,035	112,000
Prescription administration fees	49,234	-
Other administration fees	65,841	60,451
Accounting and auditing fees	12,263	15,645
Printing and supplies	9,819	14,743
Other payments	22,720	19,348
Total administrative expenses	1,575,994	1,194,886
Total operating expenses	26,310,108	26,963,116
<b>Operating income/(loss)</b>	2,451,213	(418,149)
<b>Nonoperating revenues:</b>		
Interest income	206,773	193,280
Total nonoperating revenues	206,773	193,280
<b>Changes in net position</b>	2,657,986	(224,869)
<b>Net position, beginning of year</b>	9,954,624	10,179,493
<b>Net position, end of year</b>	\$ 12,612,610	\$ 9,954,624

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

**YAVAPAI COMBINED TRUST**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)**

	<b>2020</b>	<b>2019</b>
<b><u>Increase/(Decrease) in Cash and Cash Equivalents</u></b>		
Cash flows from operating activities:		
Cash received from contributions	\$ 27,342,855	\$ 26,579,018
Cash received from miscellaneous activities	221	325
Cash payment for claims	(25,023,795)	(26,264,704)
Cash payments to suppliers for goods and services	(3,239,153)	(2,669,290)
Net cash provided/(used) by operating activities	(919,872)	(2,354,651)
Cash flows from investing activities:		
Interest income	206,773	193,280
Net cash provided by investing activities	206,773	193,280
Net increase/(decrease) in cash and cash equivalents	(713,099)	(2,161,371)
Cash and cash equivalents, beginning of year	13,253,627	15,414,998
Cash and cash equivalents, end of year	\$ 12,540,528	\$ 13,253,627
<b><u>Reconciliation of Operating Income/(Loss) to Net Cash Provided/(Used) by Operating Activities</u></b>		
Operating income/(loss)	\$ 2,451,213	\$ (418,149)
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities:		
Change in assets and liabilities:		
(Increase)/decrease in contributions receivable	(1,418,245)	34,376
(Increase)/decrease in reinsurance receivable	(211,782)	(269,047)
Increase/(decrease) in accounts payable	(4,286)	11,416
Increase/(decrease) in claims payable	(1,736,772)	(1,713,247)
Total adjustments	(3,371,085)	(1,936,502)
Net cash provided/(used) by operating activities	\$ (919,872)	\$ (2,354,651)

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

**YAVAPAI COMBINED TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Yavapai Combined 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.

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

**Reporting Entity** – The Trust was formed November 1, 1992 between the City of Prescott, Yavapai County, and the Yavapai County Community College District. On January 1, 2000, the Town of Chino Valley was admitted as a new member. The Board of Trustees shall consist of at least five trustees who are elected officials or employees of public entities in Arizona. Each participating entity's Governing Body shall appoint the number of Trustees which it is entitled to appoint based upon the number of participating or covered employees of each entity.

The Trust was created to avail the participating entities of the benefits which would accrue by providing self-funded and/or insurance coverage for health and welfare benefits for certain qualified employees and eligible dependents as authorized under Arizona law. The purpose of this Trust is to receive contributions and provide for payment from the Trust Fund for various benefits, administrative services and expenses associated with the Health and Welfare Program.

Benefits offered by the Trust may include, but are not limited or restricted to, Life, Accidental Death and Dismemberment, Disability Income, Basic or Major Medical coverage for accidents or sicknesses, dental, and any other benefits as determined by the Trustees for Beneficiaries, provided such benefits are related to health, death, or disability, whether through self-funded or insurance programs or both.

**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.



**YAVAPAI COMBINED TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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. Investment income is included in nonoperating revenues in the financial statements.

**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.

**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.

**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. All pooled cash and investments are also considered to be cash equivalents, although there are investments with maturities, in excess of three months when purchased in the portfolio. This is due to the fact that the Trust may deposit or withdraw cash at any time without prior notice or penalty, having the characteristics of demand deposits.

The Trust deposits some cash with the County Treasurer. Cash with the County Treasurer is pooled for investment purposes. Interest earned from investments purchased with pooled monies is allocated to each of the participant’s funds based on their average balances. All investments are stated at fair value.

**Reinsurance** – The Trust is liable for claims up to \$250,000 for each claim. 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.

**YAVAPAI COMBINED TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

**Income Taxes** - The Trust is not subject to federal or state income taxes.

**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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Recognition of Premiums** - Premiums are earned over the policy period, which coincides with the Trust's fiscal year. Member premiums are billed and adjusted on a monthly 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 prepaid contributions.

**NOTE 2 – CASH AND INVESTMENTS**

The Trust is authorized to invest monies in interest bearing savings accounts and the County Treasurer's investment pool, as specified by the Board.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of bank failure the Trust'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 \$1,192,181 and the bank balance was \$1,192,181. At year end, \$942,181 of the Trust's deposits were covered by collateral held by the pledging financial institution's trust department or agent but not in the Trust's name.

**YAVAPAI COMBINED TRUST  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020**

**NOTE 2 – CASH AND INVESTMENTS**

*Fair Value Measurements.* The Trust 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 County Treasurer’s pool is an external investment pool with no regulatory oversight. The pool is not required to register (and is not registered) with the Securities and Exchange Commission. The fair value of each participant’s position in the County Treasurer investment pool 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.

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

	<u>Average Maturities</u>	<u>Fair Value</u>
County Treasurer’s investment pool	1.137 years	\$ 11,348,347
Total		<u>\$ 11,348,347</u>

*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. As of year end, the Trust’s investment in the County Treasurer’s investment pool did not receive a credit quality rating from a national rating agency.

*Custodial Credit Risk – Investments.* The Trust’s investment in the County 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.

**YAVAPAI COMBINED TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2020**

**NOTE 3 – CLAIMS 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>2020</u>	<u>2019</u>
Unpaid claims and claim adjustment expenses		
at beginning of the fiscal year	\$ 4,028,669	\$ 5,741,916
Provision for insured events of the current fiscal year	<u>23,075,241</u>	<u>24,282,410</u>
Total incurred claims and claim adjustment expenses	<u>27,103,910</u>	<u>30,024,326</u>
Payments:		
Claims and claim adjustment expenses attributable		
to insured events of the current fiscal year	<u>24,812,013</u>	<u>25,995,657</u>
Total payments	<u>24,812,013</u>	<u>25,995,657</u>
Total unpaid claims and claim adjustment expenses		
at end of the fiscal year	<u>\$ 2,291,897</u>	<u>\$ 4,028,669</u>

At June 30, 2020 and June 30, 2019, \$2,291,897 and \$4,028,669, respectively of unpaid claims and claim adjustment expenses are presented at their estimated ultimate loss. These claims are not discounted.

**REQUIRED SUPPLEMENTARY INFORMATION**

**YAVAPAI COMBINED TRUST  
REQUIRED SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION  
FOR THE TEN-YEAR PERIOD ENDED  
JUNE 30, 2020**

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 total insurance premium cost for group insurance participants. (3) This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims. (4) 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). (5) This section shows the cumulative amounts paid as of the end of successive years for each policy year. (6) This section shows how each policy years 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. (7) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 4) 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.

**YAVAPAI COMBINED TRUST**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**CLAIMS DEVELOPMENT INFORMATION**  
**FOR THE 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	\$ 28,968,094	\$ 26,738,247	\$ 25,373,261	\$ 24,797,619	\$ 23,521,624	\$ 22,674,395	\$ 20,101,193	\$ 20,038,084	\$ 21,919,116	\$ 21,795,871
2. Insurance premiums paid for group insurance participants	1,438,154	1,308,499	1,297,396	1,128,595	1,595,387	1,412,639	1,139,694	1,213,472	1,634,177	1,155,843
3. Unallocated expenses	1,575,994	1,194,886	1,110,635	1,117,807	1,138,922	1,339,478	1,174,369	1,008,161	618,778	996,310
4. Estimated incurred claims and expense, end of policy year	24,734,114	25,768,230	25,182,937	23,860,684	22,609,440	21,628,922	21,759,394	16,482,076	17,878,591	18,303,919
5. Paid (cumulative) as of:										
End of policy year	22,442,217	21,739,561	19,441,021	19,640,986	19,274,541	18,569,055	17,976,276	14,594,103	15,774,591	15,722,919
One year later		24,065,988	24,173,831	21,981,465	19,855,832	19,860,573	20,642,799	14,712,019	17,352,616	17,247,909
Two years later			24,347,737	21,967,524	19,788,405	19,920,495	20,642,799	14,732,075	17,356,485	17,253,722
Three years later				22,044,998	19,782,620	19,917,098	20,642,799	14,732,075	17,354,216	17,253,722
Four years later					19,796,665	19,917,098	20,642,799	14,732,075	17,354,216	17,253,722
Five years later						19,917,098	20,642,799	14,732,075	17,354,216	17,253,722
Six years later							20,642,799	14,732,075	17,354,216	17,253,722
Seven years later								14,732,075	17,354,216	17,253,722
Eight years later									17,354,216	17,253,722
Nine years later										17,253,722
6. Re-estimated incurred claims and expense										
End of policy year	24,734,114	25,768,230	25,182,937	23,860,684	22,609,440	21,628,922	21,759,394	16,482,076	17,878,591	18,303,919
One year later		28,436,021	30,124,126	26,729,319	24,875,524	23,897,572	20,642,799	14,712,019	17,352,616	17,247,909
Two years later			30,220,558	26,721,164	24,811,495	23,944,305	20,642,799	14,732,075	17,356,485	17,253,722
Three years later				26,784,593	24,815,118	23,944,196	20,642,799	14,732,075	17,354,216	17,253,722
Four years later					24,817,268	23,944,196	20,642,799	14,732,075	17,354,216	17,253,722
Five years later						23,944,196	20,642,799	14,732,075	17,354,216	17,253,722
Six years later							20,642,799	14,732,075	17,354,216	17,253,722
Seven years later								14,732,075	17,354,216	17,253,722
Eight years later									17,354,216	17,253,722
Nine years later										17,253,722
7. Increase (decrease) in estimated incurred claims and expense from end of policy year	N/A	2,667,791	5,037,621	2,923,909	2,207,828	2,315,274	(1,116,595)	(1,750,001)	(524,375)	(1,050,197)

**Note:** "Insurance premiums paid for group insurance participants" represents the insurance premiums paid to commercial insurance providers in providing benefits through a combination of self-insurance and group insurance programs. Accordingly, these amounts are included in the estimated incurred claims and expense, paid claims, and re-estimated incurred claims and expense amounts reported above.

**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  
Yavapai Combined 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 the Yavapai Combined Trust, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Yavapai Combined Trust's basic financial statements, and have issued our report thereon dated July 23, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Yavapai Combined Trust's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Yavapai Combined Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Yavapai Combined 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 Yavapai Combined Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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. PC*

Heinfeld, Meech & Co., P.C.  
Scottsdale, Arizona  
July 23, 2021