

**NORTHERN ARIZONA PUBLIC EMPLOYEES
BENEFIT TRUST REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND REPORT ON INTERNAL CONTROL
AND ON COMPLIANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
JUNE 30, 2011

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REPORT ON AUDIT OF FINANCIAL STATEMENTS



HEINFELD, MEECH & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Northern Arizona Public Employees Benefit Trust

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, 2011, as listed in the table of contents. These financial statements are the responsibility of the Trust's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Arizona Public Employees Benefit Trust, as of June 30, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2011 on our consideration of the 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 and claims development information on pages 16 and 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

December 1, 2011

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, 2011**

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, 2011.

FINANCIAL HIGHLIGHTS

- The Trust's total net assets of governmental activities increased \$1.9 million which represents a 16 percent increase from fiscal year 2009-10 primarily as a result of a decrease in claims expenses due to changes in plans and fewer participants.
- Operating revenues accounted for \$24.2 million in revenue. Operating revenues decreased \$852,427 primarily as a result of a decrease in participants. The Trust had approximately \$22.3 million in operating expenses. Operating expenses decreased \$3.7 million as a result of decreased participation, and changes in covered benefits.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Trust's basic financial statements.

The statement of net assets presents information on all of the Trust's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets presents information showing how the Trust's net assets changed during the most recent fiscal year. All changes in net assets 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. GASB Statement No. 34 requires that the basic financial statements include both government-wide financial statements and fund statements. 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, 2011**

OVERVIEW OF FINANCIAL STATEMENTS (Concl'd)

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 basic financial statements.

Other information. In addition to the basic 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 five-year period ended June 30, 2011 is presented as required supplementary information.

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Trust, assets exceeded liabilities by \$13.7 million at the current fiscal year end.

The Trust's financial position is the product of several financial transactions including the net results of activities.

The following table presents a summary of the Trust's net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

	As of June 30, 2011	As of June 30, 2010
Current assets	\$ 15,308,434	\$ 13,511,153
Total assets, net	<u>15,308,434</u>	<u>\$ 13,511,153</u>
Current liabilities	1,639,253	1,725,756
Total liabilities	<u>1,639,253</u>	<u>1,725,756</u>
Net assets:		
Unrestricted	13,669,181	11,785,397
Total net assets	<u>\$ 13,669,181</u>	<u>\$ 11,785,397</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- A \$277,000 decrease in claims payable, due to a decrease in participants.
- An increase of approximately \$1.4 million in cash and cash equivalents as a result of the claims/utilization of the plan being lower than expected.

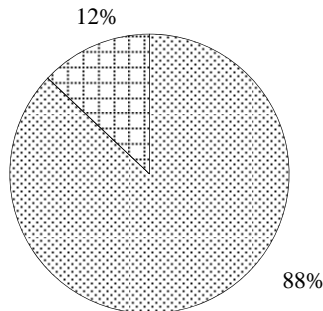
**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS (Concl'd)

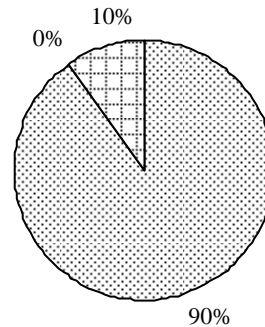
Changes in net assets. The Trust's total revenues for the current fiscal year were \$24.2 million. The total expenses were \$22.3 million. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

	<u>Fiscal Year Ended June 30, 2011</u>	<u>Fiscal Year Ended June 30, 2010</u>
Revenues:		
Operating revenues:		
Contributions	\$ 24,170,144	\$ 25,022,571
Non-operating revenues:		
Investment income	<u>24,735</u>	<u>50,154</u>
Total revenues	<u>24,194,879</u>	<u>25,072,725</u>
Expenses:		
Claims	19,578,987	23,408,514
Premiums		384
Trust administration	<u>2,732,108</u>	<u>2,562,102</u>
Total expenses	<u>22,311,095</u>	<u>25,971,000</u>
Change in net assets	<u>\$ 1,883,784</u>	<u>\$ (898,275)</u>

Fiscal Year 2010-11 Expenses



Fiscal Year 2009-10 Expenses



☒ Claims ☒ Premiums ☒ Trust Administration

The following is a significant current year transaction that had an impact on the Statement of Revenues, Expenses and Changes in Net Assets.

- A 16 percent decrease in claims expenses due to a decrease in participants as well as changes in plans and benefits offered.

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2011**

CLAIM RESERVES

As of June 30, 2011, the Trust had \$1.4 million in claims reserves. The following table presents a summary of the Trust's unpaid claims activity for the fiscal years ended June 30, 2011 and June 30, 2010.

	<u>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 1,687,000	\$ 1,538,000
Incurred claims and claim adjustment expenses: Provision for insured events of the current fiscal year	<u>19,578,987</u>	<u>23,408,514</u>
Total incurred claims and claim adjustment expenses	<u>21,265,987</u>	<u>24,946,514</u>
Payments: Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>19,855,987</u>	<u>23,259,514</u>
Total payments	<u>19,855,987</u>	<u>23,259,514</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 1,410,000</u>	<u>\$ 1,687,000</u>

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

ECONOMIC FACTORS

The primary factor considered by the Trust's administration during the process of developing the fiscal year 2010-11 contribution rates was the prior year claims experience, 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 Flagstaff Unified School District, Northern Arizona Public Employee Benefit Trust, 3285 East Sparrow Avenue, Flagstaff, Arizona 86004.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF NET ASSETS
JUNE 30, 2011

Assets:

Current -

Cash and investments	\$ 14,955,347
Deposits	125,000
Contributions receivable	<u>228,087</u>

Total assets 15,308,434

Liabilities:

Current -

Accounts payable	21,404
Unearned revenue	207,849
Claims payable	<u>1,410,000</u>

Total liabilities 1,639,253

Net assets:

Unrestricted 13,669,181

Total net assets \$ 13,669,181

**NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

Operating revenues:

Contributions - City of Flagstaff	\$	6,307,773
Contributions - Coconino Community College		829,664
Contributions - Coconino County		7,414,769
Contributions - Coconino County Regional Accommodation School District		89,977
Contributions - Flagstaff Housing Authority		191,925
Contributions - Flagstaff Unified School District		8,858,974
Contributions - Northern Arizona Intergovernmental Public Transportation Authority		<u>477,062</u>
 Total operating revenues		 <u>24,170,144</u>

Operating expenses:

Claims		19,578,987
Trust administration		<u>2,732,108</u>
 Total operating expenses		 <u>22,311,095</u>

Operating income

1,859,049

Nonoperating revenues:

Investment income		<u>24,735</u>
 Total nonoperating revenues		 <u>24,735</u>

Change in net assets

1,883,784

Net assets, beginning of year

11,785,397

Net assets, end of year

\$ 13,669,181

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, 2011

Increase in Cash and Cash Equivalents

Cash flows from operating activities:	
Cash received from contributions	\$ 24,149,906
Cash payment for claims	(19,855,987)
Cash payments to suppliers for goods and services	<u>(2,874,460)</u>
Net cash provided by operating activities	<u>1,419,459</u>
Cash flows from investing activities:	
Investment income	<u>24,735</u>
Net cash provided by investing activities	<u>24,735</u>
Net increase in cash and cash equivalents	<u>1,444,194</u>
Cash and cash equivalents, beginning of year	<u>13,511,153</u>
Cash and cash equivalents, end of year	<u><u>\$ 14,955,347</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating income	\$ 1,859,049
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Increase in deposits	(125,000)
Increase in accounts receivable	(228,087)
Decrease in accounts payable	(17,352)
Increase in unearned revenue	207,849
Decrease in claims payable	<u>(277,000)</u>
Total adjustments	<u>(439,590)</u>
Net cash provided by operating activities	<u><u>\$ 1,419,459</u></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, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 basic 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 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.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concl'd)

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.

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 assets 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.

Statement of Cash Flows - 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.

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 assets as assets.

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

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.

NORTHERN ARIZONA PUBLIC EMPLOYEES BENEFIT TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 \$5,915,390 and the bank balance was \$5,915,390. At year end \$250,000 of the Trust's deposits were covered by Federal depository insurance and \$5,665,390 were covered by collateral held by the pledging financial institution's trust department or agent but not in the Trust's name.

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.

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

	<u>Average Maturities</u>	<u>Fair Value</u>
State Treasurer's investment pool 7	47 days	\$ 9,039,957
Total		<u>\$ 9,039,957</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. Investments in the State Treasurer's investment pool 7 were unrated 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, 2011

NOTE 3 - 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>2011</u>	<u>2010</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 1,687,000	\$ 1,538,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	<u>19,578,987</u>	<u>23,408,514</u>
Total incurred claims and claim adjustment expenses	<u>21,265,987</u>	<u>24,946,514</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	<u>19,855,987</u>	<u>23,259,514</u>
Total payments	<u>19,855,987</u>	<u>23,259,514</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 1,410,000</u>	<u>\$ 1,687,000</u>

At June 30, 2011 and June 30, 2010, \$1,410,000 and \$1,687,000, 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 FIVE-YEAR PERIOD ENDED JUNE 30, 2011**

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 FIVE-YEAR PERIOD ENDED JUNE 30, 2011**

	2011	2010	2009	2008	2007
1. Net earned required contribution investment revenues and losses	\$ 24,194,879	\$ 25,072,725	\$ 24,419,119	\$ 24,997,464	\$ 27,931,040
2. Unallocated expenses	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	19,578,987	23,408,514	20,410,826	19,392,433	15,884,304
4. Paid (cumulative) as of end of policy year	18,140,987	21,721,321	18,872,826	17,617,433	14,229,304
5. Re-estimated incurred claims and expense end of policy year	19,578,987	24,640,871	20,878,104	18,864,176	15,889,566
6. Increase (decrease) in estimated incurred claims and expense from end of policy year, one year later	N/A	1,232,357	467,278	(528,257)	(5,262)

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**

To the Board of Trustees
Northern Arizona Public Employees Benefit Trust

Members of the Board:

We have audited the basic financial statements of the Northern Arizona Public Employees Benefit Trust as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. 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.

Internal Control Over Financial Reporting

Management of Northern Arizona Public Employees Benefit Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Northern Arizona Public Employees Benefit Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Northern Arizona Public Employees Benefit Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Northern Arizona Public Employees Benefit Trust's internal control over financial reporting.

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 the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, governmental agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heinfeld, Meech & Co., P.C.

HEINFELD, MEECH & CO., P.C.
Certified Public Accountants

December 1, 2011