Chandler Health Care Benefits Trust
Financial Statements and Report on Internal Control and on Compliance
Year Ended December 31, 2022

CHANDLER HEALTH CARE BENEFITS TRUST
DECEMBER 31, 2022

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Independent Auditor's Report

Board of Trustees
Chandler Health Care Benefits Trust

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Chandler Health Care Benefits Trust (Trust), an internal service fund of the City of Chandler, Arizona, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Chandler Health Care Benefits Trust, as of December 31, 2022, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Chandler Health Care Benefits Trust and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1A, the financial statements of the Chandler Health Care Benefits Trust, an internal service fund of the City of Chandler, Arizona, are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the City of Chandler, Arizona, that is attributable to the transactions of the Chandler Health Care Benefits Trust. They do not purport to, and do not present fairly the financial position of the City of Chandler, Arizona, as of December 31, 2022, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the financial statements. Such information is the responsibility of management and, 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 31, 2023, on our consideration of the Chandler Health Care Benefits 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 Chandler Health Care Benefits 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 the Chandler Health Care Benefits Trust's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Tucson, Arizona
May 31, 2023

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

As management of the Chandler Health Care Benefits 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 year ended December 31, 2022. The management's discussion and analysis is presented as required supplementary information to provide additional explanation to the financial statements.

FINANCIAL HIGHLIGHTS

- The Trust's total net position increased approximately $697,000 to $12.0 million, primarily due to a contribution of $5.0 million that was transferred in from the City's General Fund.

- Operating revenues of $22.8 million included $18.2 million in employer premiums, $2.1 million in employee premiums and $2.3 million in retiree premiums.

- The Trust had approximately $26.9 million in operating expenses, consisting primarily of $23.5 million of claims expense.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

OVERVIEW OF FINANCIAL STATEMENTS

The statement of cash flows outlines the cash inflows and outflows related to the operation of the Trust for the year ended. As discussed more thoroughly in Note 1 to the financial statements, the operations of the Trust are accounted for as an element of the City of Chandler's internal service funds. As a result, only the financial statements required for the financial activity of the Trust are presented.

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.

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 $12.0 million at the current fiscal year end.

The following table presents a summary of the Trust's net position for the fiscal years ended December 31, 2022 and 2022.

	2022	2021
Current assets	$ 17,687,847	$ 17,001,383
Total assets	17,687,847	17,001,383
Current liabilities	5,315,041	5,442,829
Noncurrent liabilities	342,800	226,000
Total liabilities	5,657,841	5,668,829
Net position:		
Unrestricted	12,030,006	11,332,554
Total net position	$ 12,030,006	$ 11,332,554

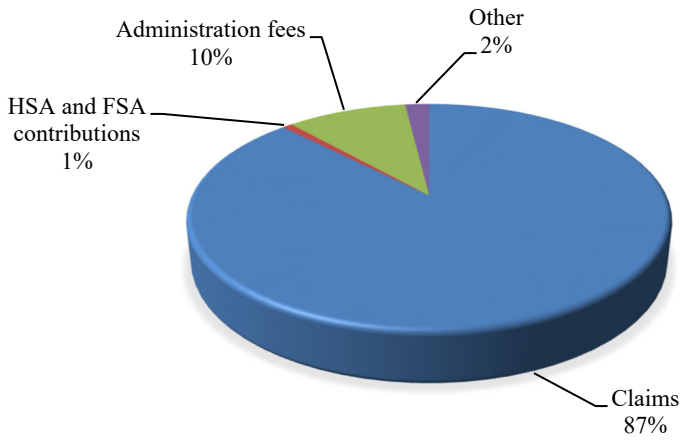
At the end of the current and prior year, the Trust reported a positive net position. The Trust's financial position is the product of several financial transactions, including the net results of activities. The change in total assets is primarily due to an increase in amounts due from the City at year end. The change in total liabilities was less than one percent.

FINANCIAL ANALYSIS

Changes in net position. The Trust's total revenues for the current fiscal year were $27.6 million. The total expenses were $26.9 million. The following table presents a summary of the changes in net position for the years ended December 31, 2022 and 2021.

	2022	2021
Revenues:		
Contributions and premiums	$ 22,584,456	$ 21,999,044
Investment income	(255,392)	(65,166)
Other	230,280	258,384
City funding	5,000,000	
Total revenues	27,559,344	22,192,262
Expenses:		
Claims	23,530,166	22,438,970
HSA and FSA contributions	212,450	225,050
Administrative fees	2,595,348	1,987,229
Other	523,928	797,214
Total expenses	26,861,892	25,448,463
Changes in net position	697,452	(3,256,201)
Net position, beginning	11,332,554	14,588,755
Net position, ending	$ 12,030,006	$ 11,332,554

Expenses - Fiscal Year 2022



FINANCIAL ANALYSIS

The following are significant current year transactions that have had an impact on the change in net position.

- An increase in contributions and premiums of $585,412 (2.7%).
- An increase in total revenue of $5.4 million primarily due to a one-time contribution from the City's General Fund, in the amount of $5.0 million. This contribution was approved by the Board to keep up with recent spending trends of the Trust.
- An increase in claims expenses of $1.1 million primarily due to the increased incurred but not reported (IBNR) liability.

CLAIMS PAYABLE

As of December 31, 2022, the Trust had $5.6 million in claims payable. Additional information on the Trust's claims payable can be found in Note 3.

ECONOMIC FACTORS, RESERVE LEVELS AND NEXT YEAR'S RATES

An actuarial analysis is completed annually and updated throughout the plan year to help ensure the Trust is funded at an appropriate level and to monitor economic impacts that will affect future rate setting and reserves. The Trust's goal is to maintain a minimum end of year reserve equal to the IBNR plus two months of costs. For the year ended December 31, 2022, the actuary estimated a minimum reserve of $8,314,000 (IBNR as of December 31, 2022 of $3,428,000 + 2023 two months of Incurred Claims and Administration of $4,886,000), and the Trust's net position at December 31, 2022 was $12,030,006. Based on end of year results, it was determined that contributions were adequate to maintain the appropriate reserve level as of December 31, 2022.

During the process of developing the contribution rates for the year ended December 31, 2023, many factors are considered by the Trust's administration. The primary factors taken into consideration are threefold: attempt to keep rates affordable, while staying within industry pricing; ensure reserves are sufficient to maintain the financial health of the Trust; and address current and future implications of the Affordable Care Act. Due to recent spending trends, it is projected that the City's General Fund will provide a $5.0 million contribution in fiscal year 2023-24. Additionally, a rate increase of 8.0% in calendar year 2024 is projected as well.

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 the Management Services Department, Chandler Health Care Benefits Trust; 175 South Arizona Avenue, 4th Floor; Chandler, Arizona 85225, 480-782-2333.

CHANDLER HEALTH CARE BENEFITS TRUST
STATEMENT OF NET POSITION
DECEMBER 31, 2022

Assets	
Current assets:	
Cash and investments	$ 14,832,677
Accrued investment income	66,310
Accounts receivable	90,758
Due from City	2,698,102
Total assets	17,687,847
Liabilities	
Current liabilities:	
Accounts payable	7,921
Accrued payroll	10,764
Compensated absences payable	44,792
Employee claims payable, due to Blue Cross Blue Shield	1,537,326
Retiree claims payable, due to Blue Cross Blue Shield	628,888
COBRA claims payable, due to Blue Cross Blue Shield	150
Claims payable, incurred claims but not reported	3,085,200
Total current liabilities	5,315,041
Noncurrent liabilities:	
Claims payable, incurred claims but not reported	342,800
Total noncurrent liabilities	342,800
Total liabilities	5,657,841
Net position	
Unrestricted	$ 12,030,006

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

CHANDLER HEALTH CARE BENEFITS TRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2022

Operating revenues:	
Contributions:	
Employer premiums	$ 18,181,137
Employee premiums	2,087,082
Retiree premiums	2,277,877
COBRA premiums	38,360
Other:	
Recovery of medical claims	50,280
Wellness programs	125,000
Administrator contribution	55,000
Total operating revenues	22,814,736
Operating expenses:	
Claims paid - employees	18,114,513
Claims paid - retirees	4,185,801
Claims paid - COBRA	61,852
Claims incurred but not reported	1,168,000
Health savings and flexible spending account contributions	212,450
Personnel services	442,415
Contractual services	14,274
Self-insurance administrative fees	2,595,348
Wellness programs	24,279
Comparative effectiveness fee	9,267
Audit fees	8,340
Bank fees	382
Promotional	5,055
Operating supplies	14,386
Total operating expenses	26,856,362
Operating income (loss)	(4,041,626)
Nonoperating revenues (expenses):	
Payments to City	(5,530)
City funding	5,000,000
Investment income (loss)	(255,392)
Total nonoperating revenues (expenses)	4,739,078
Change in net position	697,452
Net position, beginning of year	11,332,554
Net position, end of year	$ 12,030,006

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

CHANDLER HEALTH CARE BENEFITS TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

Increase/Decrease in Cash and Cash Equivalents	
Cash flows from operating activities:	
Cash received for premiums and other operating purposes	$ 18,889,502
Cash payments for claims	(22,399,925)
Cash payments to suppliers for other services	(2,865,939)
Cash payments to employees for services	(452,287)
Net cash provided by/used for operating activities	(6,828,649)
Cash flows from noncapital financing activities:	
Cash paid to City for technology replacement	(5,530)
City funding	5,000,000
Net cash provided by/used for non-capital financing activities	4,994,470
Cash flows from investing activities:	
Investment income	(703,064)
Proceeds from sales of investments	23,984,626
Purchases of investments	(21,447,383)
Net cash provided by/used for investing activities	1,834,179
Net increase/decrease in cash and cash equivalents	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	$ -
Reconciliation of operating income/loss to cash provided by/used for operating activities:	
Operating income/loss	$ (4,041,626)
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Changes in assets and liabilities:	
Increase/decrease in accounts receivable	(90,758)
Increase/decrease in due to/from City	(3,834,476)
Increase/decrease in prepaids	12,826
Increase/decrease in claims payable	1,130,240
Increase/decrease in accounts payable	5,017
Increase/decrease in accrued payroll	(7,051)
Increase/decrease in compensated absences payable	(2,821)
Net cash provided by/used for operating activities	$ (6,828,649)
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:	
Cash and cash equivalents	$ -
Investments	14,832,677
Cash and investments	$ 14,832,677

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Chandler Health Care Benefits Trust (Trust) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. 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.

A. Reporting Entity

The Trust is accounted for as an internal service fund of the City of Chandler, Arizona (City), and the ultimate financial accountability for the Trust remains with the City. General risk management is a responsibility of the City. Additional information about the City is reported in the City's Annual Comprehensive Financial Report.

The Trust was organized in September 2010 for the purpose of funding payments to health care vendors who provide health care services to benefit-eligible participating City employees, elected officials, retirees, eligible dependents, and other eligible persons as determined by the City. The financial statements present only the Trust as one of the internal service funds of the City and are not intended to present the balances and activity of all City internal service funds or the City in its entirety.

The Health Care Benefits Trust Board (Board) consists of five trustees. No Trustee may be a member of the City Council and no more than one Trustee may be an employee of the City. No former member of the City Council or former employee of the City shall be a Trustee.

B. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues generally consist of employer and employee premiums and other related revenues, while operating expenses are primarily the payment of health claims and the administration of the Trust. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. 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 when purchased to be cash equivalents.

The Board adopted a resolution to cause the assets of the Trust to be invested, consistent with the City's investment policy. The Trust's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 federal depository 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.

D. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements when applicable.

E. Compensated Absences

Vacation leave vests with the employee as it is earned dependent on accumulated time and the individual's vacation benefits. All employees may carry-forward only the amount of vacation benefits equal to the maximum allowable earned credits for the preceding calendar year. Upon termination or retirement, an employee will be compensated for accumulated vacation leave dependent on accumulated time and the individual's vacation benefits. Payment will be based on the individual's rate of pay at termination or retirement. Upon death, the same benefits shall be paid to the employee's beneficiary.

F. Claims Payable

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.

G. 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 assets that applies to a future period and so will not be recognized as an outflow of resources (expense) until then.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In addition to liabilities, the statement of net 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 assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

H. Contributions

The Trust agreement provides that each participating member and the City contribute a specified amount to the Trust. The contribution rates are determined by the Board on an annual basis.

I. Investment Income

Investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

J. Net Position Flow Assumption

In the financial statements the Trust applies restricted resources first when outlays are incurred for purposes for which either restricted or unrestricted amounts are available.

K. Estimates

The preparation of the 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 may differ from those estimates.

L. Reinsurance

The Trust has entered into reinsurance contracts for health insurance coverage. Reinsurance coverage is for specific losses in excess of $350,000, with a 125 percent aggregate limit.

NOTE 2 – CASH AND INVESTMENTS

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. At year end, both the carrying amount of the Trust's deposits and the bank balance were zero.

NOTE 2 – CASH AND INVESTMENTS

The following summarizes amounts reported as investments in the accompanying financial statements:

			Investment Maturities			
Investment Type	Category	Fair Value	Less than 1 Year	1-5 Years	Concentration of Credit Risk %	S&P / Moody's Rating
Money Market Fund	Level 1	$ 10	$ 10	$	0.00%	AAAm/NR
Custodial Money Market	Level 1	2,040,944	2,040,944		13.76%	AAAm/NR
Certificate of Deposit:						
Credit Suisse New York	Level 2	138,648	138,648		0.93%	A-2/P-2
Toronto Dominion Bank NY	Level 2	249,894		249,894	1.68%	A/A1
U.S. Treasuries	Level 1	5,484,430	434,629	5,049,801	36.98%	
Municipal Bond						
Scottsdale, AZ TXBL GO Bonds	Level 2	80,254		80,254	0.54%	AAA/Aaa
U.S. Agencies:						
Fannie Mae	Level 2	1,761,119	1,393,846	367,273	11.87%	AA+/Aaa
Federal Home Loan Banks	Level 2	858,640		858,640	5.79%	AA+/Aaa
Freddie Mac	Level 2	1,856,289	1,856,289		12.51%	AA+/Aaa
Corporate Bonds:						
Adobe Inc Corporation	Level 2	99,657	99,657		0.67%	A+/A2
Amazon.com	Level 2	201,952	98,180	103,772	1.36%	AA/A1
Apple Corp.	Level 2	255,908		255,908	1.73%	AA+/Aaa
Bank of America Corporation	Level 2	129,478		129,478	0.87%	A-/A2
Caterpillar Finl Service Corporation	Level 2	134,065	134,065		0.90%	A/A2
Cisco Systems Inc Corp	Level 2	223,872		223,872	1.51%	AA-/A1
Hershey Company	Level 2	164,065	164,065		1.11%	A/A1
JPMorgan Chase & CO Corporation	Level 2	208,140		208,140	1.40%	A-/A1
Merck & Co Inc Corp	Level 2	220,536		220,536	1.49%	A+/A1
Microsoft Corp	Level 2	254,872		254,872	1.72%	AAA/Aaa
Texas Instruments Inc Corp	Level 2	34,963		34,963	0.24%	A+/Aa3
Toyota Motor Credit Corporation	Level 2	131,864	131,864		0.89%	A+/A1
Wal-Mart Stores Inc Corporation	Level 2	303,077	303,077		2.04%	AA/Aa2
		$14,832,677	$ 6,795,274	$ 8,037,403	100.00%	

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

NOTE 2 – CASH AND INVESTMENTS

Valuation Techniques. U.S. Treasuries and Money Market Funds are classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for identical securities. Governmental bonds, corporate bonds, and other fixed income instruments classified in Level 2 of the fair value hierarchy are valued based on significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks and default dates) or other market corroborated inputs. All investments in which the fair value hierarchy is applicable are measured at fair value on a recurring basis.

Interest Rate Risk. In accordance with the City's investment policy, the Trust manages its exposure to declines in fair value by limiting the maturities of its investment portfolio to five years.

Credit Risk. In accordance with the City's investment policy, the Trust allows for investments in obligations guaranteed by the full faith and credit of the United States of America, government sponsored enterprises, government bonds with minimum credit ratings of AA+ or Aaa, commercial paper with a minimum short term rating of A-1 or P-1, negotiable certificates of deposit, corporate bonds carrying a minimum credit rating of A-, and the Local Government Investment Pool. The Trust's investments in U.S. Agencies, Corporate Bonds and Money Market Funds were rated no lower than AA+, BBB+ and AAAm by Standard & Poor's, respectively, as of year end.

Custodial Credit Risk - Investments. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To limit its exposure and in accordance with the City's investment policy, the Trust requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Trust's agent separate from where the investment was purchased or by the trust department of the bank where purchased, in the Trust's name.

Concentration of Credit Risk. In accordance with the City's investment policy, the Trust does not allow for an investment in any one issuer that is in excess of five percent of the total investments. Securities issued by the United States of America or its agencies are exempt from this provision.

NOTE 3 – CLAIMS PAYABLE

As discussed in Note 1, the Trust establishes a liability for both reported and unreported claims costs, which includes estimates of both future claim payments and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during the year ended December 31, 2022 and 2021.

	2022	2021
Unpaid claims and claim adjustments, beginning	$ 4,464,123	$ 4,370,831
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	23,674,372	21,405,686
Increase in provision for insured events of prior years	(144,206)	1,033,282
Total claims and claim adjustment expenses	23,530,166	22,438,968
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	(19,071,428)	(18,863,232)
Claims and claim adjustment expenses attributable to insured events of prior years	(3,328,497)	(3,482,444)
Total claims payments	(22,399,925)	(22,345,676)
Unpaid claims and claim adjustments, ending	$ 5,594,364	$ 4,464,123

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
Chandler Health Care Benefits 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 Chandler Health Care Benefits Trust, an internal service fund of the City of Chandler, Arizona, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Chandler Health Care Benefits Trust's financial statements, and have issued our report thereon dated May 31, 2023. Our report included an emphasis of matter paragraph regarding the financial statements not representing the entire City of Chandler, Arizona.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chandler Health Care Benefits 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chandler Health Care Benefits Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Chandler Health Care Benefits 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chandler Health Care Benefits 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.
Tucson, Arizona
May 31, 2023