

**Chandler Worker's Compensation and Employer Liability Trust
Financial Statements and
Report on Internal Control and on Compliance
Year Ended June 30, 2022**

**CHANDLER WORKER’S COMPENSATION
AND EMPLOYER LIABILITY TRUST
JUNE 30, 2022**

<u>CONTENTS</u>	<u>Page</u>
Independent Auditor’s Report	1
Management’s Discussion and Analysis (MD&A)	5
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements	13
Report on Internal Control and on Compliance	20

Independent Auditor's Report

Board of Trustees
Chandler Worker's Compensation and Employer Liability Trust

Report on Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of the Chandler Worker's Compensation and Employer Liability Trust (Trust), an internal service fund of the City of Chandler, Arizona, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Chandler Worker's Compensation and Employer Liability Trust, as of June 30, 2022, and the changes in financial position and its cash flows 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 Chandler Worker's Compensation and Employer Liability 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 – Fund Financial Statements

As discussed in Note 1A, the financial statements of the Chandler Worker's Compensation and Employer Liability 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 Worker's Compensation and Employer Liability Trust. They do not purport to, and do not present fairly the financial position of the City of Chandler, Arizona, as of June 30, 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 December 8, 2022, on our consideration of Chandler Worker's Compensation and Employer Liability 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 Worker's Compensation and Employer Liability 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 Chandler Worker's Compensation and Employer Liability Trust's internal control over financial reporting and compliance.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co, P.C.
Tucson, Arizona
December 8, 2022

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

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

As management of the Chandler Worker's Compensation and Employer Liability 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 June 30, 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 \$854,034 primarily due to a decrease of \$1.2 million in claims and related adjustments incurred.
- Operating revenues of \$4.4 million consist of employer premium contributions.
- The Trust had approximately \$3.9 million in operating expenses, consisting primarily of \$2.2 million of claims incurred, (\$504,080) in claim adjustments attributable to the decreased IBNR liability, and \$549,681 in claim adjustments attributable to an increase in case reserves.

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.

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 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.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

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.

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 \$4.9 million at the current fiscal year end.

The following table presents a summary of the Trust's net position for the fiscal year ended June 30, 2022 and 2021.

	As of June 30, 2022	As of June 30, 2021
Current assets	\$ 15,452,567	\$ 14,606,949
Total assets	<u>15,452,567</u>	<u>14,606,949</u>
Current liabilities	4,294,445	4,330,221
Noncurrent liabilities	6,302,617	6,275,257
Total liabilities	<u>10,597,062</u>	<u>10,605,478</u>
Net position:		
Unrestricted	4,855,505	4,001,471
Total net position	<u>\$ 4,855,505</u>	<u>\$ 4,001,471</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 increase in total assets of \$845,618 is primarily due to larger cash balances as a result of decreased claims expenses and related adjustments. Total liabilities decreased \$8,416.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

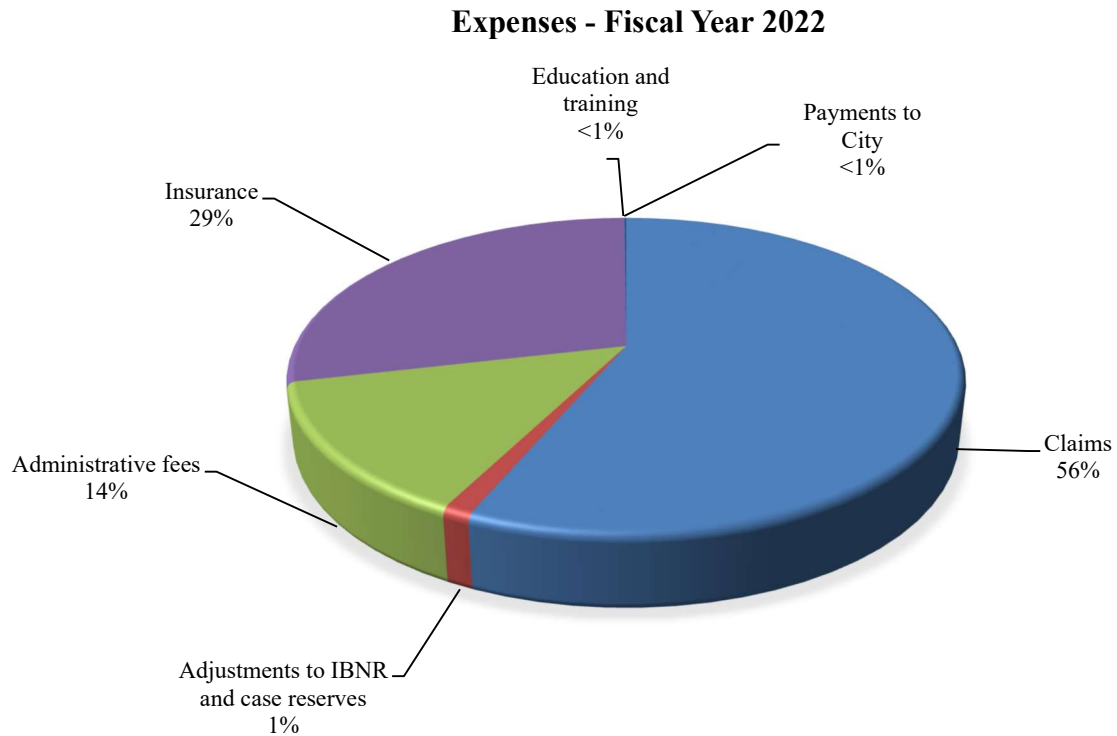
FINANCIAL ANALYSIS

Changes in net position. The Trust's total revenues for the current fiscal year were \$4.8 million. The total expenses were \$3.9 million. The following table presents a summary of the changes in net position for the fiscal year ended June 30, 2022 and 2021.

	Fiscal Year Ended <u>June 30, 2022</u>	Fiscal Year Ended <u>June 30, 2021</u>
Revenues:		
Operating revenues:		
Contributions	\$ 4,448,476	\$ 4,581,388
Other		10,452
Nonoperating revenues:		
Cost reimbursement from Municipal Utilities	58,922	57,286
Funding assistance from City	676,429	
Investment income/loss	<u>(422,867)</u>	<u>25,080</u>
Total revenues	<u>4,760,960</u>	<u>4,674,206</u>
Expenses:		
Operating expenses:		
Claims	2,204,720	1,836,434
Adjustments to IBNR and case reserves	45,601	1,663,047
Administrative fees	538,103	494,762
Insurance	1,114,018	379,837
Education and training	639	503
Nonoperating expenses:		
Payments to City	<u>3,845</u>	<u>3,845</u>
Total expenses	<u>3,906,926</u>	<u>4,378,428</u>
Changes in net position	<u>854,034</u>	<u>295,778</u>
Net position, beginning	<u>4,001,471</u>	<u>3,705,693</u>
Net position, ending	<u>\$ 4,855,505</u>	<u>\$ 4,001,471</u>

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

FINANCIAL ANALYSIS



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

- The funding contribution from the City of \$676,429 used for the Municipal Firefighter Cancer Reimbursement Fund administered by the Industrial Commission of Arizona.
- Investment losses of \$422,867 due to market conditions.
- The decrease in the IBNR liability of \$504,080, and the increase in case reserves of \$549,681.

CLAIMS PAYABLE

The actuarial analysis completed as of June 30, 2022 projected \$1.9 million as claims incurred but not reported (IBNR) and \$8.6 million as case reserves. Therefore as of June 30, 2022, the Trust had \$10.5 million in total claims payable liability. Additional information on the Trust's claims payable can be found in Note 3.

**CHANDLER WORKER’S COMPENSATION
AND EMPLOYER LIABILITY TRUST
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2022**

ECONOMIC FACTORS, RESERVE LEVELS AND NEXT YEAR’S RATES

The Trust’s Board reviews rates and reserve levels annually and considered many factors to develop the contribution rates for the fiscal year ended June 30, 2022. The primary factor was keeping rates affordable while ensuring reserves are sufficient to maintain the health of the Trust, which requires reviews of the claim history to determine ongoing obligations versus one-time payouts. While the Self Insured Retention (SIR) increased from \$750,000 to \$1.0 million and from \$2.25 million to \$3.0 million for public safety, the ongoing workers compensation contribution did not change for fiscal year 2022-23.

The Trust’s governing document provides that the Trust Board shall set rates to maintain a restricted reserve at no less than the minimum (or nominal) amount recommended and attested by the actuarial analysis completed annually. This analysis helps measure that the Trust is funded to the appropriate level by projecting the unpaid loss and allocated loss adjustment expense (Loss+ALAE) for all prior self-funded fiscal years (beginning January 1, 2003) and the projected ultimate Loss+ALAE for the policy period 7/1/22-6/30/23. The Trust document requires the reserve to be no less than the minimum or nominal value. The actuarial analysis projected these levels as follows:

	Nominal “Central” Value
Estimated Unpaid Losses & ALAE	\$10,504,362
Projected Ultimate Losses & ALAE	2,907,000
Reserve Goal Based on 6/30/22 Actuarial Report	<u>\$13,411,362</u>

Note: The Reserve Goal includes the IBNR and case reserves that have been recognized in the audited financial statements.

In comparing the audited Net Position as of June 30, 2022 without the IBNR and case reserves (Estimated Unpaid Losses & ALAE) (\$4,855,505 + \$10,504,362 = \$15,359,867) to the Nominal Value Reserve Goal based on the June 30, 2022 actuarial report, the Trust reserve level is \$1,948,505 above the goal as of year-end. The Trust Board and City Council approved no change to the ongoing contribution for fiscal year 2022-23.

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 Worker’s Compensation and Employer Liability Trust, 175 South Arizona Avenue, 3rd Floor, Chandler, Arizona 85225.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
STATEMENT OF NET POSITION
JUNE 30, 2022**

Assets

Current assets:

Cash and investments	\$ 14,444,573
Due from City - premiums	983,185
Accrued investment income	<u>24,809</u>

Total assets	<u><u>15,452,567</u></u>
---------------------	--------------------------

Liabilities

Current liabilities:

Claims payable, current	4,241,745
Accounts payable	6,225
Accrued payroll	16,334
Compensated absences payable	<u>30,141</u>
Total current liabilities	4,294,445

Noncurrent liabilities:

Claims payable, long term	<u>6,302,617</u>
Total noncurrent liabilities	6,302,617

Total liabilities	<u><u>10,597,062</u></u>
--------------------------	--------------------------

Net position

Unrestricted	<u><u>\$ 4,855,505</u></u>
--------------	----------------------------

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022**

Operating revenues:

Contributions:

Employer self insurance premiums	\$ 4,448,476
----------------------------------	--------------

Total operating revenues	4,448,476
---------------------------------	-----------

Operating expenses:

Claims	2,204,720
Adjustment to claims incurred but not reported	(504,080)
Adjustment to case reserves	549,681
Personnel services	476,173
Professional services	49,399
Operating supplies	12,214
Communication and transportation	317
Excess insurance	392,736
Premium insurance	44,853
Other insurance	676,429
Education and training	639

Total operating expenses	3,903,081
---------------------------------	-----------

Operating income (loss)	545,395
--------------------------------	---------

Nonoperating revenues (expenses):

Investment income (loss)	(422,867)
Payments to City	(3,845)
Funding assistance from City	676,429
Cost reimbursements from Municipal Utilities	58,922

Total nonoperating revenues (expenses)	308,639
---	---------

Change in net position	854,034
-------------------------------	---------

Net position, beginning of year	4,001,471
--	-----------

Net position, end of year	\$ 4,855,505
----------------------------------	--------------

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022**

Increase/Decrease in Cash and Cash Equivalents

Cash flows from operating activities:

Cash received for premiums	\$ 4,159,535
Cash payments for claims	(2,199,262)
Cash payments to suppliers for other services	(1,241,685)
Cash payments to employees for services	<u>(470,550)</u>

Net cash provided by/used for operating activities	<u>248,038</u>
--	----------------

Cash flows from non-capital financing activities:

Cash paid to City for technology replacement	(3,845)
Cash received from the City for other purposes	<u>735,351</u>

Net cash provided by/used for non-capital financing activities	<u>731,506</u>
--	----------------

Cash flows from investing activities:

Investment income	(430,193)
Proceeds from sales of investments	2,258,121
Purchases of investments	<u>(2,807,472)</u>

Net cash provided by/used for investing activities	<u>(979,544)</u>
--	------------------

Net increase/decrease in cash and cash equivalents	-
--	---

Cash and cash equivalents, beginning of year	<u>-</u>
--	----------

Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
--	--------------------

Reconciliation of operating income/loss to cash provided by/used for operating activities:

Operating income/loss	\$ 545,395
Adjustments to reconcile operating income/loss to net cash provided by/used for operating activities:	
Changes in assets and liabilities:	
Increase/decrease in due from City	(288,941)
Increase/decrease in claims payable	51,059
Increase/decrease in accounts payable	(12,350)
Increase/decrease in miscellaneous payables	(52,748)
Increase/decrease in accrued payroll	3,749
Increase/decrease in compensated absences	<u>1,874</u>

Net cash provided by/used for operating activities	<u><u>\$ 248,038</u></u>
--	--------------------------

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:

Cash and cash equivalents	\$ -
Investments	<u>14,444,573</u>

Cash and investments	<u><u>\$ 14,444,573</u></u>
----------------------	-----------------------------

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

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Chandler Worker's Compensation and Employer Liability 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 February 2013 for the purpose of funding work-related injuries to eligible City employees and elected officials. The financial statements present only the Chandler Worker's Compensation and Employer Liability Trust as one of the internal service funds of the City of Chandler and are not intended to present the balances and activity of all City internal service funds or the City in its entirety.

The Chandler Worker's Compensation and Employer Liability Trust Board (Board) consists of five trustees. No Trustee may be a member of the City's Council and no more than one Trustee may be an employee of the City. No former member of the City's 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 premiums and other related revenues, while operating expenses are primarily the payment of claims and administration costs of operating the Trust. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 of Chandler Investment Policy. The Trust's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

Arizona statute requires a pooled collateral program for public deposits and a Statewide Collateral Pool Administrator (Administrator) in the State Treasurer's Office. The purpose of the pooled collateral program is to ensure that governmental entities' public deposits placed in participating depositories are secured with collateral of 102 percent of the public deposits, less any applicable deposit insurance. An eligible depository may not retain or accept any public deposit unless it has deposited the required collateral with a qualified escrow agent or the Administrator. The Administrator manages the pooled collateral program, including reporting on each depository's compliance with the program.

D. 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.

E. 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.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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.

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 assets that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

G. Contributions

The Trust agreement provides that the City contribute a specified amount to the Trust to fulfill the needs and purposes of the Trust. The City Council shall make an appropriation of funds to the Trust as part of the annual City budget.

H. Investment Income

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

I. 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.

J. 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.

K. Reinsurance

The Trust has entered into reinsurance contracts for excess coverage. Reinsurance coverage is for specific losses in excess of \$1.0 million for non-public safety employees and \$3.0 million for public safety employees, with a \$2.0 million indemnity limit per occurrence.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 – CASH AND INVESTMENTS

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

Investment Type	Category	Fair Value	Investment Maturities (in Years)		Concentration of Credit Risk %	Rating
			Less than 1	1-5		
Money Market Fund	N/A	\$ 1,186,885	\$ 1,186,885	\$	8.2	AAAm/NR
U.S. Treasuries	Level 1	8,415,820	1,087,155	7,328,665	58.2	AA+/Aaa
Municipal Bond/Note						
Scottsdale, AZ TXBL GO Bonds	Level 2	50,975		50,975	0.4	AAA/Aaa
U.S. Agencies:						
Fannie Mae	Level 2	1,052,022	131,979	920,043	7.3	AA+/Aaa
Freddie Mac	Level 2	1,989,609	303,135	1,686,474	13.8	AA+/Aaa
Corporate Bonds:						
Adobe Inc Corp Note	Level 2	99,118	99,118		0.7	A+/A2
Amazon.com Inc Corp Notes	Level 2	166,452	99,906	66,546	1.2	AA/A1
Texas Instruments Inc Corp	Level 2	140,690		140,690	1.0	A+/Aa3
John Deere Captial Corp	Level 2	38,638		38,638	0.3	A/A2
Bank of America Corporation	Level 2	191,901		191,901	1.3	A-/A2
Caterpillar Financial Service	Level 2	93,449	93,449		0.6	A/A2
Hershey Company	Level 2	85,607	85,607		0.6	A/A1
JPMorgan Chase & Co. Corporate	Level 2	163,295		163,295	1.1	A-/A2
State Street Corp Corporate	Level 3	19,211		19,211	0.1	A/A1
Toyota Motor Credit Corp Corporate	Level 2	73,384		73,384	0.5	A+/A1
Certificate of Deposit:						
Credit Suisse New York CD	Level 2	344,355	344,355		2.4	A-1/P-1
Skandinav Enskilda Bank LT CD	Level 2	129,980	129,980		0.9	A-1/P-1
UBS Ag Stamford CT CD	Level 2	149,535	149,535		1.0	A-1/P-1
Subtotal		14,390,926	3,711,104	10,679,822		
Custodial Money Market	Level 1	53,647	53,647		0.4	AAAm/NR
Total		<u>\$ 14,444,573</u>	<u>\$ 3,764,751</u>	<u>\$ 10,679,822</u>		

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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

Valuation Techniques. U.S. Treasuries and money market investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments. Governmental bonds, corporate bonds, other fixed income instruments, and international bonds 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 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 P1 or A1, negotiable certificates of deposit, corporate bonds carrying a minimum credit rating of A-, repurchase agreements, 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+, A- and AAAM by Standard & Poor's, respectively, as of June 30, 2022.

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.

**CHANDLER WORKER'S COMPENSATION
AND EMPLOYER LIABILITY TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 – CASH AND INVESTMENTS

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 future claim payments and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Trust during the period ended June 30, 2022 and June 30, 2021.

	<u>2022</u>	<u>2021</u>
Unpaid claims and claim adjustments, beginning, as restated	\$ 10,493,303	\$ 8,798,989
Incurred claims and claim adjustments	2,250,321	3,499,481
Claims payments	<u>(2,199,262)</u>	<u>(1,805,167)</u>
Unpaid claims and claim adjustments, ending	<u>\$ 10,544,362</u>	<u>\$ 10,493,303</u>

**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 Worker's Compensation and Employer Liability 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 Worker's Compensation and Employer Liability Trust, an internal service fund of the City of Chandler, Arizona, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Chandler Worker's Compensation and Employer Liability Trust's financial statements, and have issued our report thereon dated December 8, 2022. 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 Worker's Compensation and Employer Liability 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 Worker's Compensation and Employer Liability Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Chandler Worker's Compensation and Employer Liability 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 Worker's Compensation and Employer Liability 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
December 8, 2022