

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM**

JUNE 30, 2010 AND 2009

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
JUNE 30, 2010 AND 2009**

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Casey, Neilon & Associates, LLC
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of the
Public Employees' Benefits Program

We have audited the accompanying financial statements of the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada as of and for the years ended June 30, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and our 2010 audit in accordance with 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada and do not purport to, and do not, present fairly the financial position of the State of Nevada, as of June 30, 2010 and 2009, and the changes in its financial position, or, where applicable, its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada as of June 30, 2010 and 2009, and the changes in financial position and cash flows thereof for the years 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 November 1, 2010 on our consideration of the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada's internal control over financial reporting and on compliance and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on internal control over financial reporting. 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.

Casey, Neilon & Associates, LLC

Carson City, Nevada
November 1, 2010

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009**

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85,199,531	\$ 87,441,765
Receivables:		
Accounts receivable, net	1,952,483	2,354,629
Intergovernmental receivable	5,995,145	4,551,436
Due from other funds	4,753,700	2,669,518
Due from component units, net	2,100,558	1,699,168
Total Current Assets	100,001,417	98,716,516
Noncurrent assets:		
Receivables:		
Accounts receivable	-	19,726
Due from other funds	-	1,998,033
Due from component units	-	1,070,276
	-	3,088,035
Capital assets:		
Property and equipment	361,572	433,902
Less: Accumulated depreciation	(258,538)	(363,351)
Total Capital Assets (net of accumulated depreciation)	103,034	70,551
Total Non Current Assets	103,034	3,158,586
Total Assets	100,104,451	101,875,102
LIABILITIES		
Current liabilities:		
Bank overdraft	5,580,929	6,956,243
Accounts payable	5,022,771	6,514,784
Accrued payroll and related liabilities	88,192	92,017
Due to other funds	11,169	724,915
Unearned revenue	86,579	13,610
Compensated absences	106,048	86,780
Reserve for losses	34,473,000	35,881,000
Total Current Liabilities	45,368,688	50,269,349
Noncurrent liabilities:		
Compensated absences	45,864	38,613
Total Noncurrent Liabilities	45,864	38,613
Total Liabilities	45,414,552	50,307,962
NET ASSETS		
Invested in capital assets	103,034	70,551
Restricted for losses	54,586,865	51,496,589
Unrestricted	-	-
Total Net Assets	\$ 54,689,899	\$ 51,567,140

See accompanying notes.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Insurance premiums	341,716,909	\$ 315,242,605
Other	4,016,840	3,513,725
	<u>345,733,749</u>	<u>318,756,330</u>
OPERATING EXPENSES:		
Salaries and benefits	2,164,391	2,304,365
Operating	3,020,097	2,712,582
Claims expense	238,725,223	238,691,260
Depreciation	32,942	30,156
Insurance premiums and contractual obligations	98,884,219	93,582,739
	<u>342,826,872</u>	<u>337,321,102</u>
Operating Income (Loss)	<u>2,906,877</u>	<u>(18,564,772)</u>
NONOPERATING REVENUES (EXPENSES):		
Interest and investment income	215,882	(95,807)
Interest expense	-	(213,762)
	<u>215,882</u>	<u>(309,569)</u>
Change in Net Assets	3,122,759	(18,874,341)
Net Assets, July 1	<u>51,567,140</u>	<u>70,441,481</u>
Net Assets, June 30	<u>\$ 54,689,899</u>	<u>\$ 51,567,140</u>

See accompanying notes.

**STATE OF NEVADA
 SELF INSURANCE TRUST FUND
 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 91,015,348	\$ 89,172,035
Receipts for interfund services provided	177,933,617	157,689,406
Receipts from component units	76,041,748	76,409,118
Payments to suppliers, other governments and beneficiaries	(344,465,063)	(327,286,492)
Payments to employees	(2,141,697)	(2,347,206)
Payments for interfund services used	(1,153,549)	(681,792)
Net Cash Provided (Used) by Operating Activities	(2,769,596)	(7,044,931)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(65,425)	(29,470)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest / dividends on investments	592,787	190,368
Net Increase (Decrease) in Cash and Cash Equivalents	(2,242,234)	(6,884,033)
Cash and cash equivalents, July 1	87,441,765	94,325,798
Cash and cash equivalents, June 30	\$ 85,199,531	\$ 87,441,765
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 2,906,877	\$ (18,564,772)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	32,942	30,156
Allowance for doubtful accounts	28,674	523,412
Changes in assets and liabilities:		
(Increase) decrease in receivables	(844,679)	4,499,280
Increase (decrease) in payables and accruals	(4,893,410)	6,466,993
Total Adjustments	(5,676,473)	11,519,841
Net Cash Provided (Used) by Operating Activities	\$ (2,769,596)	\$ (7,044,931)

See accompanying notes.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 - Summary of Significant Accounting Policies:

The financial statements of the Self Insurance Trust Fund, Public Employees' Benefits Program ("PEBP") of the State of Nevada ("Self Insurance Trust Fund") have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of the Self Insurance Trust Fund's significant accounting policies applied in the preparation of the accompanying financial statements is presented below.

Plan Description:

The Self Insurance Trust Fund was created in 1983 by the Nevada Legislature to administer group health, life and disability insurance for covered employees, both active and retired, of the State, and certain other participating public employers within the State of Nevada. All public employers in the State are eligible to participate in the activities of the Self Insurance Trust Fund and currently, in addition to the State, there are fifteen public employers whose employees are covered under the plan. Additionally, all retirees of public employers contracted with PEBP to provide coverage to their active employees are eligible to join the program subsequent to their retirement. Public employers are required to subsidize their retirees who participate in the plan in the same manner the State subsidizes its retirees. Currently, 127 public employers are billed for retiree subsidies. The Self Insurance Trust Fund provides medical, dental, vision, accidental death and dismemberment, travel accident, long-term disability, mental health, substance abuse, and life insurance benefits. The Self Insurance Trust Fund is overseen by the Public Employees' Benefits Program Board. The Board is composed of nine members, eight members appointed by the Governor, and the Director of the Department of Administration or his designee.

The Self Insurance Trust Fund is self-insured for medical, dental, vision, mental health and substance abuse benefits and also offers fully insured HMO products. Accidental death and dismemberment, travel accident, long-term disability and life insurance benefits are fully insured by outside carriers. For the self-insured benefits, rate-setting policies have been established after consultation with an actuary. The participating public employers, with the exception of the State, are not subject to supplemental assessment in the event of deficiencies.

Reporting Entity:

Governmental accounting and financial reporting principles require that basic financial statements be presented for governmental entities which present financial statements in accordance with generally accepted accounting principles. The accompanying financial statements are not intended to present the combined financial activities of the State of Nevada taken as a whole, but are intended only to present the financial position, results of operations, and cash flows of the Self Insurance Trust Fund.

Fund Accounting:

The operations of the Self Insurance Trust Fund, a proprietary fund (internal service fund), are accounted for by a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Self Insurance Trust Fund is used to account for the services provided to the employees of the State of Nevada and other governmental units under the programs administered by management.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Basis of Accounting:

The Self Insurance Trust Fund maintains its accounting records on the accrual basis of accounting as defined by the Governmental Accounting Standards Board ("GASB"). Under this method, revenues are recognized at the time they are earned and expenses are recognized when the related liabilities are incurred regardless of the timing of cash flows. The Self Insurance Trust Fund applies all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") statements and interpretations, APB opinions, and ARB's (unless those pronouncements conflict with or contradict GASB pronouncements) issued on or before November 30, 1989, in accounting and reporting for its proprietary operations. As permitted by GASB Statement No. 20 the State has elected not to apply FASB pronouncements issued after that date.

The Self Insurance Trust Fund is reported using the economic resources measurement focus. The revenues derived from current operations are generally intended to provide those resources necessary to maintain continued delivery of such services in the future. Net assets greater or lesser than those required to support ongoing operations are moderated by adjustments of future charge rates appropriate to accomplish the long-term cost recovery objectives of the Self Insurance Trust Fund.

Internal Service Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services in connection with providing group health, life and disability insurance. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash Equivalents:

For the purpose of presentation in the Self Insurance Trust Fund's financial statements, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

Receivables:

Insurance premiums due through June 30 but remitted after that date are recorded as receivables or due from other funds, component units or governments in the financial statements.

The third party administrator that processes claims payments on behalf of the Self Insurance Trust Fund has identified overpayments in the amount of \$982,154 and \$1,109,520 as of June 30, 2010 and 2009, respectively. Overpayments are followed up on every 30 days until recovery is made. These amounts have not been accrued as a receivable on the statement of net assets, but are recorded as a reduction to claims expense in the period in which recovery is received. Collection attempts cease when the overpayment is greater than 4 years old.

The Self Insurance Trust Fund administers an additional pass-through budget account, the Active Employee Group Insurance Subsidy (AEGIS) budget account. The AEGIS budget account is utilized for recording the payments made by the state and received by the Self Insurance Trust Fund on behalf of active employees. Agencies contribute a fixed dollar amount per employee into this budget account. However, insurance premiums are earned by the main operating budget account in accordance with the PEBP approved rate for insurance coverage for the plan and tier to which each employee belongs. The difference between cash contributions and revenue recognition resulted in a shortfall of contributions over premium allocations of \$2,725,432 for the year ended June 30, 2010. This receivable has been allocated among all state entities

**STATE OF NEVADA
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 1 - Summary of Significant Accounting Policies (Continued):

that pay the AEGIS subsidy proportionately to their size and has been included in the fiscal year 2011 budget.

Allowance for Doubtful Accounts:

The Self Insurance Trust Fund considers \$28,814 and \$523,412 in participant premiums, employer subsidies and late payment penalties to be uncollectible as of June 30, 2010 and 2009.

On June 30, 2009, the Self Insurance Trust Fund entered into a settlement with the Las Vegas Metropolitan Police Department (LVMPD). LVMPD agreed to pay \$125,000 out of \$581,655 in past due subsidies and penalties and to continue to pay all current subsidies and SITF agreed to write-off the remaining balance of \$456,655. LVMPD has paid all subsequent bills on time. In April, 2009, it was determined that certain volunteer firefighters are ineligible for PEBP coverage. Therefore \$44,184 in subsidies charged to employers from August 2007 through August 2008 for ineligible volunteer firefighters was deemed to be uncollectible. The remaining uncollectible balance was for participant premiums and was approved for write-off by the State of Nevada Board of Examiners. All other receivables are considered to be collectible.

On June 30, 2010, the uncollectible balance of \$28,814 was for participant premiums and was approved for write-off by the State of Nevada Board of Examiners.

Property and Equipment:

Fixed assets are capitalized and depreciated using the straight line method of depreciation over the assets' estimated useful lives ranging from three to ten years. Capital acquisitions for the years ended June 30, 2010 and 2009 were \$65,425 and \$29,470, respectively.

Estimated Claims:

The Self Insurance Trust Fund contracted with Aon Consulting, a provider of consulting and actuarial services, to estimate its liability for incurred but not reported claims, claims reported but not yet paid and administrative expenses expected to be incurred in conjunction with processing incurred but not reported claims as of June 30, 2010 and 2009, respectively. This liability is estimated by the actuary based on industry trends and claims lag information reported by the third party administrator. Such liabilities are necessarily based on estimates, and, while management believes the amount is adequate, the ultimate liability may be in excess of, or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are reviewed on an annual basis and any adjustments are currently reflected in net income from operations.

Compensated Absences:

Compensated absences are accounted for in accordance with GASB Statement No. 16, Accounting for Compensated Absences, which requires that a liability for compensated absences relating to services already rendered and that are not contingent on a specified event be accrued as employees earn the rights to the benefits. Compensated absences relating to future services or that are contingent on a specified event will be accounted for in the period those services are rendered or those events take place. Annual and sick leave benefits not used as earned accumulate to be carried over to the next year, except that annual leave in excess of 240 hours (30 days) per employee is forfeited each December 31. Accumulated annual leave and compensatory time are payable upon termination, retirement, or death. Unused sick leave may be partially compensated at that time according to formulas established by the Department of Personnel. The Self Insurance Trust Fund reports accrued compensated absences as a liability.

**STATE OF NEVADA
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 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

NOTE 1 - Summary of Significant Accounting Policies (Continued):

Net Assets:

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are net of accumulated depreciation and reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provisions or enabling legislation. In the current year, management determined that all of the net assets at year end should be restricted for future claims payments due to legal restrictions on the use of the funds.

Reinsurance:

The Self Insurance Trust Fund does not carry any reinsurance policies.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and the 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.

Reclassifications:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 - Compliance with Nevada Revised Statutes and the Nevada Administrative Code:

The Self Insurance Trust Fund conformed to all significant statutory constraints on its financial administration during the year.

NOTE 3 - Cash and Deposits with the State Treasurer as of June 30:

	2010	2009
Cash:		
Operating checking account:		
Bank of America	\$ (5,580,929)	\$ (6,956,243)
Deposits with State Treasurer:		
State Treasurer's Investment Pool	86,716,208	88,757,871
GASB 31 adjustment	(1,516,677)	(1,316,106)
	85,199,531	87,441,765
Total Cash and Deposits	\$ 79,618,602	\$ 80,485,522

The Self Insurance Trust Fund has two checking accounts with Bank of America. The zero balance account was closed on April 30, 2006 and contains \$277,512 in stale outstanding checks. Checks presented for payment from this account are rejected by the bank, voided, and reissued by SITF using the controlled disbursement account. The controlled disbursement account is funded only when checks are presented for payment. The negative balance represents outstanding checks issued that have not been presented for payment. In accordance with NRS 353.140, the Self Insurance Trust Fund honors outstanding

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SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009**

NOTE 3 - Cash and Deposits with the State Treasurer as of June 30 (Continued):

stale warrants presented for payment within six years from the date of origination. For insurance and collateral purposes, the account is commingled with all of the cash accounts of the State of Nevada. All cash and deposits are recorded at fair value.

Nevada Revised Statutes direct the Office of the State Treasurer to deposit funds into any state, or national bank, credit union or savings and loan association covered by federal depository insurance. For those deposits over and above the federal depository insurance maximum balance, sufficient collateral must be held by the financial institution to protect the State of Nevada against loss. The pooled collateral for the deposits program maintains a 102% pledge collateral for all public deposits.

NRS 355.140 details the types of securities in which the State may invest. In general, authorized investments include: certificates of deposit, asset-backed securities, bankers' acceptances and commercial paper, collateralized mortgage obligations, corporate notes, money market funds whose policies meet the criteria set forth in the statute, United States treasury securities and specific securities implicitly guaranteed by the federal government. Additionally, the State may invest in limited types of repurchase agreements; however, statutes generally prohibit the State from entering into reverse-repurchase agreements.

A copy of the State of Nevada Comprehensive Annual Financial Report can be obtained online at http://controller.nv.gov/FinancialReports/CAFR_Download_Page.html.

NOTE 4 - Pension Plan:

Plan Description. The Self Insurance Trust Fund contributes to the Public Employees' Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees' Retirement System of the State of Nevada. PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS. These benefit provisions may only be amended through legislation. A publicly available financial report that includes financial statements and required supplementary information for PERS may be obtained by writing to the Public Employees' Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

Funding Policy. Plan members' benefits are funded under one of two methods. Under the employer paid contribution plan, the Self Insurance Trust Fund is required to contribute all amounts due under the plan. The rate for those contributions was 21.50%, 20.50% and 20.50% for regular members on all covered payroll for the years ended June 30, 2010, 2009 and 2008, respectively. The second funding mechanism for providing benefits is the employer/employee paid contribution plan. Under this method, employees are required to contribute a percentage of their compensation to the plan, while the Self Insurance Trust Fund is required to match that contribution. The rate for regular employees under this plan was 11.25%, 10.5% and 10.5% for the years ended June 30, 2010, 2009 and 2008, respectively. The contribution requirements of plan members and the Self Insurance Trust Fund are established by NRS Chapter 286. The funding mechanism may only be amended through legislation. The Self Insurance Trust Fund's contributions to PERS for the years ended June 30, 2010, 2009 and 2008 were \$249,985, \$254,124 and \$230,771, respectively, equal to the required contributions for the year.

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 SELF INSURANCE TRUST FUND
 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

NOTE 5 - Post-Retirement Insurance Benefits:

Employees of the State, who meet the eligibility requirements for retirement, have the option upon retirement to continue group insurance pursuant to NAC 287.530. NRS 287.046 requires the State to pay an amount toward the cost of the premiums for persons retired from state service. Retirees assume any portion of the premium not covered by the State. The State allocates funds for payment of post retirement insurance benefits as a percentage of budgeted payroll to all State agencies. The cost of the employer contribution is recognized in the year the costs are charged. No unused funds are carried forward to the next fiscal year.

NOTE 6 - Commitments:

The Self Insurance Trust Fund is committed to the following contracts or policies at June 30, 2010:

<u>Contractor</u>	<u>Contract Rate</u>	<u>Expiration Date</u>
American International Group	\$0.19 per employee per month	6/30/10
Aon Consulting	Hourly Rate	6/30/16
APS Healthcare	\$4.89 per PPO participant per month	6/30/11
Beech Street Corporation	\$2.50 per out-of-state PPO participant per month	6/30/12
	\$17,333 monthly fee	
Capital Reporters	Hourly Rate	5/31/11
Casey, Neilon & Associates, LLC	Hourly Rate	12/31/11
Catalyst RX	\$2.30 per PPO participant per month	6/30/11
Diversified Dental Services	\$0.67 per participant per month	6/30/13
First Data Government Solutions	Varies	11/30/09
Health Claims Auditors	Hourly Rate	9/30/11
Health Plan of Nevada (HMO)	Varies	6/30/12
Hometown Health Plan (HMO)	Varies	6/30/12
Hometown Health Providers	\$4.00 per PPO in-state participant per month	6/30/14
Hughes-Calihan Konica Minolta, Inc.	\$0.0045 per copy	11/20/12
	\$921.00 monthly fee	
Morneau Sobeco	\$2.21 per participant per month	12/31/12
The Standard Insurance	\$20.71 per employee	6/30/12
	\$6.24 per retiree	
UMR (Fiserv Health Benefit Planners)	\$13.65 per PPO participant per month	6/30/12
	\$1.90 per participant per month	
	Repricing fee varies	

NOTE 7 - Risk Management:

Estimated Claims Liabilities:

The management of the Self Insurance Trust Fund 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. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Typically, after consultation with an actuary, claims liabilities are recomputed annually using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. 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

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 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010 AND 2009**

NOTE 7 - Risk Management (Continued):

factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which claims are made.

Unpaid Claims Liabilities:

As discussed above, management established 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 presents changes in those aggregate liabilities for the Self Insurance Trust Fund during the past two years.

	2010	2009
Beginning balance	\$ 35,881,000	\$ 32,634,000
Claims and changes in estimates	243,450,126	240,715,757
Claim payments	<u>(244,858,126)</u>	<u>(237,468,757)</u>
Ending Balance	<u>\$ 34,473,000</u>	<u>\$ 35,881,000</u>

These unpaid claims liabilities are all for the self-funded medical, dental, vision and prescription drug benefits.

NOTE 8 - Contingent Liabilities:

In accordance with NRS 353.140, the Self Insurance Trust Fund honors outstanding stale warrants presented for payment within six years from the date of origination. Management has estimated the total amount of outstanding stale warrants less than six years old to be \$1,131,353 and \$956,200 as of June 30, 2010 and June 30, 2009, respectively. Management has assessed that it is not probable that these warrants will be presented for payment during the statutory time frame. However these warrants will continue to be recorded as a liability (bank overdraft).

NOTE 9 - Subsequent Events:

The Self Insurance Trust Fund considers \$4,447 in participant premiums to be uncollectible for fiscal year 2011. The State of Nevada Board of Examiners has approved write-offs in the amount of \$1,856 and management will submit additional write-off requests for the remaining balance.

Management has evaluated subsequent events through November 1, 2010, the date which the financial statements were available to be issued.

Casey, Neilson & Associates, LLC
Accountants and Advisors

**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 the
Public Employees' Benefits Program

We have audited the accompanying financial statements of the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 1, 2010. We conducted our 2010 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

In planning and performing our audit, we considered Public Employees' Benefits Program of the State of Nevada'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 Public Employees' Benefits Program of the State of Nevada's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Public Employees' Benefits Program of the State of Nevada'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 a 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.

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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings as item 2010 -1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Public Employees' Benefits Program of the State of Nevada'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, members of the Board, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Casey, Neilon & Associates, LLC

Casey, Neilon & Associates, LLC
Carson City, Nevada
November 1, 2010

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
SCHEDULE OF FINDINGS
FOR THE YEAR ENDING JUNE 30, 2010**

Finding 2010 -1

Criteria

A system of internal controls should be adequately designed and operated in a manner such that all discrepancies in accounting records are communicated and followed up on, in a timely manner.

Condition

The State Treasurer's Office temporarily funds the claims disbursement checking account as checks are presented for payment. Subsequently, the Public Employees' Benefits Program ("PEBP") transfers the funds to reimburse the State Treasurer's Office. During the year ended June 30, 2010, there were two instances where a cash transfer to pay claims was deposited into the claims account and was not reimbursed in the same period. In one instance, the internal control system operated effectively and management identified the discrepancy and transferred the funds in a subsequent month. In the other instance, the funds were not transferred until fiscal year 2011. While the internal control system identified the discrepancy in the correct period, appropriate follow up steps were not taken to correct the discrepancy.

Effect

As the funds were not transferred until the next fiscal year, expenditures were understated in the financial statements by \$608,000.

Recommendation

We recommend that management strengthen their reconciliation process whereby all significant discrepancies are communicated upstream to management in a timely manner such that any discrepancies can be investigated and resolved in a timely manner.

Management's Response

Management agrees with auditors findings. The deficiency was caused by a break-down of communication within the PEBP accounting department. Management has implemented a process that automatically sends an email to management following completion of the monthly reconciliation. The email contains the reconciliation of the claims disbursement checking account bank statement, the daily transfers to reimburse the Treasurer's Office and the record of checks written by PEBP's Third Party Administrator. The process requires the user provide notes for any discrepancy greater than 0.001% of the total amount of checks written for that month.