

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM**

**JUNE 30, 2011 AND 2010**

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM  
JUNE 30, 2011 AND 2010**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
<u>Independent Auditor's Report:</u>	
On Financial Statements	1
<u>Financial Statements:</u>	
Statements of Plan Net Assets	2
Statement of Changes in Plan Net Assets	3
Notes to Financial Statements	4-8
<u>Required Supplementary Information:</u>	
Schedule of Funding Progress	9
Schedule of Employer Contributions	9
<u>Compliance Section:</u>	
Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10

*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 State Retirees' Health & Welfare Benefits Fund, Public Employees' Benefits Program of the State of Nevada for the years ended June 30, 2011 and 2010 as listed in the table of contents. These financial statements are the responsibility of the State Retirees' Health & Welfare Benefits 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 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 State Retirees' Health & Welfare Benefits 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, 2011 and 2010, and the changes in its plan net assets, where applicable, 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 State Retirees' Health & Welfare Benefits Fund, Public Employees' Benefits Program of the State of Nevada as of June 30, 2011 and 2010, and the changes in plan net assets 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 October 31, 2011 on our consideration of the State Retirees' Health & Welfare Benefits 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.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress and the Schedule of Employer Contributions on page 10, be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting. 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 principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the financial statements, and any other knowledge we obtained during our audit of the financial statements. We do not express an opinion on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Casey, Neilon & Associates, LLC*

Carson City, Nevada  
October 31, 2011

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE BENEFITS FUND  
STATEMENTS OF PLAN NET ASSETS  
JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash with treasurer	\$ 3,671,497	\$ 29,257,133
Intergovernmental receivable	25,881	35,425
Due from other funds	138,632	1,253,180
Due from component unit	366,680	1,312,085
Investments at fair value	918,432	760,739
Total Assets	5,121,122	32,618,562
<b>LIABILITIES</b>		
Due to other funds	-	2,723,307
Deferred revenues	1,537	-
Total Liabilities	1,537	2,723,307
<b>NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS</b>	<b>\$ 5,119,585</b>	<b>\$ 29,895,255</b>

See accompanying notes.

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE BENEFITS FUND  
STATEMENTS OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>ADDITIONS</b>		
Contributions		
Employer contributions	\$ 9,649,348	\$ 33,406,435
Investment income		
Interest and dividends	28,823	127,975
Net appreciation (depreciation) in fair value of investments	705,883	3,734,424
Net investment income	734,706	3,862,399
Total additions	10,384,054	37,268,834
<b>DEDUCTIONS</b>		
Benefit payments	35,159,114	31,555,808
Administrative fees	610	26,691
Total deductions	35,159,724	31,582,499
Net increase (decrease)	(24,775,670)	5,686,335
<b>NET ASSETS HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS</b>		
<b>Beginning of year, July 1</b>	29,895,255	24,208,920
<b>End of year, June 30</b>	\$ 5,119,585	\$ 29,895,255

See accompanying notes.

**STATE OF NEVADA**  
**STATE RETIREES' HEALTH & WELFARE**  
**BENEFITS FUND**  
**PUBLIC EMPLOYEES' BENEFITS PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

NOTE 1 - Summary of Significant Accounting Policies:

The financial statements of the State Retirees' Health and Welfare Benefits Fund, Public Employees' Benefits Program ("PEBP") of the State of Nevada ("Retirees' 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 Retirees' Fund's significant accounting policies applied in the preparation of the accompanying financial statements is presented below.

Basis of Accounting:

The financial statements of the Retirees' Fund have been prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The Retirees' Fund does not receive member contributions.

Method Used to Value Investments:

Investments are reported at fair value, which for the Retirees' Fund is determined by the Retirement Benefits Investment Fund.

Plan Description and Contribution Information:

The State Retirees' Health and Welfare Benefits Fund was created in 2007 by the Nevada Legislature to account for the financial assets designated to offset the portion of current and future costs of health and welfare benefits paid on behalf of state retirees. The Retirees' Fund is a multiple employer cost sharing defined postemployment benefit plan run by the PEBP Board. The Retirees' Fund provides benefits other than pensions to eligible retirees and their dependents through the payment of subsidies to PEBP which administers a group health and life insurance program.

Pursuant to NRS 287.023 and NRS 287.046, the following individuals and their dependents are eligible to receive benefits from the Retirees' Fund:

Any PEBP covered retiree with state service whose last employer was the state or a participating local government entity and who:

- Has at least five years of public service and who was initially hired by the state prior to January 1, 2010; or
- Has at least fifteen years of public service and who was initially hired by the state on or after January 1, 2010, but before January 1, 2012; or
- Has at least five years of public service, who has a disability and who was initially hired by the state on or after January 1, 2010, but before January 1, 2012; or

Any PEBP covered retiree with state service whose last employer was not the state or a participating local government entity and who has been continuously covered under PEBP as a retiree since November 30, 2008.

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

Plan Description and Contribution Information (continued):

State service is defined as employment with any Nevada State agency, the Nevada System of Higher Education and any State Board or Commission. Participating local government entity is defined as a county, school district, municipal corporation, political subdivision, public corporation or other local governmental agency that has an agreement in effect with PEBP to provide health coverage for its active employees.

The money in the Retirees' Fund belongs to the officers, employees and retirees of the State of Nevada in aggregate; neither the State nor the governing body of any county, school district, municipal corporation, political subdivision, public corporation or other local governmental agency of the State, nor any single officer, employee or retiree of any such entity has any right to the money in the Retirees' Fund. The Board reports annually to the Department of Administration and the Interim Retirement and Benefits Committee of the Nevada Legislature. The Retirees' Fund is governed by NRS 287.0436 through NRS 287.04364 and Section 3 of Assembly Bill 80 (2011).

Contributions to the fund are paid by the State of Nevada through an assessment of actual payroll paid by each State entity. The assessment is set by the Department of Administration based on an amount provided by the Legislature each biennium in session law. The assessment was 0.658% and 2.296% of actual payroll for the years ending June 30, 2011 and 2010, respectively. Benefits are paid to the Public Employees' Benefits Program Self Insurance Trust Fund as necessary to offset retiree premiums pursuant to NRS 287.046. Funds not required to pay benefits are invested in the Retiree Benefits Investment Fund established pursuant to NRS 355.220 or are held in the State of Nevada General Portfolio pursuant to NRS 226.110 as approved in the Legislatively Approved Budget. Administrative costs of the Retirees' Fund are absorbed by the Self Insurance Trust Fund.

State active employee and retiree enrollment consisted of the following June 30, 2011 and 2010 respectively:

	<u>2011</u>	<u>2010</u>
Active Employees	25,187	26,145
Retirees	<u>8,489</u>	<u>8,103</u>
Total Enrollment	<u>33,676</u>	<u>34,248</u>
Number of pay centers	19	21

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

NOTE 2 - Funding Status:

The funded status as of the most recent actuarial valuation date is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
7/1/2010	\$29,895	\$977,045	\$947,150	3.1%	\$1,398,963	67.7%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of the GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize the unfunded actuarial liabilities over a period of thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2010
For Year Ending	June 30, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Investment rate of return*	4%

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

NOTE 2 - Funding Status (continued):

Year Beginning	Assumed Trends						
	Self-Funded		HMOs	Dental	Admin Costs	HRA Account	State Subsidy
Medical	Pharmacy						
7/1/2010	9.75%	11.0%	9.75%	4.5%	3.0%	0.0%	9.75%
7/1/2011	9.5%	10.0%	9.5%	4.5%	3.0%	0.0%	9.5%
7/1/2012	9.0%	9.0%	9.0%	4.5%	3.0%	0.0%	9.0%
7/1/2013	8.5%	8.5%	8.5%	4.5%	3.0%	0.0%	8.5%
7/1/2014	8.0%	8.0%	8.0%	4.5%	3.0%	0.0%	8.0%
7/1/2015	7.5%	7.5%	7.5%	4.5%	3.0%	0.0%	7.5%
7/1/2016	7.0%	7.0%	7.0%	4.5%	3.0%	0.0%	7.0%
7/1/2017	6.5%	6.5%	6.5%	4.5%	3.0%	0.0%	6.5%
7/1/2018	6.0%	6.0%	6.0%	4.5%	3.0%	0.0%	6.0%
7/1/2019	5.5%	5.5%	5.5%	4.5%	3.0%	0.0%	5.5%
7/1/2020 and beyond	5.0%	5.0%	5.0%	4.5%	3.0%	0.0%	5.0%

\* The investment rate of return is based on the historical rate of return for State of Nevada General Fund money held by the State Treasurer. Due to statewide revenue shortfalls, in February 2010, the 26<sup>th</sup> Special Session of the Nevada Legislature directed \$24,700,000 be withdrawn from the Retirees' Benefits Investment Fund to be used to pay for retiree healthcare during the year ending June 30, 2011, thereby reducing the amount paid by state agencies to the Retirees' Fund. No additional investments or withdrawals from the Retirees' Benefits Investment Fund occurred during the year ending June 30, 2011.

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

	<u>2011</u>	<u>2010</u>
Cash:		
Deposits with State Treasurer:		
State Treasurer's Investment Pool	\$ 3,746,595	\$ 29,879,811
GASB 31 adjustment	(75,098)	(622,678)
	<u>\$ 3,671,497</u>	<u>\$ 29,257,133</u>

The 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 deposits program maintains a 102% pledge collateral for all public deposits.

**STATE OF NEVADA**  
**STATE RETIREES' HEALTH & WELFARE**  
**BENEFITS FUND**  
**PUBLIC EMPLOYEES' BENEFITS PROGRAM**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011 AND 2010**

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

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](http://controller.nv.gov/FinancialReports/CAFR_Download_Page.html).

NOTE 4 - Retirement Benefits Investment Fund:

The Nevada Legislature established the Retirement Benefits Investment Fund (RBIF) with an effective date of July 1, 2007. The purpose of the Fund is to invest contributions made by participating public entities, as defined NRS 355.220 to enable such entities to support financing of other post employment benefits. Monies received by the RBIF are held for investment purposes only and not in any fiduciary capacity. Each participating entity acts as fiduciary for its particular share of the Fund. Any money in the Fund must be invested in the same manner as money in the Public Employees' Retirement System of Nevada (PERS) Investment Fund is invested. The PERS Investment Fund is governed primarily by the "prudent person" standard as set forth in NRS 286.682, which authorizes the Retirement Board to invest PERS' funds in "every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account." PERS has established limits on the concentration of investments in any single issuer or class of issuer or managed by a single investment firm. In general, the authorized investments include: fixed income, both US comingled and non-US comingled; domestic, international and comingled equity; money market funds; and short-term investments.

The RBIF is designed to value participants' shares in the Fund according to the contributions of each entity, and accordingly, earnings (including realized gains and losses, unrealized gains and losses, interest, and other income) and expenses are allocated to each entity in proportion to the participant's share in the Fund. The financial statements of the RBIF were audited in accordance with auditing standards generally accepted in the United States of America and can be obtained from the Public Employees' Retirement System, 693 West Nye Lane, Carson City, Nevada 89703.

NOTE 5 – Subsequent Events:

Management has evaluated subsequent events through October 31, 2011, the date which the financial statements were available to be issued.

**STATE OF NEVADA  
STATE RETIREES' HEALTH & WELFARE  
BENEFITS FUND  
PUBLIC EMPLOYEES' BENEFITS PROGRAM  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2011**

**Schedule of Funding Progress  
(Dollar Amounts in thousands)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
7/1/2008	\$25,665	\$1,815,501	\$1,789,836	1.4%	\$1,488,847	120.2%
7/1/2009	\$24,209	\$1,874,005	\$1,849,796	1.3%	\$1,556,892	118.8%
7/1/2010	\$29,895	\$977,045	\$947,150	3.1%	\$1,398,963	67.7%

**Schedule of Employer Contributions  
(Dollar Amounts in thousands)**

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Annual OPEB Cost (d)</u>	<u>Claims Paid (e)</u>	<u>Funds Invested (f)</u>	<u>Percentage Contributed ((e + f) / d)</u>
2009	\$239,147	\$235,264	\$50,809	\$0	21.6%
2010	\$220,709	\$213,537	\$46,104	\$0	21.6%
2011	\$119,959	\$109,802	\$47,209	\$0	43.0%

A copy of the actuarial valuation for the year ended June 30, 2011 may be obtained online at <http://www.pebp.state.nv.us/fiscalutilization.htm>.

*Casey, Neilon & 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 State Retirees' Health & Welfare Benefits Fund, Public Employees' Benefits Program of the State of Nevada for the year ended June 30, 2011 and have issued our report thereon dated October 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the State Retirees' Health & Welfare Benefits Fund, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Retirees' Health & Welfare Benefits Fund, 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 State Retirees' Health & Welfare Benefits Fund, 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Retirees' Health & Welfare Benefits Fund, 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 and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on such compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of the Public Employees' Benefits Program and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



Carson City, Nevada  
October 31, 2011