

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

JUNE 30, 2016 AND 2015

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
JUNE 30, 2016 AND 2015**

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Casey Neilson
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of the
Public Employees' Benefits Program

Report on the Financial Statements

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, 2016 and 2015 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Responsibility

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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2016 and 2015, and the changes in financial position and, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the State of Nevada, Public Employees' Benefits Program Self Insurance Trust Fund are intended to present the financial position, changes in financial position and cash flows of the Self Insurance Trust Fund. They do not purport to, and do not, present fairly the financial position of the State of Nevada as of June 30, 2016 and 2015, 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. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016 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 our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Self Insurance Trust Fund, Public Employees' Benefits Program of the State of Nevada's internal control over financial reporting and compliance.



Carson City, Nevada
December 2, 2016

**STATE OF NEVADA
 SELF INSURANCE TRUST FUND
 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 STATEMENTS OF NET POSITION
 JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 135,908,776	\$ 143,287,592
Receivables:		
Accounts receivable, net	571,690	383,586
Intergovernmental receivable	4,159,780	3,128,445
Due from other funds	7,676,067	7,846,361
Due from component units, net	802,371	15,321
Total Current Assets	<u>149,118,684</u>	<u>154,661,305</u>
Capital assets:		
Property and equipment	430,232	355,040
Less: Accumulated depreciation	<u>(302,543)</u>	<u>(317,876)</u>
Total Capital Assets (net of accumulated depreciation)	<u>127,689</u>	<u>37,164</u>
Total Assets	<u>149,246,373</u>	<u>154,698,469</u>
Deferred outflows of resources:		
Pension related amounts	<u>317,932</u>	<u>281,658</u>
Total Deferred Outflows of Resources	<u>317,932</u>	<u>281,658</u>
LIABILITIES		
Current liabilities:		
Bank overdraft	1,918,041	4,000,485
Accounts payable	6,852,087	6,233,685
Accrued payroll and related liabilities	146,127	129,761
Due to other funds	17,343	10,857
Unearned revenue	60,883	298,605
Compensated absences	115,997	119,712
Reserve for losses	<u>63,014,304</u>	<u>60,658,342</u>
Total Current Liabilities	<u>72,124,782</u>	<u>71,451,447</u>
Noncurrent liabilities:		
Compensated absences	70,718	69,693
Net pension obligation	<u>3,003,622</u>	<u>2,681,426</u>
Total Noncurrent Liabilities	<u>3,074,340</u>	<u>2,751,119</u>
Total Liabilities	<u>75,199,122</u>	<u>74,202,566</u>
Deferred inflows of resources:		
Pension related amounts	<u>566,447</u>	<u>767,576</u>
Total Deferred Inflows of Resources	<u>566,447</u>	<u>767,576</u>
NET POSITION		
Invested in capital assets	127,689	37,164
Restricted expendable - losses	<u>73,671,047</u>	<u>79,972,821</u>
Total Net Position	<u>\$ 73,798,736</u>	<u>\$ 80,009,985</u>

See accompanying notes.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Insurance premiums	\$ 340,640,170	\$ 318,210,433
Other	715,395	282,212
	<u>341,355,565</u>	<u>318,492,645</u>
OPERATING EXPENSES:		
Salaries and benefits	2,333,626	2,175,236
Operating	6,169,486	7,004,452
Claims expense	220,237,890	221,214,737
Depreciation	19,442	19,751
Insurance premiums and contractual obligations	120,117,584	122,796,623
	<u>348,878,028</u>	<u>353,210,799</u>
Total Operating Expenses	<u>348,878,028</u>	<u>353,210,799</u>
Operating Income (Loss)	<u>(7,522,463)</u>	<u>(34,718,154)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	774,236	2,686,937
Interest income	536,978	460,099
	<u>1,311,214</u>	<u>3,147,036</u>
Total Nonoperating Revenues (Expenses)	<u>1,311,214</u>	<u>3,147,036</u>
CHANGE IN NET POSITION	<u>(6,211,249)</u>	<u>(31,571,118)</u>
NET POSITION		
Beginning of year	80,009,985	114,682,544
Change in accounting principle, GASB 68 adjustments	<u>-</u>	<u>(3,101,441)</u>
End of year	<u>\$ 73,798,736</u>	<u>\$ 80,009,985</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 56,099,394	\$ 51,585,387
Receipts for interfund services provided	198,477,983	176,065,722
Receipts from component units	84,716,314	70,719,703
Payments to suppliers, other governments and beneficiaries	(344,057,688)	(334,974,059)
Payments to employees	(2,235,157)	(2,085,929)
Payments for interfund services used	<u>(1,568,866)</u>	<u>(1,189,570)</u>
Net Cash Provided by Operating Activities	<u>(8,568,020)</u>	<u>(39,878,746)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	<u>(109,967)</u>	<u>(5,160)</u>
Net Cash Used by Financing Activities	<u>(109,967)</u>	<u>(5,160)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>1,299,171</u>	<u>3,328,721</u>
Net Cash Provided by Investing Activities	<u>1,299,171</u>	<u>3,328,721</u>
Net Increase in Cash and Cash Equivalents	(7,378,816)	(36,555,185)
Cash and cash equivalents, July 1	<u>143,287,592</u>	<u>179,842,777</u>
Cash and cash equivalents, June 30	<u>\$ 135,908,776</u>	<u>\$ 143,287,592</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	<u>\$ (7,522,463)</u>	<u>\$ (34,718,154)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	19,442	19,751
Allowance for doubtful accounts	7,821	5,147
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,831,973)	(6,786,823)
(Increase) decrease in prepaid expenses	-	22,344
(Increase) decrease in deferred outflows	(36,110)	164
Increase (decrease) in payables and accruals	674,196	811,249
Increase (decrease) in net pension obligation	322,196	
Increase (decrease) in deferred inflows	<u>(201,129)</u>	<u>767,576</u>
Total Adjustments	<u>(1,045,557)</u>	<u>(5,160,592)</u>
Net Cash Provided by Operating Activities	<u>\$ (8,568,020)</u>	<u>\$ (39,878,746)</u>

See accompanying notes.

STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 were five public employers participating at June 30, 2016 whose employees are covered under the plan. Additionally, all retirees of public employers contracted with PEBP to provide coverage to their 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, the State, the Nevada System of Higher Education and 122 public employers within the State of Nevada are billed for retiree subsidies. The Self Insurance Trust Fund provides medical, dental, vision, 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 ten members, nine 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. 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.

PEBP has instituted a Consumer Driven Health Plan (CDHP) with a Health Savings Account (HSA) component and a Health Reimbursement Account (HRA) component. The HSA component is designed for eligible active employee's where the HRA component is for retirees and surviving spouses, domestic partners and certain employees enrolled in the CDHP.

PEBP has also implemented an individual market Medicare exchange where retirees eligible for Medicare purchase individual coverage on the private market with an HRA component to reimburse retirees for insurance premiums and other out of pocket expenses.

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.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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 and retirees of the State of Nevada and other governmental units under the programs administered by management.

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 \$1,751,949 and \$1,745,487 as of June 30, 2016 and 2015, 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.

STATE OF NEVADA
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PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

Receivables (continued):

The Self Insurance Trust Fund administers an additional pass-through budget account, the Active Employee Group Insurance Subsidy (AEGIS) budget account. It 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 belonged. The difference between cash contributions and revenue recognition resulted in a shortage of contributions over premium allocation of \$(2,301,488) and \$(4,582,655) for the years ended June 30, 2016 and 2015, respectively. These amounts were allocated among all state entities that paid the AEGIS subsidy proportionate to their size and were included in the subsequent year's budget.

The Self Insurance Trust Fund considers \$173,206 and \$165,385 in participant premiums as uncollectible as of June 30, 2016 and 2015 respectively. Pursuant to NRS 353C.220, only accounts that have been approved by the State of Nevada Board of Examiners may be written off. Of the uncollectible premiums listed above, \$0 and \$0 were approved for write-off by the State of Nevada Board of Examiners as of June 30, 2016 and 2015, respectively. The State has a policy in which all uncollectible amounts are remitted to the State Controller's Office for continued collection attempts and eventual write-off. In accordance with this policy, the Self Insurance Trust Fund created an allowance of \$173,206 and \$165,385 at June 30, 2016 and 2015, respectively, to account for the remaining uncollectible amounts that have been remitted to the State Controller's Office, but not yet been approved by the State of Nevada Board of Examiners for write off.

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, 2016 and 2015 were \$109,967 and \$5,160, respectively. Capital dispositions for the years ended June 30, 2016 and 2015 were \$34,775 and \$12,999, respectively.

Estimated Claims:

The Self Insurance Trust Fund contracted with Aon , 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, 2016 and 2015, 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.

Included in the estimated claims is the liability for the unused portion of the HRA component of the CDHP and the Medicare exchange. The Fund contracted with HealthSCOPE and Towers Watson, respectively, to administer these programs and the liabilities are provided by each.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

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 Administration. The Self Insurance Trust Fund reports accrued compensated absences as a liability.

Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Nevada (PERS) plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources:

In addition to assets, the Statements of New Position include a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until then. Self Insurance Trust Fund has pension related deferred outflows that qualify for reporting in this category. Pension related deferred outflow or resources are discussed in depth in Note 4.

In addition to liabilities, the Statements of Net Position include a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources until that time. Self Insurance Trust Fund has pension related deferred inflows that qualify for reporting in this category. Pension related deferred inflows of resources are discussed in depth in Note 4.

Net Position:

Net position presents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the statement of net position. Net position 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 position results 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. Management determined that the net position at year end should be restricted for future claims payments due to legal restrictions on the use of the funds.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

Operating and Non-operating Revenues and Expenses:

Revenues and expenses are classified as operating if they result from providing services and producing and delivering goods. They also include other events that are not defined as capital and related financing, noncapital financing, or investing activities. Grants and contracts representing an exchange transaction are considered operating revenues.

Revenues and expenses are classified as non-operating if they result from capital and related financing, noncapital financing, or investing activities. Appropriations received to finance operating deficits are classified as noncapital financing activities, therefore, they are reported as non-operating revenues. Grants and contracts representing non-exchange receipts are treated as non-operating revenues.

Reinsurance:

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

Transitional Reinsurance Fee:

The Affordable Care Act requires contributions to be paid by self-funded group health plans to fund a Transitional Reinsurance Program for carriers participating in the state-based exchanges in place from 2014 to 2016. The fee is assessed on a per capita basis and is \$27 and \$44 per member per year in 2016 and 2015, respectively. The fee is based on membership counts. Membership counts are determined based on the first nine months of the calendar year, and must be submitted by November 15 of the calendar year. The Self Insurance Trust Fund elected to use the Snapshot dates method for its membership count. This method counts the total number of covered lives on the first day of the first month of the first three quarters of the calendar year and divides the sum by the number of quarters. As of June 30, 2016 and 2015 the amount accrued was \$935,594 and \$1,174,083, respectively.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements:

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), which improves accounting and financial reporting by state and local governments for pensions. This statement also supersedes GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as GASB Statement No. 50, *Pension Disclosures*. GASB 68 is effective for fiscal year beginning after December 15, 2014. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68. The Self Insurance Trust Fund has implemented these pronouncements, which resulted in an adjustment to the beginning net position on the Statement of Revenue, Expenses, and Changes in net Position for June 30, 2015 of \$(3,101,441) to record the impact of the prior year pension related elements of net position.

**STATE OF NEVADA
 SELF INSURANCE TRUST FUND
 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015**

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

New Accounting Pronouncements (continued):

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72), which addresses accounting and financial reporting issues related to fair value measurements. GASB 72 provides guidance for determining fair value measurement for financial reporting purposes in addition to providing guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for fiscal years beginning after June 15, 2015. The Self Insurance Trust Fund has implemented this pronouncement, which did not result in a material change to the financial statements.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are now Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73), which improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB 73 is effective for fiscal years beginning after June 15, 2015. The Self Insurance Trust Fund has implemented this pronouncement, which did not result in a material change to the financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* (GASB 75), which improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB 75 is effective for fiscal years beginning after June 15, 2017. The anticipated impact of this pronouncement is uncertain at this time.

In March 2016, the GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement helps to clarify issues that arose out of the implementation of the GASB Statements No. 67, No. 68, and No. 73 including the required supplementary information that is required to be presented in the financial statements. This Statement is effective for periods beginning after June 15, 2016. The anticipated impact of this pronouncement is uncertain at this time.

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:

	<u>2016</u>	<u>2015</u>
Cash:		
Operating checking account:	\$ (1,918,041)	\$ (4,000,485)
Deposits with State Treasurer:		
State Treasurer's Investment Pool	135,398,154	143,551,206
GASB 31 adjustment	<u>510,622</u>	<u>(263,614)</u>
	<u>135,908,776</u>	<u>143,287,592</u>
Total Cash and Deposits	<u>\$ 133,990,735</u>	<u>\$ 139,287,107</u>

STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

The Self Insurance Trust Fund has three checking accounts with Wells Fargo Bank at June 30, 2016. These accounts contain \$4,467,771 and \$2,179,091 in stale outstanding checks for the years ended June 30, 2016 and 2015, respectively. Additionally, certain Bank of America and Wells Fargo Bank zero balance accounts were closed in previous fiscal years. These closed accounts contain \$973,108 and \$1,071,690 in stale outstanding checks as of June 30, 2016 and 2015, respectively. Checks presented for payment from the closed accounts are rejected by the bank, voided, and reissued by the Self Insurance Trust Fund 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 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 PERS, a cost sharing, multiple employers, 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 28.00%, 25.75% and 25.75% for regular members on all covered payroll for the years ended June 30, 2016, 2015 and 2014, 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 14.50%, 13.25% and 13.25% for the years ended June 30, 2016, 2015 and 2014, respectively. The contribution requirements of plan members and the Self Insurance Trust Fund are established by NRS Chapter 286. The funding

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NOTE 4 - Pension Plan (continued):

may only be amended through legislation. The Self Insurance Trust Fund's contributions to PERS for the years ended June 30, 2016, 2015 and 2014 were \$280,858, \$272,101 and \$281,821, respectively, equal to the required contributions for the year.

Pension Liability. At June 30, 2016 and 2015, the Self Insurance Trust Fund reported a liability of \$3,003,622 and \$2,681,426 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Self Insurance Trust Fund's proportion of the net pension liability is based on their combined employer and member contributions relative to the total combined employer and member contributions for all employers for the period ended June 30, 2016 and 2015. The Self Insurance Trust Fund's proportionate share is approximately 0.026% and 0.026% as of June 30, 2016 and 2015.

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. As of June 30, 2016 and 2015, the total employer pension expense is \$401,925 and \$337,840. At June 30, 2016 and 2015, Insurance Premium Trust Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2016</u>		<u>2015</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 225,924	\$ -	\$ 128,321
Net difference between projected and actual earnings on investments	-	162,696	-	563,209
Changes in proportion and differences between actual contributions and proportionate share of contributions	-	177,827	-	76,046
System contributions subsequent to the measurement date				
	317,932	-	281,658	-
	<u>\$ 317,932</u>	<u>\$ 566,447</u>	<u>\$ 281,658</u>	<u>\$ 767,576</u>

<u>Reconciliation of Net Pension Liability</u>	<u>2016</u>		<u>2015</u>	
Beginning net pension liability	\$	2,681,426	\$	3,383,263
Pension expense		401,925		337,840
Employer contributions		(280,858)		(272,101)
Net deferred (inflows)/outflows		201,129		(767,576)
Ending net pension liability	<u>\$</u>	<u>3,003,622</u>	<u>\$</u>	<u>2,681,426</u>

Additional information supporting the Schedule of Employer Allocations and the Schedule of pension Amounts by Employer is located in the PERS Comprehensive Annual Financial Report (CAFR) available on the PERS website at www.nvpers.org under Quick Links – Publications.

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 PUBLIC EMPLOYEES' BENEFITS PROGRAM
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NOTE 5 - Post-Retirement Insurance Benefits:

In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, which requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expenses, such as retiree medical and dental costs, over the employees' year of service, along with the related liability, net of any plan assets.

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 most 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 payrolls 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.

PEBP administers these benefits as a multiple employer cost sharing plan. The State Retirees' Health and Welfare Benefits Trust Fund has been created to provide benefits to retirees and their beneficiaries.

Complete financial statements for the State Retirees' health and Welfare Benefits Fund can be obtained from the Accounting Department at the Public employees Benefit Program, 901 S. Stewart St., Carson City, NV 89701.

NOTE 6 - Commitments:

The Self Insurance Trust Fund is committed to the following contracts or policies after June 30, 2016:

<u>Contractor</u>	<u>Contract Rate</u>	<u>Expiration Date</u>
Aon Hewitt	Hourly rate	6/30/22
Casey Neilon, Inc.	Hourly rate	12/31/21
Catamaran	\$3.10 per PPO participant per month	6/30/16
Diversified Dental Services	\$0.67 per participant per month	6/30/21
Express Scripts	Per participant per month admin fee, claims costs	6/30/21
Health Claim Auditors	Hourly rate	9/30/22
Health Plan of Nevada (HMO)	Varies by tier	6/30/17
HealthSCOPE Benefits (PPO)	Varies by service	6/30/20
HealthSCOPE Benefits (TPA)	Varies by service	6/30/20
Hometown Health Plan (HMO)	Varies by tier	6/30/17
Hometown Health Providers (UM)	\$2.97 per participant per month	6/30/19
Hometown Health Providers	\$3.29 per PPO in-state participant per month	6/30/19
Liberty Mutual Group	Varies	6/30/19
Morneau Shepell	\$1.78 per participant per month	12/31/21
The Standard Insurance	Varies	6/30/18
Towers Watson	\$3.50 per HRA Account per month	6/30/20

The above contracts include varying termination provisions that allow termination without cause with notice required between 30 and 180 days prior to the date of termination.

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 PUBLIC EMPLOYEES' BENEFITS PROGRAM
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015**

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 and the unused portion of the HRA liability. 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 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.

	<u>2016</u>	<u>2015</u>
<u>Reserve for claims balance</u>		
Beginning balance	\$ 31,087,000	\$ 24,673,000
Claims and changes in estimates	170,468,577	164,740,875
Claims payments	<u>(169,115,577)</u>	<u>(158,326,875)</u>
Ending balance reserve for claims balance	<u>\$ 32,440,000</u>	<u>\$ 31,087,000</u>
 <u>HRA Liability</u>		
Beginning balance	\$ 29,571,342	\$ 22,481,255
Incurred	39,815,301	85,192,369
Paid	<u>(38,812,339)</u>	<u>(78,102,282)</u>
Ending balance HRA liability	<u>\$ 30,574,304</u>	<u>\$ 29,571,342</u>
 Ending Balance	 <u><u>\$ 63,014,304</u></u>	 <u><u>\$ 60,658,342</u></u>

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

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 \$5,440,879 and \$3,250,781 as of June 30, 2016 and June 30, 2015, 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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 9 - Subsequent Events:

Management has evaluated subsequent events through December 2, 2016, the date which the financial statements were available to be issued.

Casey Neilon
Accountants and Advisors

INDEPENDENT AUDITOR'S 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, 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 Self Insurance Trust Fund, Public Employees' Benefits Program, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Self Insurance Trust Fund, Public Employees' Benefits Programs basic financial statements, and have issued our report thereon dated December 2, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Self Insurance Trust Fund, Public Employees' Benefits Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Self Insurance Trust Fund, Public Employees' Benefits Programs internal control. Accordingly, we do not express an opinion on the effectiveness of the Self Insurance Trust Fund, Public Employees' Benefits Program'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 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. 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 may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying schedule as 2016-01 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Self Insurance Trust Fund, Public Employees' Benefits Program'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 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*.

Self Insurance Trust Fund, Public Employees' Benefits Program's Response to Findings

The Self Insurance Trust Fund, Public Employees' Benefits Program's response to the findings identified in our audit is described in the accompanying schedule of findings. Self Insurance Trust Fund, Public Employees' Benefits Program's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
SUMMARY OF PRIOR PERIOD FOLLOW-UP
FOR THE YEAR ENDING JUNE 30, 2016**

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.

A handwritten signature in cursive script that reads "Casey Nalon".

Carson City, Nevada
December 2, 2016

**STATE OF NEVADA
SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
SUMMARY SCHEDULE OF FINDINGS
FOR THE YEAR ENDING JUNE 30, 2016**

Internal Control – Material Weakness

Finding 2016-01: Bank Reconciliation Training and Control Deficiencies

Criteria upon which audit finding is based:

Effective accounting procedures and internal control processes and standards

Finding (Condition):

During our testing, we identified an unusual adjustment that was being made to the book balance of the zero balance account to account for outstanding checks. The adjustment was significantly larger than had been made in any of the prior years. The audit adjustment to the initial financial statements was \$50,403,531. The conditions that caused this adjustment are as follows:

- The Program uses a positive pay system. The third party administrator uploads a file of checks to the bank, such that the bank will not clear a check unless it is in the file.
- The third party administrator made a change to their system to send payments via ACH instead of by check but still notified the bank that these were disbursed in check form.
- The financial reporting system of the program only reports the amount of checks that clear and not the amount of checks that are written, thus the bank reconciliation process does not track outstanding checks and the financial statements do not include the full amount of the liability for claims payments until the end of the year when an adjustment is made by the Controller's Office for the amount of checks that the bank has not cleared under the positive pay system.
- The Program's accounting staff noticed that the amount of outstanding checks that the bank was reporting was continuing to increase each month, but did not investigate further.
- The third party administrator did not identify that there was a fault in their system.
- The Controller's Office did question the amount of the adjustment, but did not investigate further.

Amount of Questioned Cost, How Computed and Prevalence:

Not applicable

Effect:

As a result of the deficiency noted, the Program could be at risk for financial statement misstatement or fraud due to the following:

- Interim financial reports to the Board may omit outstanding checks and thus understated claims expense.
- Year end financial statements may misstate the amount of claims expense and the cash balances.
- The Program could be at risk for an employee at the third party administrator preparing duplicate payments under the ACH system and the check disbursement system and the bank could cash the check and the duplication would not be identified by the Program.

Cause:

- Staff are not adequately trained on bank reconciliation processes.
- Supervisory staff do not have processes in place to adequately investigate unusual trends in the bank reconciliation

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SELF INSURANCE TRUST FUND
PUBLIC EMPLOYEES' BENEFITS PROGRAM
SUMMARY OF PRIOR PERIOD FOLLOW-UP
FOR THE YEAR ENDING JUNE 30, 2016**

Recommendation:

We recommend the following:

- The Program implement a training program for accounting staff on the proper reconciliation of bank accounts.
- The Program record claims expense when the check or ACH is written and not when the check or ACH clears. This can be recorded to a claims payable account, with the claims payable account being reduced when the payments actually clear.
- The Program reconcile the claims payable account to the outstanding checks reported by the bank.

Program's Response:

The Public Employees' Benefits Program (PEBP) accepts the findings as detailed in the Compliance Letter. PEBP staff is developing a corrective action plan to be submitted with the Fiscal Year 2016 Financial Audit report at the January 19 2017 PEBP board meeting.