



Financial Statements
June 30, 2019 and 2018

State of Nevada

Office of the State Treasurer

Higher Education Tuition Trust Fund

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
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June 30, 2019 and 2018

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Independent Auditor's Report

To the Board of Trustees
Nevada College Savings Plan Board
Carson City, Nevada

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund), an enterprise fund of the State of Nevada, which comprise the statements of net position as of June 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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 audits 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust Fund, as of June 30, 2019 and 2018, 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 present only the Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Nevada, as of June 30, 2019 and 2018, 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.

As described in Note 3 to the financial statements, the Trust Fund has restated the fair value measurement disclosure to correct an error in the classification of certain investments from Level 1 to Level 2. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020, on our consideration of the Trust Fund's internal control over financial reporting and 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 compliance 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 Trust Fund's internal control over financial reporting and compliance.



Reno, Nevada
February 18, 2020

As management of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund), we offer readers of the Trust Fund's financial statements this narrative overview and analysis of the financial activities of the Trust Fund for the fiscal years (FY) ended June 30, 2019 and 2018.

FINANCIAL HIGHLIGHTS

The Trust Fund's financial position continued to significantly improve in fiscal year 2019.

- The Trust Fund's total assets and deferred outflows increased from \$321,527,065 in FY18 to \$339,535,243 in FY19, an increase of \$18,008,178. This represents an increase of 6% from the prior fiscal year. These assets are used to pay tuition benefits on behalf of contracts purchased.
- The Trust Fund's total assets and deferred outflows increased from \$299,281,577 in FY17 to \$321,527,065 in FY18, an increase of \$22,245,488. This represents an increase of 7% from the prior fiscal year. These assets are used to pay tuition benefits on behalf of contracts purchased.
- The Trust Fund's total net position in FY19 was \$127,746,725, which is an increase of \$24,680,727 from FY18. The growth is primarily due to strong investment performance.
- The Trust Fund's total net position in FY18 was \$103,065,998, which is an increase of \$25,313,093 from FY17. The growth is primarily due to strong investment performance.
- The Trust Fund's certified actuary reported that the funded status of the Prepaid Tuition Plan (the Plan) as of June 30, 2019 was 154.6%, utilizing a rate of return on actuarial value of assets of 6.4% per year (160.5% if the market value of assets was used). This is an increase from the funded status of 142.0% as of June 30, 2018, and the funded status of 132.7% as of June 30, 2017, and continues to be one of the highest funding ratios nationwide for a state prepaid tuition plan.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Trust Fund's annual report. The Trust Fund's financial report consists of: Management's Discussion and Analysis (MD&A), Basic Financial Statements including Notes to the Financial Statements and a Compliance Section.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Trust Fund report information about the Trust Fund, which is considered an enterprise fund (proprietary fund type). Proprietary funds use the full accrual basis of accounting, similar to that used by private sector companies. Under this method, revenues are recorded when earned and expenses are recorded at the time a liability is incurred. The Statement of Net Position includes all of the Trust Fund's assets and deferred outflows and liabilities and deferred inflows and provides information about the nature and amount of its resources and the obligations to contract holders. All of the current year's revenues and expenses

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are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This Statement measures the success of the Trust Fund's operations over the past year, and can be used to determine whether the Trust Fund has successfully met all of its costs through its tuition contributions, along with other fees and charges for sales and services. The final statement is the Statement of Cash Flows, which is used to provide information about the Trust Fund's cash receipts, cash payments and net changes in cash resulting from operating, investing and financing activities.

NET POSITION

Net position may serve over time as a useful indicator of financial position. In the case of the Trust Fund, the Trust Fund's position increased significantly, 24%, ending with net position of \$127,746,725.

The vast majority of the Trust Fund's assets, 86%, are its investments. The Trust Fund uses these assets to pay future tuition benefits for contracts purchased.

Higher Education Tuition Trust Fund Net Position

	2019	2018	2017
Assets			
Current and other assets	\$ 339,433,218	\$ 321,411,717	\$ 299,161,095
Net capital assets	40,008	56,706	73,405
Total Assets	<u>339,473,226</u>	<u>321,468,423</u>	<u>299,234,500</u>
Deferred Outflows			
Pension related	58,126	55,017	47,077
OPEB related	3,891	3,625	-
Liabilities			
Current liabilities	18,552,603	17,689,218	19,297,822
Noncurrent liabilities	193,203,965	200,738,842	202,209,112
Total Liabilities	<u>211,756,568</u>	<u>218,428,060</u>	<u>221,506,934</u>
Deferred Inflows			
Pension related	23,596	25,413	21,738
OPEB related	8,354	7,594	-
Net Position			
Net investment in capital assets	40,008	56,706	73,405
Unrestricted	<u>123,189,702</u>	<u>103,009,292</u>	<u>77,679,500</u>
Total Net Position	<u>\$ 127,746,725</u>	<u>\$ 103,065,998</u>	<u>\$ 77,752,905</u>

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The Trust Fund's net position continued to grow in FY 2019, for the seventh year in a row. The net position increased from \$103,065,998 in FY 2018 to \$127,746,725 in FY 2019, an increase of \$24,680,727 or 24% over the prior fiscal year. This increase is primarily due to an increase in investment performance.

CHANGE IN NET POSITION

Higher Education Tuition Trust Fund Change in Net Position

	2019	2018	2017
Operating Revenues			
Tuition contributions and other revenues	\$ 13,791,772	\$ 13,934,152	\$ 17,932,464
Operating Expenses			
Operating expenses before depreciation	8,027,796	11,275,605	23,356,058
Depreciation	16,698	16,698	16,698
Total Operating Expenses	8,044,494	11,292,303	23,372,756
Operating Income (Loss)	5,747,278	2,641,849	(5,440,292)
Nonoperating revenues and interest income	18,263,467	21,987,460	23,502,640
Contribution - State of Nevada College Savings Endowment Account	669,982	683,784	627,175
Change in Net Position	24,680,727	25,313,093	18,689,523
Net Position, July 1	103,065,998	77,752,905	59,063,382
Net Position, June 30	\$ 127,746,725	\$ 103,065,998	\$ 77,752,905

Tuition contributions and revenues in FY 2019 decreased to \$13,791,772. The 1% decrease is attributable to a decrease in the total number of contracts sold in FY 2019, with more of them being paid in full, as well as a lower number of 4-year university plans being purchased overall. Operating expenses for the Plan primarily consist of future tuition benefits, which are calculated to be \$4,679,863 on an accrued basis. Total operating expenses decreased by roughly 29% from \$11,292,303 in FY 2018 to \$8,044,494 in FY 2019. This is mainly due to the decrease in tuition benefits expense which resulted from a reduction in the tuition benefits payable accrual. Actuarial assumption changes were based on a Nevada Prepaid Tuition actuarial experience study performed in FY 2019, which resulted in a reduction in the overall actuarial liabilities.

The operating income (loss) above reflects the difference between contributions from new and existing participants on a cash basis versus benefit payments to educational institutions, which fulfills the purpose of the Plan, and other sundry costs. In addition, in FY 2019, the change in the actuarial accruals had a positive impact on the net position. This is shown in the increase in the operating income (loss) from \$2,641,849 in FY 2018 to \$5,747,278 in FY 2019.

CAPITAL ASSET ADMINISTRATION

The Trust Fund's investment in capital assets as of June 30, 2019, amounts to \$40,008 (net of accumulated depreciation), which consists of computer equipment. Information about the Trust Fund's capital assets can be found in Note 4 to the Trust Fund's financial statements.

ECONOMIC FACTORS AND CURRENTLY KNOWN FACTS

Aside from account owners' purchases of contracts, the primary source of revenue for the Plan is investment income. The target investment allocation includes domestic public equities of 50%, domestic fixed income securities of 30%, and domestic covered calls of 20%. The Plan continues to invest in an equity portfolio with passively managed large, mid, and small cap U.S. equity mutual funds at Vanguard, a fixed income portfolio with Chicago Equity Partners and a passively managed covered calls mutual fund with Glenmede. The rate of return on a market value basis was 6.41% while the rate of return on the actuarial value of assets for year ended June 30, 2019 was 6.38%.

Based on a price inflation rate of 1.75% and revised 5-year capital market expectations for those asset classes, the Board approved the assumed rate of return of the Plan's investments is 5.25% based on analyses from its investment consultant. This assumed rate was used by the Board's actuary in computing the Plan's funded status of 154.6%. The Plan's investments are intended to provide broad exposure to the U.S. equities and investment-grade fixed income markets. Therefore, projected returns are subject to actual market activity and volatility in the markets.

The College Savings Endowment Account continues to transfer funds to the Trust Fund to cover administrative costs of the State Treasurer's Office to administer and manage the Prepaid Tuition Plan.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the Trust Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the State of Nevada Treasurer's Office, Nevada Prepaid Tuition Program, 555 E. Washington Ave., Suite 4600, Las Vegas, NV 89101.

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Statements of Net Position
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	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 7,949,934	\$ 5,532,834
Investment income receivable	388,108	372,605
Prepaid items	116	-
Due from State of Nevada	74,340	38,878
Tuition contributions receivable, current portion	8,865,168	9,233,936
Investments, current portion	292,418,805	274,695,628
Total current assets	309,696,471	289,873,881
Noncurrent assets		
Capital assets, net	40,008	56,706
Other noncurrent assets		
Tuition contributions receivable	29,736,747	31,537,836
Total noncurrent assets	29,776,755	31,594,542
Total assets	339,473,226	321,468,423
Deferred outflows of resources		
Pension related	58,126	55,017
OPEB related	3,891	3,625
Total deferred outflows	62,017	58,642
Total assets and deferred outflows	339,535,243	321,527,065
Liabilities		
Current liabilities		
Accounts payable	139,077	111,106
Accrued salaries and benefits	28,729	24,860
Due to State of Nevada	32,110	43,250
Due to other governments	1,952	968
Tuition benefits payable, current portion	18,350,735	17,509,034
Total current liabilities	18,552,603	17,689,218
Noncurrent liabilities		
Tuition benefits payable	192,754,039	200,282,612
Net pension liability	325,340	334,217
Net OPEB liability	124,586	122,013
Total noncurrent liabilities	193,203,965	200,738,842
Total liabilities	211,756,568	218,428,060
Deferred inflows of resources		
Pension related	23,596	25,413
OPEB related	8,354	7,594
Total deferred inflows	31,950	33,007
Total liabilities and deferred inflows	211,788,518	218,461,067
Net Position		
Net investment in capital assets	40,008	56,706
Unrestricted	127,706,717	103,009,292
Total net position	\$ 127,746,725	\$ 103,065,998

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Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Charges for sales and services	\$ 92,600	\$ 104,300
Tuition contributions	<u>13,699,172</u>	<u>13,829,852</u>
Total operating revenues	<u>13,791,772</u>	<u>13,934,152</u>
Operating Expenses		
Personnel costs	201,995	388,880
Contract and other administrative services	624,640	643,043
Tuition benefits expense	4,679,863	7,919,635
Refunds	2,521,298	2,324,047
Depreciation	<u>16,698</u>	<u>16,698</u>
Total operating expenses	<u>8,044,494</u>	<u>11,292,303</u>
Operating Income	<u>5,747,278</u>	<u>2,641,849</u>
Nonoperating Revenues		
Interest, dividends and other investment income	5,162,880	4,283,232
Net increase in fair value of investments	13,100,587	17,704,228
Contribution from the State of Nevada General Fund - College Savings Endowment Account	<u>669,982</u>	<u>683,784</u>
Total nonoperating revenues	<u>18,933,449</u>	<u>22,671,244</u>
Change in Net Position	24,680,727	25,313,093
Net Position, Beginning of Year	<u>103,065,998</u>	<u>77,752,905</u>
Net Position, End of Year	<u>\$ 127,746,725</u>	<u>\$ 103,065,998</u>

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	2019	2018
Operating Activities		
Receipts for sales and services	\$ 92,600	\$ 104,300
Tuition contributions received	15,869,029	16,267,179
Payments to suppliers for good and services	(642,287)	(615,772)
Payments to employees	(208,978)	(207,895)
Payments for tuition benefits	(11,366,735)	(11,227,210)
Payments of refunds	(2,521,298)	(2,324,047)
	1,222,331	1,996,555
Net Cash from Operating Activities		
Noncapital Financing Activities		
Contribution from the State of Nevada General Fund - College Savings Endowment Account	669,982	683,784
	669,982	683,784
Investing Activities		
Proceeds from sales or maturities of investments	29,282,179	72,166,638
Purchase of investments	(33,904,769)	(78,237,023)
Interest, dividends and other investment income received	5,147,377	4,203,162
	524,787	(1,867,223)
Net Cash from (used for) Investing Activities		
Net Change in Cash and Cash Equivalents	2,417,100	813,116
Cash and Cash Equivalents, Beginning of Year	5,532,834	4,719,718
	\$ 7,949,934	\$ 5,532,834
Cash and Cash Equivalents, End of Year		

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	2019	2018
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 5,747,278	\$ 2,641,849
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	16,698	16,698
Changes in		
Due from State of Nevada	(35,462)	(20,148)
Tuition contributions receivable	2,169,857	2,437,326
Accounts payable and accrued liabilities	31,840	33,144
Due to State of Nevada	(11,140)	9,710
Due to other governments	984	351
Net pension liability	(8,877)	63,483
Net OBEP liability	2,573	122,013
PERS deferred outflows of resources	(3,375)	(11,565)
PERS deferred inflows of resources	(1,057)	11,269
Tuition benefits payable	(6,686,872)	(3,307,575)
Net Cash from Operating Activities	\$ 1,222,331	\$ 1,996,555
Noncash Investing Activities		
Net increase in fair value of investments	\$ 13,100,587	\$ 17,704,228

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) 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.

Reporting Entity and Purpose

The Trust Fund operates under Nevada Revised Statutes (NRS) 353B, Prepayment of Tuition at Institutions of Higher Learning, which was adopted by the Nevada Legislature in 1997. The Trust Fund is administered by the Office of the State Treasurer under the direction of a six-member Board, with five voting members and one ex-officio nonvoting Treasurer designee (the Board).

The purpose of the Trust Fund's program is to provide a simple and convenient way for Nevada families to save for a college education through the advance payment of tuition. A purchaser enters into a contract for the future payment of tuition for a specified beneficiary. When the beneficiary enrolls in college, the program will pay the contract benefits. The beneficiary has six years after the projected college entrance date to utilize the benefits of the contract. Exceptions are granted for military or religious service. The contract benefits are based on in-state rates for Nevada public colleges, but can be used towards costs at any accredited, nonprofit, private or out-of-state college.

The Trust Fund completed its twenty-first enrollment period on April 30, 2019 with 669 new enrollments. The Trust Fund also had 805 removed contracts for a total active enrollment of 12,305 at June 30, 2019. The Trust Fund had a total active enrollment of 12,441 of contracts at June 30, 2018.

The Trust Fund completed its twentieth enrollment period on April 30, 2018 with 774 new enrollments. The Trust Fund also had 666 removed contracts for a total active enrollment of 12,441 at June 30, 2018.

Measurement Focus and Basis of Accounting

The Trust Fund is an enterprise fund (proprietary fund type) of the State of Nevada and thus is included in the State of Nevada's Comprehensive Annual Financial Report. The accompanying financial statements present only the Trust Fund and are not intended to present fairly the financial position of the State of Nevada, the changes in its financial position or its cash flows in conformity with GAAP.

Activities of enterprise funds resemble activities of business enterprises; the purpose is to obtain and use economic resources to meet operating objectives. The financial statements for the Trust Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized at the time they are earned and expenses are recognized when the related liabilities are incurred.

A proprietary fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from exchange transactions such as providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses. The generally accepted accounting principles applicable are those similar to business in the private sector.

Cash and Cash Equivalents

Cash and cash equivalents include short-term highly liquid investments (with maturities of three months or less when purchased) that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes of value. Such amounts include the Trust Fund's cash pooled with the State Treasurer and money market mutual funds.

Custodian and Transfer Agent

BNY Mellon is the custodian and transfer agent for certain Trust Fund investments.

Revenue Recognition

Contributions are recognized over the course of the contract as the payments progress.

Investment Valuation and Income Recognition

Investments are reported at fair value as determined by quoted or observable market prices. Fair value is the price that would be required to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The investments are marked to market daily.

Security transactions are accounted for on the trade date (date order to buy or sell is executed). Interest income is determined on an accrual basis with discounts earned and premiums paid being amortized. Dividends are recorded on the ex-dividend date.

Tuition Contributions Receivable

Tuition contributions receivable in the Trust Fund represents the actuarially determined present value of future installment payments anticipated from contract holders.

Capital Assets

Capital assets are recorded at cost and consist of assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are depreciated on a straight-line basis over estimated useful lives of four to ten years. The cost of repairs and maintenance that do not materially extend the life of an asset are not capitalized.

Tuition Benefits Payable

The Trust Fund records tuition benefits payable at the actuarial present value of its future tuition obligation, which is adjusted for the effects of projected tuition and fee increases and termination of contracts.

Net Position Classifications

In the financial statements, net position is classified and displayed in three components:

1. Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets after adding back the unspent portion of these borrowings.
2. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors (including bond covenants), grantors, contributors, or laws or regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net position – Net position that does not meet the definition of “restricted” or “net investment in capital assets”.

Note 2 - Stewardship and Compliance

Compliance with Nevada Revised Statutes and Administrative Code

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

Note 3 - Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

Of the \$7,949,934 and \$5,532,834 cash and cash equivalents at June 30, 2019 and 2018, respectively, \$7,672,086 and \$5,428,152 represents the Trust Fund’s investment in the State of Nevada's external investment pool.

The Trust Fund is an internal participant in the external investment pool maintained by the Treasurer of the State of Nevada. The external investment pool is not registered with the SEC as an investment company. The State of Nevada has not provided or obtained any legally binding guarantees during the period to support the value of the shares.

The Trust Fund receives a prorated share of the earnings from its participation in the investment pool based on daily cash balances. Due to the nature of the investment pool, it is not possible to separately identify any specific investment as being that of the Trust Fund. Instead, the Trust Fund owns a proportionate share of each investment, based on the Trust Fund’s participation percentage in the investment pool.

Investments

The State Treasurer serves as the administrator to the Trust Fund. The Trust Fund's assets are managed in accordance with the Trust Fund's investment objectives and policies, as provided in NRS 353B.160.1. Authorized investments are as follows:

- A bond, note, debenture or other valid obligation that is issued by the Treasury of the United States, or other security that is issued by an agency or instrumentality of the United States or that is fully guaranteed by the United States in the Federal Farm Credit Bank, the Federal National Mortgage Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association;
- A mortgage-backed security that is issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association;
- "AAA" rated collateralized mortgage obligations that are issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association;
- A bond, note, certificate or other general obligation of the State of Nevada, or of a county, city, general improvement district or school district of the State of Nevada;
- "A" or better rated corporate bonds of a corporation created by or existing under the laws of the United States or of a state, district or territory of the United States. The total amount invested in such bonds must not exceed 50% of the book value of the total fixed income investments;
- "A-1", "P-1", "F-1" or better rated commercial paper;
- "AAA" rated commercial mortgage-backed securities;
- "AAA" rated asset-backed securities financing credit cards, auto, manufactured housing, or student loans; "A" rated money-market mutual funds that meet the criteria set forth in statute. The total dollar amount invested in such mutual funds must not exceed 20% of the total dollar amount of the Trust Fund that is invested;
- A covered call or put option on securities that are traded on one or more of the regulated exchanges in the United States;
- A pooled or commingled real estate fund or a real estate security that is managed by a corporate trustee or by an investment advisory firm that is registered with the Securities and Exchange Commission. The total book value of this type of investment must not at any time be greater than 5% of the total book value of all investments of the Trust Fund;
- Common or preferred stock of corporations that have a total market value of not less than \$50,000,000. The maximum investment in stock is no greater than 60% of the book value of the total investments of the Trust Fund. Except for investments made pursuant to the final authorized investment below, the total amount invested in a single corporation is not greater than 3% of the total assets of the Trust Fund and not greater than 5% of the outstanding stock of a single corporation; and
- Mutual funds or common trust funds that consist of any combination of the investments listed above.

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The Trust Fund categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Trust Fund does not have any investments that are measured using Level 3 inputs.

As of June 30, 2019, the Trust Fund had the following investments and level inputs:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments				
Mutual funds				
Index funds	\$ 152,756,019	\$ 152,756,019	\$ -	\$ -
Covered calls	58,574,069	58,574,069	-	-
U.S. Treasury notes	45,954,683	45,954,683	-	-
U.S. agencies	31,844,938	-	31,844,938	-
Corporate notes	3,289,096	-	3,289,096	-
	<u>\$ 292,418,805</u>	<u>\$ 257,284,771</u>	<u>\$ 35,134,034</u>	<u>\$ -</u>

As of June 30, 2018, the Trust Fund had the following investments and level inputs:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments				
Mutual funds				
Index funds	\$ 141,573,040	\$ 141,573,040	\$ -	\$ -
Covered calls	57,144,243	57,144,243	-	-
U.S. Treasury notes	40,275,459	40,275,459	-	-
U.S. agencies	31,694,437	-	31,694,437	-
Corporate notes	4,008,449	-	4,008,449	-
	<u>\$ 274,695,628</u>	<u>\$ 238,992,742</u>	<u>\$ 35,702,886</u>	<u>\$ -</u>

The fair value measurement disclosure has been restated as of June 30, 2018 to correct investments (U.S. agencies and Corporate notes) previously classified as Level 1 to be classified as Level 2.

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued at fair value based on the observable market prices of the underlying assets held by the pool or fund less liabilities.

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Trust Fund's investment policies address interest rate risk by providing for an asset allocation plan that gives appropriate consideration to an average investment horizon of 3 to 18 years, while taking into consideration current and near-term liquidity needs.

As of June 30, 2019, the Trust Fund had the following investments and maturities that are subject to interest rate risk:

	Fair Value	Maturities, in Years			Greater Than 10
		Less Than 1	1-5	6-10	
Investments					
Corporate notes	\$ 3,289,096	\$ 474,232	\$ 2,345,358	\$ 210,871	\$ 258,635
U.S. agencies	31,844,938	-	1,693,940	1,564,202	28,586,796
U.S. Treasury notes	45,954,683	-	27,243,148	10,188,314	8,523,221
	<u>\$ 81,088,717</u>	<u>\$ 474,232</u>	<u>\$31,282,446</u>	<u>\$11,963,387</u>	<u>\$37,368,652</u>

As of June 30, 2018, the Trust Fund had the following investments and maturities that are subject to interest rate risk:

	Fair Value	Maturities, in Years			Greater Than 10
		Less Than 1	1-5	6-10	
Investments					
Corporate notes	\$ 4,008,449	\$ 822,554	\$ 2,748,218	\$ 196,579	\$ 241,098
U.S. agencies	31,694,437	-	1,417,398	1,178,939	29,098,100
U.S. Treasury notes	40,275,459	-	24,597,726	8,763,902	6,913,831
	<u>\$ 75,978,345</u>	<u>\$ 822,554</u>	<u>\$28,763,342</u>	<u>\$10,139,420</u>	<u>\$36,253,029</u>

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Trust Fund. At June 30, 2019, the Trust Fund's investments were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard & Poor's rating scale (at fair value) as of:

	Fair Value	Credit Quality Ratings				
		AAA	AA	A	BBB	Unrated
Investments						
Corporate notes	\$ 3,289,096	\$ -	\$ 1,247,881	\$ 1,749,880	\$ 291,335	\$ -
U.S. agencies	31,844,938	-	31,550,743	-	-	294,195
	<u>\$ 35,134,034</u>	<u>\$ -</u>	<u>\$32,798,624</u>	<u>\$ 1,749,880</u>	<u>\$ 291,335</u>	<u>\$ 294,195</u>

At June 30, 2018, the Trust Fund's investments were rated by Standard and Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard & Poor's rating scale (at fair value) as of:

	Fair Value	Credit Quality Ratings			
		AAA	AA	A	BBB
Investments					
Corporate notes	\$ 4,008,449	\$ 95,108	\$ 1,263,840	\$ 2,362,946	\$ 286,555
U.S. agencies	31,694,437	-	31,694,437	-	-
	<u>\$ 35,702,886</u>	<u>\$ 95,108</u>	<u>\$32,958,277</u>	<u>\$ 2,362,946</u>	<u>\$ 286,555</u>

The ratings presented above may have differed if an equivalent national rating organization was utilized.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2019, the following investments exceeded 5% of the Trust Fund's total investments:

	Fair Value	Percentage
Federal Home Loan Mortgage Corp - Asset Backed Mortgage Security	\$20,725,671	7.09%

At June 30, 2018, the following investments exceeded 5% of the Trust Fund's total investments:

	Fair Value	Percentage
Federal Home Loan Mortgage Corp - Asset Backed Mortgage Security	\$22,469,645	8.18%

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Other Risk

The Trust Fund invests in various equity mutual funds, including at June 30, 2019 and 2018, when equity mutual funds comprised approximately 72.27% and 72.31% of total investments. Equity mutual funds are exposed to other risks such as market risks. Due to the level of risk associated with equity mutual funds, it is at least reasonably possible that changes in the values of equity mutual funds will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Note 4 - Capital Assets

The following schedule summarizes the changes in capital assets for the year ended June 30, 2019:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019
Capital Assets				
Computer equipment	\$ 173,374	\$ -	\$ -	\$ 173,374
Less accumulated depreciation	(116,668)	(16,698)	-	(133,366)
Capital Assets, Net	<u>\$ 56,706</u>	<u>\$ (16,698)</u>	<u>\$ -</u>	<u>\$ 40,008</u>

The following schedule summarizes the changes in capital assets for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital Assets				
Computer equipment	\$ 173,374	\$ -	\$ -	\$ 173,374
Less accumulated depreciation	(99,969)	(16,699)	-	(116,668)
Capital Assets, Net	<u>\$ 73,405</u>	<u>\$ (16,699)</u>	<u>\$ -</u>	<u>\$ 56,706</u>

Note 5 - Noncurrent Liabilities

Tuition Benefits Payable

Included in noncurrent liabilities is the Trust Fund's tuition benefits obligation based upon the actuarial present value (APV) of the future tuition obligations and administrative expenses. This amount reflects the present value of estimated tuition benefits and administrative expenses that will be paid in future years. The present value calculation includes the effects of projected tuition and fee increases and termination of contracts.

	June 30, 2019	June 30, 2018
APV of the Future Tuition Obligation	\$211,104,774	\$217,791,646
Net Position Available	338,851,499	320,857,644
Net Position as a Percentage of Tuition Benefits Obligation	160.51%	147.32%

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The following assumptions were used in the actuarial valuation for fiscal year 2019:

- Investment Rates: The investment yield assumption is 5.25% per year, which is a different assumption than used in the June 30, 2018 actuarial report.
- Tuition Growth Assumptions:

<u>Fiscal Year Ended</u>	<u>Universities</u>	<u>Community Colleges</u>
2020-2021	4.00%	4.00%
2021-2022	2.80%	2.80%
2022-2023	2.80%	2.80%
2023-2024+	4.50%	3.75%

The following assumptions were used in the actuarial valuation for fiscal year 2018:

- Investment Rates: The investment yield assumption is 5.00% per year, which is the same assumption used in the June 30, 2017 actuarial report.
- Tuition Growth Assumptions:

<u>Fiscal Year Ended</u>	<u>Universities</u>	<u>Community Colleges</u>
2019-2020	4.00%	4.00%
2020-2021	4.00%	4.00%
2021-2022+	4.75%	4.00%

Changes in the Trust Fund's noncurrent liabilities at June 30, 2019:

	<u>Balance July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2019</u>	<u>Due Within One Year</u>
Tuition benefits payable	\$ 217,791,646	\$ 9,896,645	\$(16,583,517)	\$ 211,104,774	\$ 18,350,735

Changes in the Trust Fund's noncurrent liabilities at June 30, 2018:

	<u>Balance July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Tuition benefits payable	\$ 221,099,221	\$ 10,989,195	\$(14,296,770)	\$ 217,791,646	\$ 17,509,034

Note 6 - Tuition Contributions and Tuition Benefits Expense

The tuition contributions of \$13,699,172 and \$13,829,852 and the tuition benefits expense of \$4,679,863 and \$7,919,635 on the Statement of Revenues, Expenses and Changes in Net Position represent the annual accrual of contributions of \$(2,169,857) and \$(2,437,326) and benefit expenses of \$(6,686,872) and \$(3,307,575) for the years ended June 30, 2019 and 2018, respectively, as determined by the actuarial valuation and adjusted by the actual participant contributions of \$15,869,029 and \$16,267,178 and tuition payments of \$11,366,735 and \$11,227,210 for the fiscal years.

Note 7 - Pension Plan and Other Post-Employment Benefits

Employees of the Trust Fund are employees of the State of Nevada and the Nevada Legislature created various plans to provide benefits to qualified employees of the State.

Pension Plan – The employees participate in a cost-sharing, multiple-employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada (PERS). PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. As the State of Nevada, not the Trust Fund, has overall responsibility for determining contributions to PERS, information relating to PERS is available in the State of Nevada’s *Comprehensive Annual Financial Report* for the year ended June 30, 2019 and 2018.

Other Post-Employment Benefits (OPEB) – The employees participate in a cost-sharing, multiple-employer, defined benefit postemployment plan administered by the Public Employees’ Benefits Program of the State of Nevada (PEBP). PEBP provides group health and life insurance benefits to plan members, both active and retired, and their dependents. As the State of Nevada, not the Trust Fund, has overall responsibility for determining contributions to PEBP, information relating to PEBP is available in the State of Nevada’s *Comprehensive Annual Financial Report* for the year ended June 30, 2019 and 2018.

Note 8 - Risk Management

As with all governmental entities, the Trust Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. Such losses, if any, are accounted for in the State of Nevada's various insurance funds. The Trust Fund is responsible for premium charges payable to the State of Nevada for coverage in the self-funded programs. There have been no material settlements related to the Trust Fund in any of the past three years.



**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 Trustees
Higher Education Tuition Trust Fund
Carson City, Nevada

We have audited, 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, the financial statements of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund), an enterprise fund of the State of Nevada, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Trust Fund's basic financial statements and have issued our report thereon dated February 18, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust Fund'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust Fund'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 to those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust Fund's basic 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*.

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 Trust Fund'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 Trust Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Reno, Nevada
February 18, 2020