



Financial Statements
June 30, 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
Table of Contents
June 30, 2018

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Financial Statements	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements.....	11
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 <i>Government Auditing Standards</i>	21



Independent Auditor's Report

To the Board of Trustees
Higher Education Tuition Trust Fund
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 statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust Fund, as of June 30, 2018, and the respective changes in financial position and cash flows, thereof for the year 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, 2018, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.

Report on Summarized Comparative Information

We have previously audited the Trust Fund's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2018. In our opinion, the summarized comparative information presented herein as of, and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2019, 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 14, 2019

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 year (FY) ended June 30, 2018.

FINANCIAL HIGHLIGHTS

The Trust Fund's financial position continued to significantly improve in Fiscal Year 2018.

- The Trust Fund's total assets and deferred outflows grew by \$22,245,488 in FY 2018. 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 FY 2018 was \$103,065,998, which is an increase of \$25,313,093 from the prior year. 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, 2018 was 142.0%, utilizing a rate of return on actuarial value of assets of 6.1% per year (147.46% if the market value of assets was used). This is an increase from 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 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 (33%), ending with net position of \$103,065,998.

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Management's Discussion and Analysis
June 30, 2018

The vast majority of the Trust Fund's assets, 85%, are its investments. The Trust Fund uses these assets to pay future tuition benefits for contracts purchased.

Higher Education Tuition Trust Fund Net Position

	2018	2017
Assets		
Current and other assets	\$ 321,411,717	\$ 299,161,095
Net capital assets	56,706	73,405
Total Assets	321,468,423	299,234,500
Deferred Outflows		
Pension related	55,017	47,077
OPEB related	3,625	-
Liabilities		
Current liabilities	17,689,218	19,297,822
Noncurrent liabilities	200,738,842	202,209,112
Total Liabilities	218,428,060	221,506,934
Deferred Inflows		
Pension related	25,413	21,738
OPEB related	7,594	-
Net Position		
Net investment in capital assets	56,706	73,405
Unrestricted	103,009,292	77,679,500
Total Net Position	\$ 103,065,998	\$ 77,752,905

The Trust Fund's net position continued to grow in FY 2018, for the sixth year in a row. The net position increased from \$77,752,905 in FY 2017 to \$103,065,998 in FY 2018, an increase of \$25,313,093 or 33% 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

	2018	2017
Operating Revenues		
Tuition contributions and other revenues	\$ 13,934,152	\$ 17,932,464
Operating Expenses		
Operating expenses before depreciation	11,275,605	23,356,058
Depreciation	16,698	16,698
Total Operating Expenses	11,292,303	23,372,756
Operating Income (Loss)	2,641,849	(5,440,292)
Nonoperating revenues (expenses) and interest income	21,987,460	23,502,640
Contribution - State of Nevada College Savings Trust	683,784	627,175
Change in Net Position	25,313,093	18,689,523
Net Position, July 1	77,752,905	59,063,382
Net Position, June 30	\$ 103,065,998	\$ 77,752,905

Tuition contributions and revenues in FY 2018 decreased to \$13,934,152. The 22% decrease is attributable to a decrease in the total number of contracts sold in FY 2018, with fewer 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 \$7,919,635 on an accrued basis. Total operating expenses decreased by roughly 52% from \$23,372,756 in FY 2017 to \$11,292,303 in FY 2018. 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 2018, 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 2018, 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 a negative \$5,440,292 in FY 2017 to a positive \$2,641,849 in FY 2018.

CAPITAL ASSET ADMINISTRATION

The Trust Fund's investment in capital assets as of June 30, 2018, amounts to \$56,706 (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 8.51% while the rate of return on the actuarial value of assets for year ended June 30, 2018 was 6.11%.

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 5.00% 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 142.0%. The Plan's investments are intended to provide broad exposure to the US 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 Fund 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.

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Statement of Net Position
Year Ended June 30, 2018
(with comparative amounts for the Year Ended June 30, 2017)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 5,532,834	\$ 4,719,718
Investment income receivable	372,605	292,535
Due from State of Nevada	38,878	18,729
Tuition contributions receivable, current portion	9,233,936	9,645,335
Investments	274,695,628	250,921,015
Total current assets	289,873,881	265,597,332
Noncurrent assets		
Capital assets, net	56,706	73,405
Other noncurrent assets		
Tuition contributions receivable	31,537,836	33,563,763
Total noncurrent assets	31,594,542	33,637,168
Total assets	321,468,423	299,234,500
Deferred outflows		
Pension related	55,017	47,077
OPEB related	3,625	-
Total deferred outflows	58,642	47,077
Total assets and deferred outflows	321,527,065	299,281,577
Liabilities		
Current liabilities		
Accounts payable	111,106	73,747
Accrued salaries and benefits	24,860	29,075
Due to State of Nevada	43,250	33,540
Due to other governments	968	617
Tuition benefits payable, current portion	17,509,034	19,160,843
Total current liabilities	17,689,218	19,297,822
Noncurrent liabilities		
Tuition benefits payable	200,282,612	201,938,378
Net pension liability	334,217	270,734
Net OPEB liability	122,013	-
Total noncurrent liabilities	200,738,842	202,209,112
Total liabilities	218,428,060	221,506,934
Deferred inflows		
Pension related	25,413	21,738
OPEB related	7,594	-
Total deferred inflows	33,007	21,738
Total liabilities and deferred inflows	218,461,067	221,528,672
Net Position		
Net investment in capital assets	56,706	73,405
Unrestricted	103,009,292	77,679,500
Total net position	\$ 103,065,998	\$ 77,752,905

See Notes to Financial Statements

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2018
(with comparative amounts for the Year Ended June 30, 2017)

	2018	2017
Operating Revenues		
Charges for sales and services	\$ 104,300	\$ 120,600
Tuition contributions	13,829,852	17,811,864
Total operating revenues	13,934,152	17,932,464
Operating Expenses		
Personnel costs	388,880	252,233
Contract and other administrative services	643,043	575,772
Tuition benefits expense	7,919,635	20,415,615
Refunds	2,324,047	2,112,438
Depreciation	16,698	16,698
Total operating expenses	11,292,303	23,372,756
Operating Income (Loss)	2,641,849	(5,440,292)
Nonoperating Revenues		
Interest, dividends and other investment income	4,283,232	3,947,410
Net increase in fair value of investments	17,704,228	19,555,230
Contribution from the State of Nevada General Fund - College Savings Endowment Account	683,784	627,175
Total nonoperating revenues	22,671,244	24,129,815
Change in Net Position	25,313,093	18,689,523
Net Position, Beginning of Year	77,752,905	59,063,382
Net Position, End of Year	\$ 103,065,998	\$ 77,752,905

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the Year Ended June 30, 2017)

	2018	2017
Operating Activities		
Receipts for sales and services	\$ 104,300	\$ 120,600
Tuition contributions received	16,267,179	17,910,470
Payments to suppliers for good and services	(615,772)	(892,483)
Payments to employees	(207,895)	(214,921)
Payments for tuition benefits	(11,227,210)	(10,435,951)
Payments of refunds	(2,324,047)	(2,112,438)
Net Cash from Operating Activities	1,996,555	4,375,277
Noncapital Financing Activities		
Contribution from the State of Nevada General Fund - College Savings Endowment Account	683,784	627,175
Investing Activities		
Proceeds from sales or maturities of investments	72,166,638	74,024,914
Purchase of investments	(78,237,023)	(81,518,996)
Interest, dividends and other investment income received	4,203,162	3,928,637
Net Cash used for Investing Activities	(1,867,223)	(3,565,445)
Net Change in Cash and Cash Equivalents	813,116	1,437,007
Cash and Cash Equivalents, Beginning of Year	4,719,718	3,282,711
Cash and Cash Equivalents, End of Year	\$ 5,532,834	\$ 4,719,718

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Statement of Cash Flows
Year Ended June 30, 2018
(with comparative amounts for the Year Ended June 30, 2017)

	2018	2017
Reconciliation of operating income to net cash from operating activities		
Operating income (loss)	\$ 2,641,849	\$ (5,440,292)
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	16,698	16,698
Changes in		
Due from State of Nevada	(20,148)	35,190
Tuition contributions receivable	2,437,326	98,606
Accounts payable and accrued liabilities	33,144	(142,138)
Due to State of Nevada	9,710	4,581
Due to other governments	351	(219,414)
Net pension liability	63,483	80,003
Net OBEP liability	122,013	-
PERS deferred outflows	(11,565)	(23,390)
PERS deferred inflows	11,269	(14,231)
Tuition benefits payable	(3,307,575)	9,979,664
Net Cash from Operating Activities	\$ 1,996,555	\$ 4,375,277
Noncash Investing Activities		
Net increase in fair value of investments	\$ 17,704,228	\$ 19,555,230

Note 1 - Summary of Significant Accounting Policies

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 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 and investments 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.

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.

Equity Classifications

In the financial statements, equity is classified as net position 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 - 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 and 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 Section 353B.160.1 of NRS. 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;

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

- 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.

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.

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments				
Money market mutual funds	\$ 104,682	\$ 104,682	\$ -	\$ -
Mutual funds				
Index funds	141,573,040	141,573,040	-	-
Covered calls	57,144,243	57,144,243	-	-
State of Nevada external investment pool	5,428,152	-	5,428,152	-
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>\$ 280,228,462</u>	<u>\$ 274,800,310</u>	<u>\$ 5,428,152</u>	<u>\$ -</u>

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.

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

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, 2018, the Trust Fund had the following investments and maturities (including money market mutual funds representing cash equivalents) that are subject to interest rate risk:

	Fair Value	Maturities, in Years			
		Less Than 1	1-5	6-10	Greater Than 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
Cash equivalents					
Money market mutual funds	104,682	104,682	-	-	-
	<u>\$ 76,083,027</u>	<u>\$ 927,236</u>	<u>\$28,763,342</u>	<u>\$10,139,420</u>	<u>\$36,253,029</u>

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. The Trust Fund's investments (including money market mutual funds representing cash and cash equivalents) as of June 30, 2018, 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):

	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	-	-
Cash equivalents					
Money market mutual funds	104,682	104,682	-	-	-
	<u>\$ 35,807,568</u>	<u>\$ 199,790</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, 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%

Other Risk

The Trust Fund invests in various equity mutual funds, including at June 30, 2018, when equity mutual funds comprised approximately 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.

Pooled Cash and Investments

Of the \$5,532,834 cash and cash equivalents at June 30, 2018, \$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.

Custodial Credit Risk – The State Treasurer minimizes its custodial credit risk by legislation establishing a program to monitor a collateral pool for public deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the State’s deposits may not be recovered. The NRS direct the Office of the State Treasurer to deposit funds into any state or national bank, credit union or savings and loan association covered by federal depository insurance. For those deposits over and above the federal depository insurance maximum balance, sufficient collateral must be held by the financial institution to protect the State of Nevada against loss. The pooled collateral for deposits program maintains a 102% pledged collateral for all public deposits.

Interest Rate Risk – The State minimizes interest rate risk by maintaining an effective duration of less than 1.5 years and holding at least 25% of the portfolio’s total market value in securities with a maturity of 12 months or less. However, the benchmark used by the State Treasurer to determine whether competitive market yields are being achieved is the 90-day U.S. Treasury Bill’s average over the previous three-month period. (Rolling 90-day T-Bill).

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

As of June 30, 2018, the Trust Fund’s investments held in the external investment pool are categorized as follows:

	Percentage Based on Fair Value	Maturities, in Years			
		< 1	1-5	6-10	> 10
Investments					
U.S. Treasury securities	20.85%	4.82%	11.51%	4.52%	0.00%
Negotiable certificates of deposit	17.70%	17.70%	0.00%	0.00%	0.00%
U.S. agencies	21.66%	20.25%	1.11%	0.30%	0.00%
Mutual funds	0.20%	0.20%	0.00%	0.00%	0.00%
Repurchase agreements	3.78%	3.78%	0.00%	0.00%	0.00%
Asset backed	1.29%	0.02%	1.27%	0.00%	0.00%
Corporate bonds and notes	13.41%	1.34%	12.07%	0.00%	0.00%
Commercial paper	19.85%	19.85%	0.00%	0.00%	0.00%
Other short-term investments	1.02%	1.02%	0.00%	0.00%	0.00%
Other investments	0.24%	0.04%	0.20%	0.00%	0.00%
	<u>100.00%</u>				

Credit Risk – The State Treasurer’s investment policy addresses credit risks. A summary of the policies is presented as follows:

- Commercial paper, Negotiable Certificates of Deposit, and Banker’s Acceptances are rated by a nationally recognized rating service as “A-1,” “P-1” or its equivalent, or better,
- Notes, bonds and other unconditional obligations issued by corporations in the U.S. and municipal bonds (effective September 2011) are rated by a nationally recognized rating service as “A” or its equivalent, or better,
- Money market mutual funds are SEC registered 2(A)7 and rated by a nationally recognized rating service as “AAA” or its equivalent,
- Collateralized mortgage obligations and asset-backed securities are rated by a nationally recognized rating service as “AAA” or its equivalent,
- Repurchase agreements with banks or registered broker-dealers provided the agreement is collateralized by 102% with U.S. Treasuries or U.S. government agency securities on a delivery basis.

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

The State's investments held in the external investment pool as of June 30, 2018 were rated by Standard and Poor's and/or an equivalent national rating organization and categorized as follows:

	Credit Quality Ratings				
	AAA	AA	A	BBB	Unrated
Investments					
U.S. Treasury securities	0.00%	100.00%	0.00%	0.00%	0.00%
Negotiable certificates of deposit	0.00%	0.00%	0.00%	0.00%	100.00%
U.S. agencies	0.00%	100.00%	0.00%	0.00%	0.00%
Mutual funds	35.59%	0.00%	0.00%	0.00%	64.41%
Repurchase agreements	0.00%	0.00%	0.00%	0.00%	100.00%
Asset backed	0.00%	100.00%	0.00%	0.00%	0.00%
Corporate bonds and notes	1.93%	19.18%	68.01%	7.85%	3.03%
Commercial paper	0.00%	0.00%	76.57%	0.00%	23.43%
Other short-term investments	0.00%	0.00%	0.00%	0.00%	100.00%
Other investments	0.00%	75.74%	24.26%	0.00%	0.00%

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. The NRS 355.140, 355.060, and the State Treasurer's investment policy limit the investing in any one issuer to 5% of the total par value of the portfolio, with the exception of repurchase agreements, time CDs, US Treasuries, US Guaranteed securities, US Agency securities and municipal bonds. At June 30, 2018, the Trust Fund's proportionate share of the investment in a single issuer in the pool did not exceed 5% of the Trust Fund's total investments.

Fair Value of Investments – The State uses the market approach to determine the fair value of its investments. The State 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 market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The following table summarizes the fair value measurements as of June 30, 2018:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments				
U.S. Treasury securities	20.85%	20.84%	0.01%	0.00%
Negotiable certificates of deposit	17.70%	0.00%	17.70%	0.00%
U.S. agencies	21.66%	0.00%	21.66%	0.00%
Mutual funds	0.20%	0.20%	0.00%	0.00%
Repurchase agreements	3.78%	0.00%	3.78%	0.00%
Asset backed	1.29%	0.00%	1.29%	0.00%
Corporate bonds and notes	13.41%	0.00%	13.41%	0.00%
Commercial paper	19.85%	0.00%	19.85%	0.00%
Other short-term investments	1.02%	1.02%	0.00%	0.00%
Other investments	0.24%	0.00%	0.24%	0.00%
	100.00%			

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

Securities Lending – NRS 355.155 authorizes the State Treasurer to lend securities from the investment portfolio of the State if collateral received from the borrower is at least 102% of the fair value of the underlying securities and the value of the securities borrowed is determined on a daily basis. There were no securities on loan at June 30, 2018.

Note 4 - Capital Assets

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.

APV of the Future Tuition Obligation	\$ 217,791,646
Net Position Available	320,857,644
Net Position as a Percentage of Tuition Benefits Obligation	147.32%

The following assumptions were used in the actuarial valuation:

- **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%

State of Nevada
Office of the State Treasurer
Higher Education Tuition Trust Fund
Notes to Financial Statements
June 30, 2018

Changes in the Trust Fund's noncurrent liabilities:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018	Due Within One Year
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 \$13,829,852 and the tuition benefits expense of \$7,919,635 on the Statement of Revenues, Expenses and Changes in Net Position represent the annual accrual of contributions of \$(2,437,326) and benefit expenses of \$(3,307,575) for the year ended June 30, 2018, as determined by the actuarial valuation and adjusted by the actual participant contributions of \$16,267,178 and tuition payments of \$11,227,210 for the fiscal year.

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, 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, 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 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 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, 2018, 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 14, 2019.

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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP".

Reno, Nevada
February 14, 2019