

STATE OF NEVADA
BIENNIAL REPORT
OF THE
NEVADA INDUSTRIAL COMMISSION

For the Period
July 1, 1962, to June 30, 1964, Inclusive



LETTER OF TRANSMITTAL

CARSON CITY, NEVADA
November 1, 1964

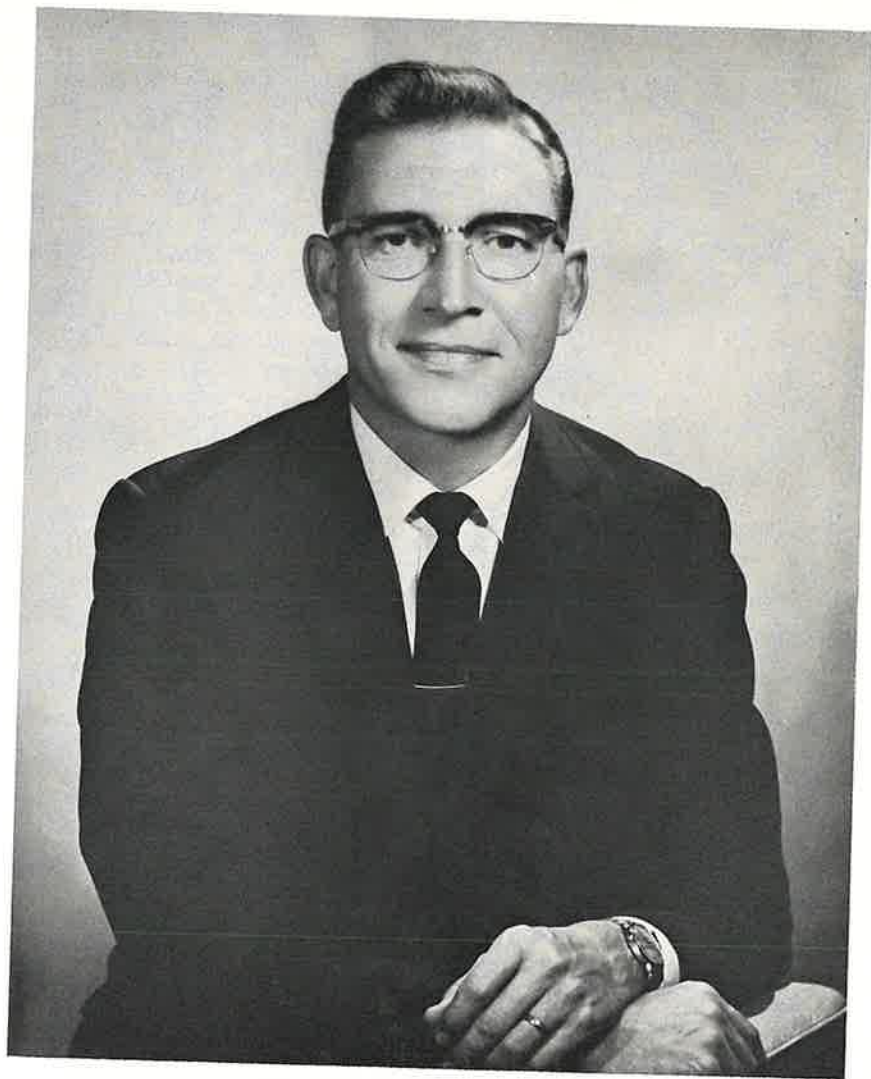
To HIS EXCELLENCY, GRANT SAWYER, Governor of the State of Nevada
Sir: The Nevada Industrial Commission has the honor to submit the accompanying report of its administration for the biennium ended June 30, 1964.

Respectfully submitted,

C. A. HECKETHORN, *Chairman*

KEITH MOUNT, *Commissioner for Industry*

JAMES J. BANNER, *Commissioner for Labor*



GOVERNOR GRANT SAWYER

N.I.C. ADMINISTRATORS



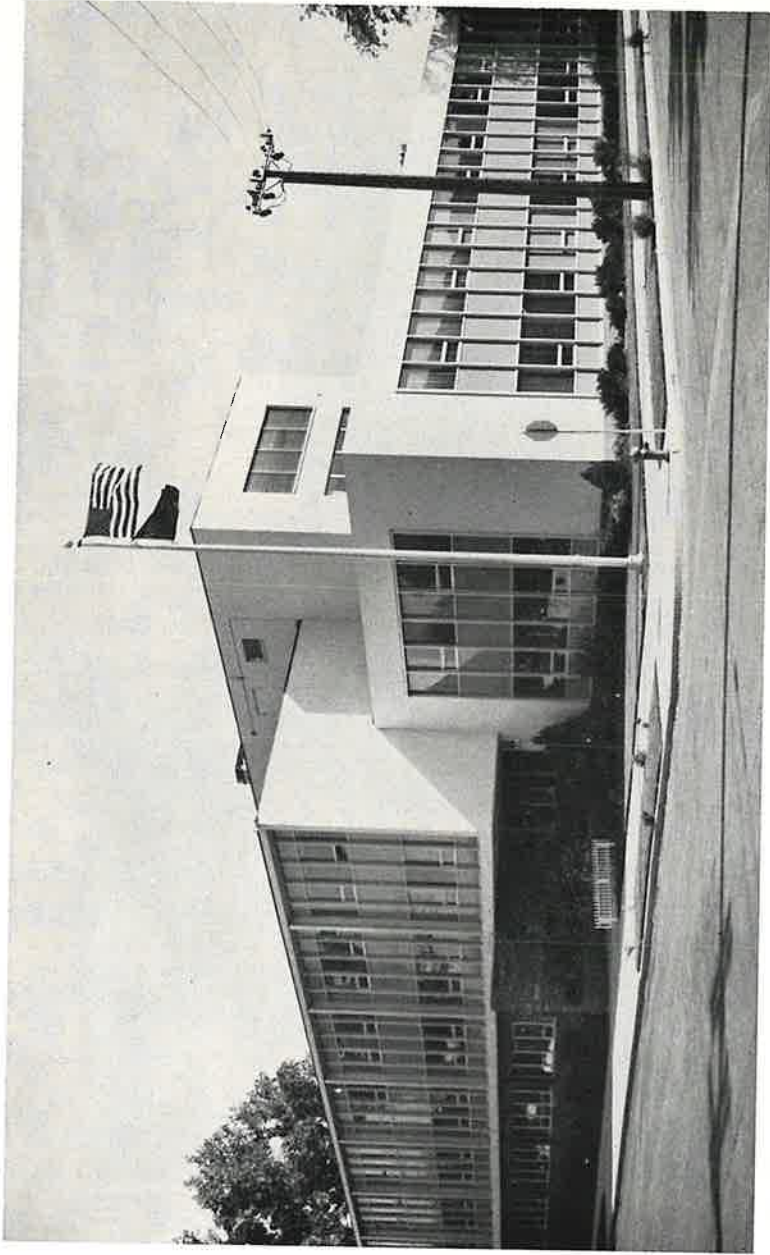
C. A. HECKETHORN, Chairman



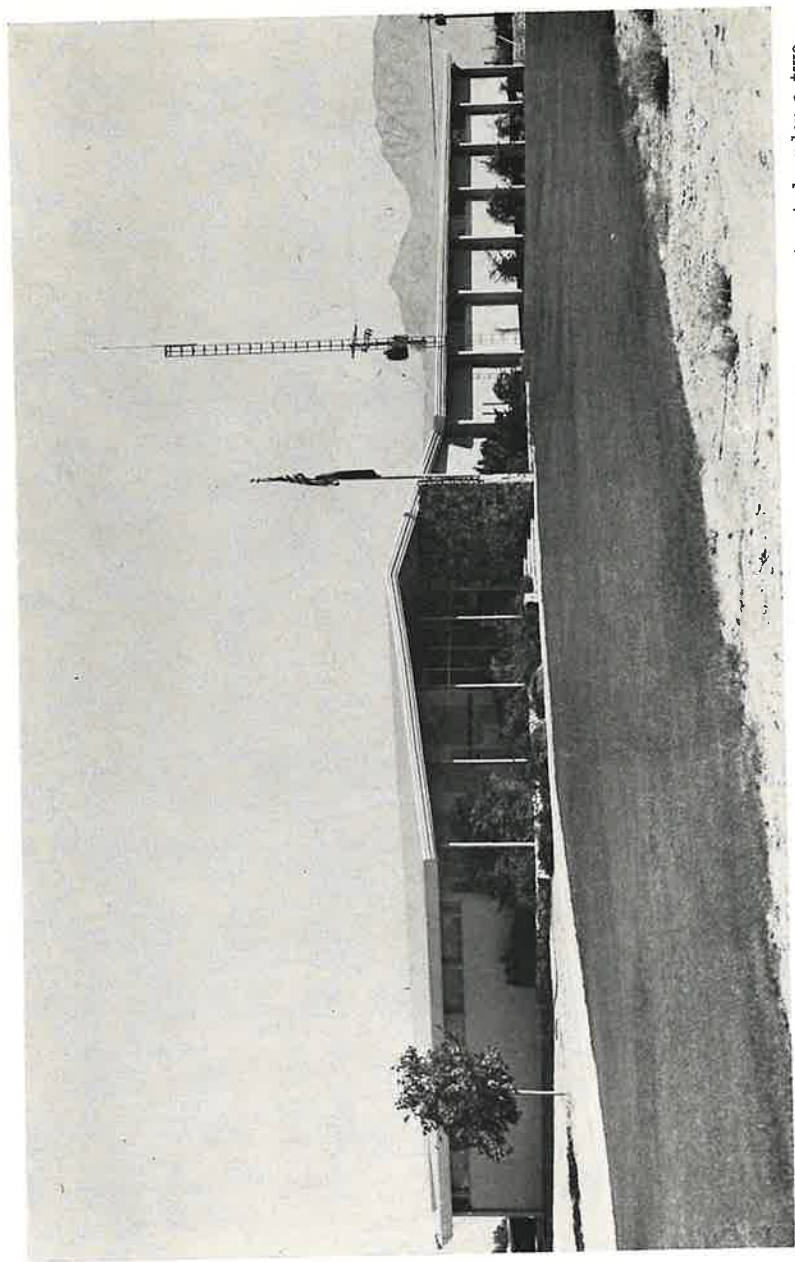
KEITH MOUNT, Commissioner



JAMES J. BANNER, Commissioner



MAIN OFFICE—The three-story Carson City Nevada Industrial Commission Building was completed September 1959 at a cost of \$796,685. The structure provides 35,000 square feet of floor space and a basement of 14,000 square feet. The commission occupies part of the first and second floors and the basement. Approximately 50 percent of the usable space is rented to other agencies. Parking facilities are provided in the area immediately south of the building.



BRANCH OFFICE—The Las Vegas branch office, 2601 East Sahara Boulevard, was constructed under a two-part building program. The original structure, providing 2,700 square feet on 2½ acres of land purchased from the federal government, was completed July 1961. A wing of 4,710 square feet, with 3,000 square feet of basement space, was added in October 1962. The aggregate cost of this structure was \$187,109.

BIENNIAL REPORT OF THE NEVADA INDUSTRIAL COMMISSION

The tremendous and unprecedented economic expansion of Nevada during the 1960's was reflected in the operations of the State's workmen's compensation carrier during the biennium ending June 30, 1964.

During this period of growth, the Nevada Industrial Commission focused its attention on service to the industrially sick and injured. This was accomplished under a program of decentralization to provide efficiency and economy amid the largest work force in history and during a period of rising costs.

In submitting this report for the biennium ending June 30, 1964, significant figures available covering experience of the commission previous to the 2-year period have been included.

Claims and premiums expanded simultaneously. By June 30, 1964, premiums had risen 159 percent above June 30, 1954, and accidents and occupational diseases have grown 59 percent for the same 10-year period. For the biennium, premiums increased 32 percent and claims 30 percent.

RATES REDUCED

Two rate reductions were made during the biennium. The commission approved a 1¼ percent decrease January 1, 1963, and the following year rates were lowered 7 percent.

Employers with low losses were rewarded with two dividend payments. In 1963, the commission approved a rebate of \$700,000 which, after forfeitures of delinquent and lapsed accounts, netted \$697,171.72 refunded to qualifying accounts. The largest dividend in the history of the NIC was made in 1964. The commission's resolution called for refunding \$1,250,000, which netted \$1,245,188.43 after penalties.

A change on the commission occurred October 1, 1963, when Governor Grant Sawyer appointed James J. Banner of Las Vegas to replace T. L. Hutchings as the labor representative on the three-man board.

The frequency of claim hearings was necessitated because of increased employment and accompanying risk in Southern Nevada and also to maintain closer supervision of serious claims. During the biennium period, a policy of conducting weekly hearings was instituted in Las Vegas. Hearings in Carson City are scheduled twice weekly and conducted in Ely depending on the case loads. An average of 51 cases are brought before the board each week. This has resulted in better direction of medical care for serious cases and prompt rehabilitation and restoration.

The NIC commemorated 50 years of service in July 1963, with golden anniversary ceremonies in Carson City and Las Vegas. Both were public functions with Governor Grant Sawyer, the principal speaker, reviewing the progress of workmen's compensation.

An intra-departmental communication system was introduced with the installation of radios in all 20 NIC vehicles. The system is proving

especially valuable in maintaining liaison between the field representatives and the three offices—Carson City, Reno, and Las Vegas.

PROGRESS IN CLAIMS

In 1963, the 52d Session of the Nevada Legislature increased benefit payments for the industrially sick and injured, and widows and dependents of deceased workmen. Legislation making it mandatory that newsboys be provided coverage was another statutory change.

Temporary total disability payments were increased approximately 9.1 percent as the maximum considered wage was raised from \$275 to \$300 per month. This made the maximum monthly compensation payments \$195, \$240, and \$270 for workmen with no dependent, one dependent, and two or more respectively.

Pension payments to widows, dependent children, parents, brothers, and sisters were increased. Widows were awarded increases from \$112.50 to \$120 per month; pensions for dependent children under 18 years of age were increased from \$33.75 to \$36. Dependent parents' monthly payments were increased from a maximum of \$112.50 to \$120 providing both parents were dependent on the injured workman, and where there was only one the increase was from \$67.50 to \$72 maximum. Dependent brothers and sisters under 18 received increases from \$67.50 to \$72 under the maximum allowance. In total, these pension increases approximated 7 percent.

The Legislature also provided for an additional award of \$3,000 to any silicotic pensioner or his dependents who had received the maximum sum payable—\$14,250—pursuant to NRS 617.460. This offered assistance to silicotic pensioners who had depleted their awards. The legislation stipulated that moneys remaining in the award of pensioners or their dependents, which due to the death of the beneficiary had not been expended, may again be placed in the occupational diseases fund to provide a pool for pensioners whose awards may have been depleted even with the \$3,000 increase.

Constant reserving was instituted during the fiscal year 1964. This is a procedure where claims are reviewed assiduously by individual examiners, and adjustments are made to reflect any changes in the expected cost of the claim. Changes during the progress of the case often take place in instances where an accident, reported originally to be a simple one, might develop into a serious claim. The examiner, being in constant touch with the case, can watch the progress and forecast the result and at any time may change the dollar value of the case upward. The same reevaluation might occur when the doctor's subsequent diagnosis would indicate an injury of a lesser degree.

As part of its program to improve service to the injured workman, the commission instituted a survey of its "public profile" by use of post cards requesting claimants' anonymous comments regarding the medical care, benefits, and permanent partial disability awards. These criticisms are analyzed constantly and efforts made to improve service based on the comments of claimants.

DEVELOPMENTS IN SAFETY

Revision of all 20 safety standards was completed June 30, 1964, after more than 2 years of study, meetings, and revisions. The safety department instituted a program of furnishing Safety Awards of Merit to outstanding employers for good safety records during the past biennium. A stepped-up program aimed at high loss accounts has been under way and has done much in reducing the frequency and severity of industrial accidents. The field offices in Las Vegas and Reno have been coordinated to act as a unit in closer liaison with the Carson City office. This includes semiannual supervisory meetings with exchange of ideas and accomplishments.

STATISTICAL DEVELOPMENTS

The NIC statistical department was established 10 years ago, using IBM equipment to automate the method of data processing. The growth in business activity and volume of paper work made it necessary to go to more modern equipment and methods of data processing. The transition was received with some apprehension and resentment. There was a feeling of insecurity and that automation will eliminate the personal attention that is required for the daily transaction.

During the past decade, the commission experienced an approximate threefold increase of payrolls reported, premium income, and accident claims. Parallel with this expansion is an increasing demand for reports and up-to-date records. The statistical department has become the heart of the network that handles the everyday business activity by recording and storing data and in the production of final reports. It has eliminated many of the day-to-day business routines and has provided up-to-date control and supervision of financial and actuarial data. In the immediate future, it will assume more of the accounting functions.

The IBM 1440 Data Processing System was installed during April 1964. After months of planning, programming, and testing, the established procedure for processing payroll reports and premium accounting was converted successfully to the system. Other reports and current analyses are produced as byproducts of the system. The department is in the process of developing a system for processing claims, maintaining claim records, and records of outstanding claim liabilities.

CONCLUSIONS AND RECOMMENDATIONS

The results of close supervision of claims, prompt settlement of permanent partial disability cases, and decentralization, together with the improved safety practices, were reflected in the decrease in rates and dividend awards. The erratic rate level of 5 years ago has been fairly well stabilized. The debit-credit rating system has gained the spontaneous support of safety by employers. Administrative costs have declined despite the fact that the NIC has extended its operations and provided better service to both employers and injured workmen. For fiscal 1961, the administrative cost was 11.85 percent, and 11.77 percent

in 1962. Fiscal 1963 administrative cost in relation to premium was 9.99 percent. In 1964 it was 11.25 percent.

The commission must meet the challenge of rehabilitation. This new phase of workmen's compensation is designed to return the injured workman back to the labor market as soon as possible and, in many cases, train him for a position requiring less physical exertion. This limits the possibility of reinjury or aggravating a preexisting condition. At the present time, the NIC has a cooperative agreement with the State-Federal Vocational Rehabilitation Department to school and relocate injured claimants.

The need for increasing medical fees is evident if the NIC is to provide the best medical care available and keep its fees on a standard with other jurisdictions. The commission currently is working with the State Medical Association on a new fee schedule.

Benefit studies are being prepared comparing present payments with those of other states. This analysis will be available for the 1965 Legislature. It is apparent also that these must be increased to keep pace with the rising cost of living.

Respectfully submitted,

C. A. HECKETHORN, *Chairman*
Nevada Industrial Commission

BIENNIAL SUMMARY

EMPLOYER ACCOUNTS

	1963	1964
Earned premium.....	\$8,614,832.00	\$9,212,803.00
Bad debt write-off.....	12,966.76	17,782.87
Rebate paid.....	697,171.72	1,245,188.43
Accounts registered.....	9,936	10,819
New accounts opened.....	2,099	2,175
Accounts reopened.....	250	305
Accounts closed.....	1,253	1,592
Other miscellaneous change policies.....	2,841	3,116
Out-of-state certificates registered.....	1,586	2,713
Employers with NIC and out-of-state coverage.....	863	1,354
Outgoing mail processed.....	87,986	103,970

FIELD AUDIT

	1963	1964
Audits completed.....	6,768	6,971
Net premium pickup.....	\$193,974.80	\$269,112.37
Average pickup per audit.....	\$28.66	\$38.60
Miscellaneous assignments.....	576	854
Assignments for employer accounts.....	1,051	971
Field representative contacts.....	688	1,340

CLAIMS LITIGATION

	1963	1964
Cases dismissed.....	1	....
Cases adjusted without trial.....	3	4
Cases won by NIC.....	3	3
Cases won by claimant.....	3	4
Cases pending.....	3	5
Cases in court, no action by plaintiff for years.....	5	2

SAFETY DEPARTMENT

	1963	1964
Inspections completed.....	19,855	20,126
Recommendations made.....	5,027	5,572

REPORTS OF INJURIES AND OCCUPATIONAL DISEASES* AND PREMIUMS

Fiscal Year	Claims	Premiums
1914.....	**1,307	\$250,258
1949.....	8,352	1,801,929
1950.....	9,002	1,819,994
1951.....	9,680	2,254,220
1952.....	10,699	3,137,234
1953.....	15,805	3,455,195
1954.....	15,631	3,561,721
1955.....	16,327	4,060,169
1956.....	16,000	4,581,010
1957.....	15,274	4,801,735
1958.....	13,939	4,463,279
1959.....	15,052	4,938,999
1960.....	16,092	5,653,631
1961.....	16,828	6,301,659
1962.....	19,057	6,960,125
1963.....	23,508	8,614,832
1964.....	24,857	9,212,803

*The Occupational Diseases law was passed in 1947.

**This number included accidents and claims. Payments were made on minor accidents without a claim number being assigned.

CLAIMS ESTABLISHED FOR FISCAL YEAR OF 1963

	Local	Las Vegas
July 1962.....	494	123
August 1962.....	1,045	796
September 1962.....	923	418
October 1962.....	992	714
November 1962.....	912	1,042
December 1962.....	746	1,375
January 1963.....	758	1,015
February 1963.....	830	1,242
March 1963.....	798	1,120
April 1963.....	893	1,265
May 1963.....	888	1,110
June 1963.....	909	1,223
After June 30, 1963.....	807	1,070
	<u>10,995</u>	<u>12,513</u>
Grand total.....		23,508

The above figures represent accidents occurring in fiscal year 1963. These figures, however, are arranged by month in which they were processed.

CLAIMS ESTABLISHED FOR FISCAL YEAR OF 1964

	Local	Las Vegas
July 1963.....	604	132
August 1963.....	1,140	1,240
September 1963.....	1,016	1,020
October 1963.....	1,045	1,008
November 1963.....	810	822
December 1963.....	943	1,216
January 1964.....	939	1,018
February 1964.....	850	882
March 1964.....	933	1,197
April 1964.....	1,003	810
May 1964.....	1,018	1,024
June 1964.....	1,006	1,023
After June 30, 1964.....	784	1,374
	<u>12,091</u>	<u>12,766</u>
Grand total.....		24,857

The above figures represent accidents occurring in fiscal year 1964. These figures, however, are arranged by month in which they were processed.

KAFOURY, ARMSTRONG AND BERNARD
PUBLIC ACCOUNTANTS
100 CALIFORNIA AVENUE
RENO, NEVADA

October 9, 1963

NEVADA INDUSTRIAL COMMISSION
CARSON CITY, NEVADA

GENTLEMEN: Pursuant to the terms of our engagement, we have audited the accounts and records of the Nevada Industrial Commission for the fiscal year ended June 30, 1963. Our examination was made in conformity with generally accepted auditing standards and accordingly included such tests and analyses as we deemed necessary in the circumstances.

Attached hereto and forming a part of this report are the following exhibits and related schedules which reflect the financial condition of the commission at June 30, 1963, together with the results of its operations for the fiscal year then ended:

Exhibit A—Statement of Financial Condition.

Exhibit B—Statement of Operations by Funds.

Exhibit C—Analysis of Surplus by Funds.

Exhibit D—Statement of Receipts and Disbursements by Funds.

Schedule No. 1—Cash on Hand and on Deposit, June 30, 1963.

Schedule No. 2—Bonds Owned, State Insurance Fund. (Bond schedule not included in this report.)

Schedule No. 3—Bonds Owned, Accident Benefit Fund.

Schedule No. 4—Bonds Owned, Occupational Diseases Fund.

Schedule No. 5—Administrative and Safety Expenses, Net.

Schedule No. 6—Miscellaneous Nonoperating Income.

Schedule No. 7—Investment Income.

Schedule No. 8—Rent and Expense Account.

Our comments on these exhibits follow.

EXHIBIT A—STATEMENT OF FINANCIAL CONDITION

Cash on Hand and on Deposit—\$557,273.40 (Schedule No. 1):

All funds deposited with the State Treasurer of Nevada and with the First National Bank of Nevada were verified by direct correspondence with the respective depositories, and by subsequent reconciliation of the commission's records. Petty cash held by the Carson City and Reno offices was verified by actual count, while that of the Las Vegas office was accepted as stated upon certification of the Las Vegas branch manager.

To secure the commission's commercial deposit, the First National Bank of Nevada has deposited with the State Treasurer of Nevada \$260,000 par value United States Treasury Bonds, 2 $\frac{5}{8}$ percent due February 16, 1965.

Earned Premiums Due—\$1,180,302.22:

Industrial insurance premiums earned by the commission but not received as of June 30, 1963, are analyzed as follows:

Unreported premiums, 1963 fiscal year (estimated).....	\$1,138,393.50
Unreported premiums, prior fiscal years (estimated)....	17,600.97
Premiums reported but unpaid.....	24,307.75
Total.....	<u>\$1,180,302.22</u>

Unreported premiums have been estimated on a basis consistent with that applied in the preceding year. The estimate of the total unreported premiums at June 30, 1962, was within .15 percent of that actually realized.

The premiums reported but unpaid are considered by the commission to be collectible. We have reviewed these accounts and are in agreement that any losses which may be sustained will not be significant. Many of these charges result from payroll audits concluded in June 1963 which have been cleared during the course of our examination. Supervision of these accounts has been substantially improved subsequent to the installation of automatic data processing equipment in the employers' accounts department in June 1963.

Accounts Receivable—\$97.25:

At balance sheet date, \$97.25 was due the commission for returned checks. We reviewed and tested the commission's control of contributors' returned checks and found such transactions to be properly accounted for.

Accrued Interest Receivable—\$255,414.65:

Interest earned but uncollected on commission's investments was \$255,414.65 at year end.

All interest collectible during the year under review was received except that due on the Overton Water District General Obligation Bonds, Series of February 1, 1960. The circumstances of this delinquency are described later in this report.

Investments—\$20,076,938.45:

The commission's investment portfolio consists of negotiable bonds and a single secured note receivable. All investments are stated at cost adjusted by applicable amortization of premium or discount.

Schedules Nos. 2, 3, and 4 describe in detail the negotiable bonds owned by the commission during the year under review. At June 30, 1963, these securities were held for the account of the commission by the following agents:

	Book value of bonds held at June 30, 1963	Percent
State Treasurer of Nevada (par value \$6,565,000).....	\$6,564,843.40	33
Trust department, First National Bank of Nevada (par value \$13,404,000....	13,475,577.02	67
Total.....	<u>\$20,040,420.42</u>	<u>100</u>

All bonds maturing during the year under review were collected except the February 1, 1963 payment of \$6,000 due on the previously noted Overton Water District Bonds.

On May 2, 1961, the commission granted the Overton Water District a 2-year moratorium on principal and interest payments on its \$160,000 February 1, 1960 issue.

We analyze below the status of payments due on this issue at year end:

Payments Due	Interest	Principal	Total
February 1, 1961.....	\$7,200	.....	\$7,200
August 1, 1961.....	3,600	.....	3,600
February 1, 1962.....	3,600	\$4,000	7,600
August 1, 1962.....	3,510	.....	3,510
February 1, 1963.....	3,510	6,000	9,510
Accrued June 30, 1963, on matured bonds.....	490	.....	490
Totals.....	<u>\$21,910</u>	<u>\$10,000</u>	<u>\$31,910</u>

Although the moratorium expired May 2, 1963, no payments were received on this issue until after the close of the 1963 fiscal year. Pursuant to negotiations between the commission and the district, a payment of \$10,000 was received July 11, 1963. The agreement provided that of that sum, \$4,000 would be applied to the bond which matured February 1, 1962. Application of the balance of the payment was to be made at the discretion of the commission. It was the commission's decision to apply the remaining \$6,000 first to interest on matured bonds, then to matured interest coupons. Matured bonds carry an interest rate of 6 percent until retired pursuant to the terms of the bonds.

We are advised that it is the present plan of the district to make monthly payments of at least \$500 to retire the above noted delinquencies while paying current interest and principal charges as they become due. Although the \$500 monthly payments have been made as agreed since June 30, we note that the August 1, 1963, interest coupons have not yet been paid.

We believe that the commission has been particularly fair and considerate to the district in recognition of the unexpected difficulties the district has encountered in its operations. Prudence dictates, however, that this relationship can only continue as long as the district honors its present commitments so as to assure the commission that its forbearance is not opposed to the best interests of the employers and employees for whose protection it exists.

Bonds and unredeemed matured interest coupons held by the State Treasurer of Nevada were confirmed by inspection. Securities held by the First National Bank of Nevada as custodian have been verified by certification from that agency, together with reconciliation to the commission's records.

The commission has continued its policy of not investing its funds in either common or preferred stocks.

The note receivable held by the State Insurance Fund is secured by a first trust deed on the commission's former Carson City offices. This note bears interest at 6½ percent per annum on the declining balance. All payments due during the year under review were received. The unpaid balance of \$36,518.03 at June 30, 1963, was confirmed by direct correspondence with the debtor.

Fixed Assets—\$904,101.57:

Completion of the Las Vegas office building was effected during late 1962. The contract for this construction was not completed on time resulting in the enforcement of its late penalty provisions in the amount of \$2,100.

The costs of both commission office facilities are being amortized against rental income over a 40-year period, pursuant to the commission's resolutions.

We analyze below the book value of these buildings at June 30, 1963:

	Carson City	Las Vegas
Total cost.....	\$795,374.20	\$187,108.98
Accumulated amortization.....	73,598.41	4,785.20
Book value.....	<u>\$721,775.79</u>	<u>\$182,323.78</u>

Furniture and equipment, and automobiles are each carried at a nominal value of \$1, as in prior years. We made numerous tests of the commission's fixed asset inventory as a part of our examination. Beginning with the 1964 fiscal year, all equipment records are being maintained in punched card format to facilitate the commission's improved accountability procedures.

In our opinion, the valuation of fixed assets as outlined above is in accord with properly conservative insurance practice giving appropriate consideration to the liquidity of the commission's admitted assets.

Other Assets—\$5,039.24:

We confirmed the commission's air travel card deposit with United Airlines in an amount of \$425.

The excess cost of major building repairs over the accumulated provisions for such costs was \$4,614.24 at June 30, 1963. The function of this reserve is explained at greater length later in this report.

In conformity with the established practice of the commission, no provision has been made for prepaid premiums on insurance policies at June 30, 1963. As a part of our examination, however, we have reviewed these policies and believe that the protection afforded appears adequate. All employees of the commission are covered by a fidelity bond providing \$5,000 coverage on all employees, and an additional \$5,000 on all persons authorized to sign checks.

Current Liabilities—\$1,093,828.55:

At June 30, 1963, the commission held cash advance premium deposits of \$1,086,914.37. Pursuant to the provisions of NRS 616.395-3, contributors had also posted surety bonds aggregating \$1,373,900, and had pledged negotiable securities of \$54,600 in lieu of the usual cash deposits.

Cash deposits and surety bonds posted were verified by test of employer account records selected at random, and by correlation of the accounting records maintained by the employer accounting computer section and the statistical department's master file. Although these records were not verified by actual correspondence with contributors, the internal control of such deposits is unusually good and we believe them to be correctly stated. We examined all pledged securities held by

the commission and proved these to the records of the employer accounts department. The advance deposit subsidiary records were found to be in agreement with the general ledger subsidiary control.

The internal methods utilized by the commission to supervise and control the accounting for contributors' premiums and deposits were reviewed and found to be functioning satisfactorily. During the latter part of the year, a small computer was installed in the employer accounts department to facilitate the ever increasing workload of that department. All employer premium and deposit charges and credits are presently processed through this equipment. The computer's capability to evaluate the status of an account at each posting has substantially improved the commission's ability to supervise those accounts that are constantly in danger of becoming uncollectible. Simultaneously, the various program controls utilized in the posting routines minimize operator control over the end product, while providing punched card output as a controlled data source for further processing by the statistical department.

Current unpaid operating expenses of \$6,365.37 were verified by examination of vendor invoices and other media in support thereof.

At year end the commission's liability for long outstanding checks was \$383.81. Payment on these checks has been stopped, but they will be replaced with current checks if they are presented for payment within the forthcoming year.

The payroll deductions held at June 30, 1963, toward purchase of United States Savings Bonds were cleared during our examination.

Reserves—\$14,276,875.22:

At their meeting of October 8, 1963, the commission adopted the following reserves as of June 30, 1963:

For pending claims.....	\$4,244,778.00
For pensions.....	7,331,087.22
For reopened claims.....	200,000.00
For catastrophe.....	1,000,000.00
For fluctuation in value of investments.....	501,010.00
For stabilization of rates.....	1,000,000.00
Total.....	<u>\$14,276,875.22</u>

Reserves for pending claims and for pensions have been calculated by the commission's claims department. These reserves recognize the commission's estimated remaining liability for claims originating prior to June 30, 1963, and not closed at that date. Included in the reserves for pensions is \$39,682.22 in respect to the silicosis benefits pool established by NRS 617 Secs. 2, 3(a).

The reserve for reopened claims provides for the contingency of reopening claims previously closed, but subject to reevaluation under regulations of the commission or pursuant to judicial order. This reserve was restored to the amount originally provided in the 1961 fiscal year in recognition of the commission's experience of the last 2 years. During that period, disbursements in respect to reopened claims were \$88,312.12.

The catastrophe reserve has been increased from \$500,000 to \$1,000,000 at June 30, 1963. This reserve was established many years ago to

provide for unusual losses arising from single, multiple injury catastrophes. Although it has not been necessary to utilize the reserve in the past, consideration of the commission's present exposure to loss resulting from increased benefit levels and greater employee density indicates that \$500,000 may well be wholly inadequate to provide for liability arising out of a true catastrophe.

In order to provide a reasonable relationship between the reserve for fluctuation in value of investments and the current investment portfolios of each fund, these reserves have been reestablished at June 30, 1963, at 2½ percent of the book value of the securities held by each fund.

The reserve for stabilization of rates remains unchanged from the preceding year.

In accordance with the terms of our engagement, we assume no responsibility for the adequacy of the reserves adopted by the commission.

Surplus—\$7,608,463.01:

The commission's unappropriated or free surplus is analyzed in detail in Exhibit C. Presented below is a comparison of the year end surplus balances of the last two fiscal years:

	June 30, 1962	June 30, 1963	Increase or (decrease)
State insurance fund.....	\$4,294,777.10	\$4,376,523.87	\$81,746.77
Accident benefit fund.....	1,969,633.90	2,563,140.85	593,506.95
Occupational diseases fund.....	606,780.87	668,798.29	62,017.42
Totals.....	<u>\$6,871,191.87</u>	<u>\$7,608,463.01</u>	<u>\$737,271.14</u>

A discussion of the present level of free surplus follows in the general comments section of this report.

EXHIBIT B—STATEMENT OF OPERATIONS BY FUNDS

The commission's operations for the year under review resulted in an aggregate net income of \$2,021,532.66, or \$822,788.08 greater than that realized in the preceding fiscal year. We present below a brief comparison of the operations of the preceding 2 years:

	Year ended June 30—		Increase or (Decrease)	Percent change
	1962	1963		
Premiums earned.....	\$6,960,125	\$8,614,832	\$1,654,707	24
Benefits expense.....	5,620,002	6,548,061	928,059	17
Excess of premiums.....	\$1,340,123	\$2,066,771	\$726,648	54
Administrative and safety expenses.....	801,577	861,205	59,628	7
Underwriting gain.....	\$538,546	\$1,205,566	\$667,020	124
Other income and expense (net).....	660,199	815,967	155,768	24
Net income.....	<u>\$1,198,745</u>	<u>\$2,021,533</u>	<u>\$822,788</u>	<u>69</u>

Although the commission's rate schedule at January 1, 1963, represented only a technical adjustment among risk classifications without

any modification of the basic rate structure, the premiums yielded by these rates increased much more sharply than did the comparable expenses for the period, as the analysis above illustrates. The reasons for this condition are complex and warrant serious consideration in the projection of future levels of premium rates.

Under the guidance of its investment counsel, Willis and Christy, Inc., the commission continued during the year under review to shift its securities holdings from municipal bonds to high-grade corporate bonds. In addition to generally improving the yield of this portion of the portfolio, a substantial gain was realized on the sale of the municipals. The exemption from federal income tax afforded interest on municipal bonds makes such securities more attractive to private investors than corporate bonds of equivalent quality.

Our review of the progressive maturities of the portfolio indicates that proper consideration has been given to the liquidity of the commission's investments.

The net rental income for the year under review was \$3,335.31 as presented in detail in Schedule No. 8. All available office space in the Carson City building was rented. However, a certain portion of the recently completed addition to the Las Vegas offices was not occupied during the year under review. All rentals due the commission were properly accounted for. It should be noted that the commission pays rental to itself at rents similar to those charged others for the space occupied by its own operations. This procedure is necessitated by statutory requirements that the building income and expense shall be attributed solely to the State Insurance Fund. Since the occupancy of these offices benefits the Accident Benefit and Occupational Diseases Funds as well, a rental charge as an operating expense becomes necessary. Simultaneously, this procedure permits the accurate measurement of the buildings' operations as well as to insure provision of funds adequate to recapture through amortization the commission's investment in these facilities. The overall net rental income for the year represented a return of .37 percent on the amortized value of the facilities at June 30, 1963, as follows:

	Amortized value June 30, 1963	Net Rental	Percent return
Carson City.....	\$721,775.79	\$8,359.86	1.16
Las Vegas.....	182,323.78	(5,024.55)	(2.76)
Total.....	<u>\$904,099.57</u>	<u>\$3,335.31</u>	.37

The overall net yield in the prior year was 1.3 percent. Full occupancy of the Las Vegas building will substantially improve the results of this operation.

Annual provision for major building repairs has been made in a manner consistent with the adopted procedures outlined in our report for the year ended June 30, 1962. Briefly, this calls for uniform annual charges to building operations which are utilized to establish a reserve for major repairs. Subsequent major building repairs which may be required are then charged against this reserve, rather than against the operations of the year in which the repair is actually made. Considered

as probable charges to this reserve are such costs as building repainting, major roof repairs, and major repairs to the mechanical systems— heating, elevators, etc.

We analyze below the status of this reserve at June 30, 1963:

Provisions for years prior to 1963.....		\$14,250.00
Charges against reserve prior to 1963 (Heating and air-conditioning—Carson).....		22,808.84
Reserve deficit, July 1, 1962.....		\$8,558.84
Add: Provision for 1963 fiscal year.....	\$6,000.00	
Less: Major roof repairs—1963 fiscal year—Carson....	2,055.40	3,944.60
Reserve deficit, June 30, 1963.....		<u>\$4,614.24</u>

It is anticipated that the above deficit balance will be absorbed by future years' provisions for major repairs.

All building revenues and costs have been attributed to the State Insurance Fund as required by statute.

Historically, the commission has used the relative benefits expense of the current year as a guide for apportioning to the several funds the premium to be earned in the ensuing year. After appropriate review of the financial condition of the several funds, we recommend the adoption of the following apportionment of premiums for the 1964 fiscal year:

	Full coverage (percent)	Ex-Medical (percent)
State insurance fund.....	53	93
Accident benefit fund.....	43	....
Occupational diseases fund.....	4	7
Totals.....	<u>100</u>	<u>100</u>

The specific costs comprising the commission's administrative and safety expenses for the year under review are presented in detail in Schedule No. 5. As that schedule indicates, administrative income, such as delinquency penalties and salary reimbursements, has been credited against the gross expense in arriving at a net administrative and safety cost for the year. This is a departure from the reporting procedures of prior years and has been necessitated by the increase of nonpremium operating income experienced during the last 2 years. This change has no effect on the total net income for the year. The operating results of the prior year set forth above in the comparison of operations for the last 2 years have been modified accordingly so as to present a valid comparison. As noted in that section of the report, the aggregate net administrative and safety expenses increased 7 percent or \$59,628 from those of the prior year. This increase is apparent in all cost areas. Although it does not operate under the budgetary limitations of state agencies, the commission annually prepares a budget as a guide for its operations. Gross administrative and safety expenses for the year, \$884,157, exceeded those budgeted by \$7,157. In view of the increase in premium load experienced during the year, this variance is entirely satisfactory.

EXHIBIT C—ANALYSIS OF EARNED SURPLUS

This exhibit presents in detail the changes affecting the unappropriated surplus accounts during the year under review. The greater portion of these adjustments resulted from the usual corrections of previous estimates of unreported premiums or benefits reserves of prior years.

The net premium rebate paid of \$697,171.72 represented a return of premium collected for the 1962 fiscal year. This was a merit rebate; that is, one paid only to contributors with a favorable loss ratio for that year.

EXHIBIT D—STATEMENT OF RECEIPTS AND DISBURSEMENTS

Receipts exceeded disbursements during the year under review by \$2,098,440.53. Presented below is a summary of this increase by funds.

State insurance fund.....	\$1,532,013.21
Accident benefit fund.....	440,270.98
Occupational diseases fund.....	126,156.34
Total increase.....	<u>\$2,098,440.53</u>

We made substantial tests of checks issued together with evidence in support thereof. Controls over checkwriting equipment were reviewed, together with procedures controlling check signatures. A description of the surety bonds covering the commission's exposure to loss from misappropriation of funds has been previously noted in this report. The aggregate controls exercised over the receipt and disbursement of funds appear to be functioning satisfactorily.

Documentation in support of all transactions affecting the commission's investments were examined and found to support the actual adjustments in the portfolio. We traced authority for substantial administrative transactions to the commission's official minutes. The commission has continued its practice of making all major purchases through the Nevada State Purchasing Department.

GENERAL COMMENTS

1. Our examination included a review and evaluation of the commission's internal financial controls. Subject to appropriate comment previously in this report, it is our opinion that these controls are sufficiently comprehensive and adequately supervised. It should be noted that the commission is continuing the automation of its data processing activities. The third step of this program, the installation of a central processing computer, is scheduled for completion in 1964. When completely installed this system will replace almost all of the existing data processing equipment now under lease.

2. The maintenance of transportation costs at substantially the same level as in the preceding year is indicative that the utilization of motor pool facilities and procedures has been to the commission's advantage.

3. In the conduct of our audit of the commission, we have been governed by the provisions of the Nevada Industrial Commission Acts (NRS 616-618) as to the propriety of the commission's transactions, particularly as they relate to fiscal operations. Wherever questions have

existed as to interpretation concerning the applicability of the provisions of the acts or the general statutes, we have had the benefit of the opinion of the commission's counsel.

It continues to be our belief that the degree of autonomy under which the commission is intended to function could be better defined by legislative action.

4. The proper measure of the adequacy of premium rates is the underwriting gain, or net income from premiums less benefits, administrative and safety expenses. In the year under review, this underwriting gain was \$1,205,566 or \$667,020 greater than in 1962. The circumstances noted earlier in this report which have led to a widening of the premiums—benefits differential suggest no natural decrease in this spread during the forthcoming year. We recommend, therefore, that the commission, in consultation with its actuaries, give serious consideration to a moderate reduction in its rate structure to be effective January 1, 1964.

5. The commission's unappropriated surplus at June 30, 1963, was \$7,608,463.01. Although the measure of this free surplus has historically been the amount of 1 year's premiums, in these days of annual premiums exceeding eight and a half million dollars, the validity of this standard may properly be questioned. The commission has been giving consideration to a new yardstick, one more in keeping with the realities of today's operations. In view of the proven reliability of the commission's benefits reserves and the amount of provision already made for contingencies, we strongly support such a reevaluation.

6. NRS 616.380-3 states in part, "The objective to be accomplished by the commission shall be to prescribe and collect only such premiums as may be necessary to pay the obligations created by this chapter, administrative expenses, and to carry such reasonable reserves as may be prescribed by law or may be deemed necessary to meet such contingencies as may reasonably be expected." In conformity with the sense of this statutory provision, we would encourage declaration of a substantial rebate in respect to the operations of the fiscal year just concluded.

In our opinion the attached exhibits and related schedules reflect fairly the financial condition of the Nevada Industrial Commission at June 30, 1963, and the results of its operations for the year then ended in conformity with generally accepted accounting principles consistently applied.

Respectfully submitted,

KAFOURY, ARMSTRONG AND BERNARD

Public Accountants

EXHIBIT A
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF FINANCIAL CONDITION, JUNE 30, 1963

ASSETS	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Current Assets—				
Cash on hand and on deposit (Schedule No. 1)	\$105,931.07	\$323,802.67	\$127,839.66	\$557,573.40
Earned Premiums Receivable—				
Reported but unpaid	13,352.25	9,949.16	1,006.34	24,307.75
Estimated unreported—current year	620,907.63	470,633.20	46,852.67	1,138,393.50
Estimated unreported—prior years	9,979.91	7,040.07	880.99	17,600.97
Accounts receivable—miscellaneous	97.25			97.25
Accrued interest receivable	180,778.36	63,201.40	11,434.89	255,414.65
Total current assets	\$930,446.47	\$874,626.50	\$188,014.55	\$1,993,087.52
Investments—				
Bonds owned (Schedules Nos. 2, 3, and 4)	\$15,492,823.11	\$3,543,808.35	\$1,003,788.96	\$20,040,420.42
Notes receivable (secured by first deed of trust on real estate)	36,518.03			36,518.03
Total investments	\$15,529,341.14	\$3,543,808.35	\$1,003,788.96	\$20,076,938.45
Fixed Assets—				
Land and buildings (at cost less amortization) :				
Carson City	\$721,775.79			\$721,775.79
Las Vegas	182,323.78			182,323.78
Furniture and equipment	1.00			1.00
Automobiles	1.00			1.00
Total fixed assets	\$904,101.57			\$904,101.57
Other Assets—				
Deposit—service	\$425.00			\$425.00
Deferred charge to major repairs and replacements—buildings	4,614.24			4,614.24
Total other assets	\$5,039.24			\$5,039.24
Total assets	\$17,368,928.42	\$4,418,494.85	\$1,191,803.51	\$22,979,166.78
Current Liabilities, RESERVES, AND SURPLUS				
Current Liabilities—				
Advances premiums	\$1,086,914.37			\$1,086,914.37
Accounts payable	6,366.37			6,366.37
Liability for long-outstanding checks canceled	388.81			388.81
Savings bond deductions—employees	165.00			165.00
Total current liabilities	\$1,093,828.55			\$1,093,828.55

EXHIBIT A--Continued

Reserves--					
For pending claims.....	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total	
For pensions.....	\$2,855,217.00	\$1,286,699.00	\$102,862.00	\$4,244,778.00	
For reopened claims.....	7,016,039.00		315,048.22	7,331,087.22	
For catastrophe.....	1,110,000.00	80,000.00	10,000.00	200,000.00	
For fluctuation in value of investments.....	1,000,000.00			1,000,000.00	
For stabilization of rates.....	387,320.00	88,595.00	25,095.00	501,010.00	
	530,000.00	400,000.00	70,000.00	1,000,000.00	
Total reserves.....	\$11,898,576.00	\$1,855,294.00	\$523,005.22	\$14,276,875.22	
Surplus (Exhibit C).....	\$4,376,523.87	\$2,563,140.85	\$668,798.29	\$7,608,463.01	
Total liabilities, reserves, and surplus.....	\$17,368,928.42	\$4,418,434.85	\$1,191,803.51	\$22,979,166.78	

EXHIBIT B
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF OPERATIONS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1963

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Earned Premiums—				
Reported	\$4,111,059.55	\$3,055,159.19	\$310,199.78	\$7,476,438.52
Estimated additional	620,907.63	470,633.20	46,852.67	1,138,393.50
Total earned premiums	\$4,731,967.18	\$3,525,812.39	\$357,052.45	\$8,614,832.02
Benefits Expenses—				
Benefits paid—net	\$1,234,133.76	\$1,727,473.93	\$54,458.38	\$3,016,066.07
Estimated pending claims	1,317,137.00	1,102,098.00	69,632.00	3,045,887.00
Pensions paid	1,613.04	2,724.28	2,724.28	20,337.32
Pensions awarded and unawarded	453,165.00	.....	12,606.00	465,771.00
Total benefits expense	\$3,579,068.80	\$2,829,571.93	\$139,420.66	\$6,548,061.39
Excess of earned premiums over benefits expense	\$1,152,898.38	\$696,240.46	\$217,631.79	\$2,066,770.63
Operating Expenses—Net— (Schedule No. 5)—				
Administrative	\$403,880.27	\$300,943.38	\$30,439.91	\$735,263.56
Safety	69,179.85	51,548.00	5,213.99	125,941.84
Total operating expenses—net	\$473,060.12	\$352,491.38	\$35,653.90	\$861,205.40
Operating profit	\$679,838.26	\$343,749.08	\$181,977.89	\$1,205,565.23
Other Income—				
Investment income—net (Schedule No. 7)	\$643,048.41	\$141,585.39	\$40,203.84	\$824,837.64
Rental income—net (Schedule No. 8)	3,335.31	.....	3,335.31	3,335.31
Miscellaneous nonoperating income	418.15	311.58	31.51	761.24
Total other income	\$646,801.87	\$141,896.97	\$40,235.35	\$828,934.19
Other Expenses—				
Bad debts	\$1,326,640.13	\$485,646.05	\$222,213.24	\$2,034,499.42
	7,122.64	5,307.30	536.82	12,966.76
Excess of income over expenses	\$1,319,517.49	\$480,338.75	\$221,676.42	\$2,021,532.66

EXHIBIT C
NEVADA INDUSTRIAL COMMISSION
ANALYSIS OF SURPLUS BY FUNDS, JUNE 30, 1963

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Balance, July 1, 1962.....	\$4,294,777.10	\$1,969,633.90	\$606,780.87	\$6,871,191.87
Additions--				
Adjustment of reserves for pending claims for years 1962 and prior.....		\$414,657.97	\$70,460.05	\$783,261.80
Adjustment of reserve for fluctuations of investments.....	\$268,143.78	11,105.00		63,185.00
Adjustment for under estimate of prior year premiums.....	52,080.00	483.40	56.34	1,199.99
Adjustment for long-outstanding checks absorbed.....	660.25			820.78
Advance deposits absorbed--net.....	820.78			1,712.45
Excess of income over expenses (Exhibit E).....	1,712.45	480,338.75	221,676.42	2,021,532.66
Total additions.....	1,319,517.49	\$906,585.12	\$292,192.81	\$2,841,712.68
Deductions--				
Premium rebates.....	\$383,444.45	\$278,868.69	\$34,558.58	\$697,171.72
Premium adjustment and refunds.....	265.07	147.44	18.48	430.94
Adjustment of pension reserves for years 1962 and prior.....	623,228.38		181,103.38	804,331.76
Adjustment of reserves for reopened claims.....	54,250.08	34,062.04		88,312.12
Adjustment of catastrophe reserve.....	500,000.00		14,195.00	500,000.00
Adjustment of reserves for fluctuations of investments.....				14,195.00
Total deductions.....	\$1,561,187.98	\$313,078.17	\$230,175.39	\$2,104,441.54
Balance, June 30, 1963.....	\$4,376,523.37	\$2,563,140.85	\$668,798.29	\$7,608,463.01

EXHIBIT D
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF RECEIPTS AND DISBURSEMENTS BY FUND FOR THE YEAR ENDED JUNE 30, 1963

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Premiums earned and collected				
Interest (less interest purchased and net charge for amortization of bond premium and discount)	\$4,610,544.18	\$3,385,974.20	\$355,700.53	\$8,352,218.91
Building rentals	587,203.42	134,780.77		708,326.56
Advance premium deposits (net)	88,934.27		36,842.37	88,934.27
Payments received on sale of property	107,736.62			107,736.62
Cancellation of old outstanding checks	4,432.60			4,432.60
Gain on sale of bonds	786.89			786.89
Miscellaneous receipts	81,984.01	5.25	1,260.00	83,249.26
	18,025.44	9,705.65	981.70	23,712.79
Total receipts	\$5,444,647.43	\$3,530,465.87	\$394,284.60	\$9,369,397.90
Disbursements				
Benefits paid				
Administrative and safety expenses	\$2,911,801.47	\$2,445,764.85	\$195,634.34	\$5,553,201.16
Furniture and equipment	431,266.57	352,987.20	85,805.21	871,059.28
Automobiles	9,656.51	7,189.20	727.16	17,572.87
Securities custodian fees and cost	951.74	1,709.05	71.72	1,732.51
Investment advisory fees	6,885.48	1,577.93	446.88	8,909.79
Building expenses—ordinary	5,324.94	2,040.19	577.15	7,942.28
Building expenses—major repairs	2,055.40			2,055.40
Building construction—Carson City	2,150.80			2,150.80
Building construction—Las Vegas	43,623.89			43,623.89
Rebates	383,523.90	278,326.47	34,865.80	697,316.17
Total disbursements	\$3,912,634.22	\$3,090,194.89	\$268,128.36	\$7,270,957.37
Excess of receipts over disbursements				
Balance in funds, July 1, 1962	\$1,532,013.21	\$440,370.98	\$126,156.34	\$2,098,440.53
	14,066,440.97	3,427,340.04	1,005,472.28	18,499,253.29
Balance in funds, June 30, 1963	\$15,598,454.18	\$3,867,611.02	\$1,131,628.62	\$20,597,693.82
Represented by				
Cash (Schedule No. 1).....	\$105,631.07	\$325,802.67	\$127,839.66	\$557,273.40
Bonds owned, stated at cost less amortized premium and discount (Schedules Nos. 2, 3, and 4)	15,492,823.11	3,543,808.35	1,003,788.96	20,040,420.42
Totals	\$15,598,454.18	\$3,867,611.02	\$1,131,628.62	\$20,597,693.82

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 1
NEVADA INDUSTRIAL COMMISSION
CASH ON HAND AND ON DEPOSIT AND
BONDS PLEDGED TO SECURE DEPOSITS IN BANK
JUNE 30, 1963

Cash on Hand and on Deposit—		
State Treasurer of Nevada.....		\$372,829.78
First National Bank of Nevada—		
Carson City branch—general account.....	\$153,284.61	
Reno main office—custodian account.....	30,809.01	184,093.62
Petty Cash Funds—		
Carson City office.....	\$100.00	
Reno office.....	50.00	
Las Vegas office.....	200.00	350.00
Total cash on hand and on deposit.....		<u>\$557,273.40</u>
Allocated to Following Funds—		
State insurance fund.....	\$105,631.07	
Accident benefit fund.....	323,802.67	
Occupational diseases fund.....	127,839.66	
Total.....		<u>\$557,273.40</u>
Bonds Pledged to Secure Deposit in First National Bank of Nevada, Carson City branch—		
U.S. Treasury bonds, 2% percent, February 15, 1965.....		\$260,000.00

SCHEDULE NO. 5
NEVADA INDUSTRIAL COMMISSION
SAFETY AND ADMINISTRATIVE EXPENSES FOR
THE YEAR ENDED JUNE 30, 1963

	Safety Expense (Note 1)	Administrative Expense	Total
Salaries—			
Commissioners.....		\$37,356.64	\$37,356.64
Attorneys and physicians.....		24,530.80	24,530.80
Field audit department.....		91,378.74	91,378.74
Claims department.....		129,076.84	129,076.84
Safety department.....	\$82,595.24		82,595.24
Employer accounts department.....		71,067.63	71,067.63
Statistical department.....		41,866.84	41,866.84
All others.....		101,295.15	101,295.15
Total salaries.....	<u>\$82,595.24</u>	<u>\$496,572.64</u>	<u>\$579,167.88</u>
Transportation—			
Commissioners.....		\$6,337.40	\$6,337.40
Field auditors.....		6,497.22	6,497.22
Claims investigators.....		2,605.09	2,605.09
Safety inspectors.....	\$9,061.78		9,061.78
All others.....		2,837.07	2,837.07
Total transportation.....	<u>\$9,061.78</u>	<u>\$18,276.78</u>	<u>\$27,338.56</u>
Hotel, Meals, Etc.—			
Commissioners.....		\$3,522.53	\$3,522.53
Field auditors.....		5,295.90	5,295.90
Claims investigators.....		2,016.07	2,016.07
Safety inspectors.....	\$2,563.72		2,563.72
All others.....		1,839.60	1,839.60
Total hotel, meals, etc.....	<u>\$2,563.72</u>	<u>\$12,674.10</u>	<u>\$15,237.82</u>

SCHEDULE NO. 5—Continued

	Safety Expense (Note 1)	Administrative Expense	Total
Office Expenses—			
Office rentals and utilities.....	\$8,265.47	\$49,697.17	\$57,962.64
Tenants' building expenses.....	19.96	120.03	139.99
Postage and express.....	1,776.34	10,680.46	12,456.80
Telephone and telegraph.....	2,288.46	16,961.97	19,250.43
Printing and stationery.....	1,727.09	24,554.84	26,281.93
Supplies and other expense.....	2,576.57	15,491.97	18,068.54
Furniture and equipment rentals.....		33,666.21	33,666.21
Total office expenses.....	\$16,653.89	\$151,172.65	\$167,826.54
Personnel Costs—			
Personnel department costs.....	\$503.36	\$3,349.28	\$3,852.64
Contribution to Public Employees' Retirement Fund.....	3,976.07	21,496.37	25,472.44
Industrial insurance.....	498.67	2,998.38	3,497.05
Total personnel costs.....	\$4,978.10	\$27,844.03	\$32,822.13
General Expenses—			
Actuarial fees.....		\$6,800.00	\$6,800.00
Audit and other professional accounting services.....	\$2,133.14	12,825.75	14,958.89
Rejected claims cost.....		1,510.70	1,510.70
Dues and subscriptions.....		1,950.95	1,950.95
General insurance.....	635.05	3,818.29	4,453.34
Miscellaneous.....	4,456.31	8,336.89	12,793.20
Total general expenses.....	\$7,224.50	\$35,242.58	\$42,467.08
Total direct expense.....	\$123,077.23	\$741,782.78	\$864,860.01
Capital Outlay—			
Office furniture and equipment.....	\$2,705.71	\$14,858.89	\$17,564.60
Automobiles.....	567.15	1,165.19	1,732.34
Total capital outlay.....	\$3,272.86	\$16,024.08	\$19,296.94
Gross administrative and safety expense.....	\$126,350.09	\$757,806.86	\$884,156.95
Less: Miscellaneous Administrative Income—			
Delinquency penalties.....		\$22,185.01	\$22,185.01
Miscellaneous administrative reimbursements.....	\$408.25	358.29	766.54
Total miscellaneous administrative income.....	\$408.25	\$22,543.30	\$22,951.55
Net administrative and safety expense	\$125,941.84	\$735,263.56	\$861,205.40
Allocated to (Note 2)—			
State insurance fund.....	\$69,179.85	\$403,880.27	\$473,060.12
Accident benefit fund.....	51,548.00	300,943.38	352,491.38
Occupational diseases fund.....	5,213.99	30,439.91	35,653.90
	\$125,941.84	\$735,263.56	\$861,205.40

Note 1: Expenses directly allocable to Safety Expense or to Administrative Expense have been so allocated. All other costs have been allocated in the same ratio as Safety Salaries bear to Administrative Salaries.

Note 2: The total administrative and Safety Expenses have been allocated to each fund in proportion to the premium income for the fiscal year ended June 30, 1963.

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 6
NEVADA INDUSTRIAL COMMISSION
MISCELLANEOUS NONOPERATING INCOME FOR THE YEAR
ENDED JUNE 30, 1963

Bad debts recovered.....	\$122.43	
Industrial insurance rebate.....	303.81	
Other nonoperating income.....	335.00	
Total.....		<u><u>\$761.24</u></u>

**SCHEDULE NO. 7
NEVADA INDUSTRIAL COMMISSION
INVESTMENT INCOME FOR THE YEAR ENDED JUNE 30, 1963**

Securities Income—					
Interest earned.....				Occupational	Total
Less: Premium or (Discount) amortized (Schedules Nos. 2, 3, and 4).....		Accident		Diseases Fund	
Net bond interest earned.....	State Insurance Fund	Benefit Fund		\$40,363.59	\$759,999.98
	\$573,353.05	\$145,333.34		396.22	(410.96)
	(992.26)	185.08			
Net gains on sales of bonds.....	\$574,345.31	\$145,198.26		\$39,967.37	\$759,510.94
Gross securities income.....	81,984.01	5.25		1,260.00	83,249.26
	\$656,329.32	\$145,203.51		\$41,227.37	\$842,760.20
Less—					
Custodian fees and costs.....	\$6,885.48			\$446.38	\$8,008.79
Investment advisory fees.....	8,902.66			577.15	11,520.00
Total securities costs.....	\$15,788.14	\$3,618.12		\$1,023.53	\$20,429.79
Net income from securities.....	\$640,541.18	\$141,585.39		\$40,203.84	\$822,330.41
Interest earned on first trust deed.....	2,507.23				2,507.23
Net investment income.....	\$643,048.41	\$141,585.39		\$40,203.84	\$824,837.64

Note: Custodian and investment advisory fees have been allocated to the several funds in the ratio that the par value of bonds owned by each fund bears to the total par value of all bonds owned at balance sheet date.

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 8
NEVADA INDUSTRIAL COMMISSION
RENT AND EXPENSE ACCOUNT
RENTAL INCOME—NET
FOR THE YEAR ENDED JUNE 30, 1963

Revenues—	Carson City	Las Vegas	Total
Rental income—			
Nevada Industrial Commission	\$38,728.80	\$13,833.84	\$52,562.64
Others	36,096.72	-----	36,096.72
Miscellaneous income	274.91	-----	274.91
Total revenues	<u>\$75,100.43</u>	<u>\$13,833.84</u>	<u>\$88,934.27</u>
 Expenses—			
Building superintendence	\$6,232.00		\$6,232.00
Janitorial salaries	15,540.55	\$7,093.99	22,634.54
Contribution to retirement fund	1,050.56	311.23	1,361.79
Industrial insurance	131.05	42.85	173.90
Personnel assessments	203.28	77.44	280.72
Utilities	10,268.14	2,754.53	13,017.67
Insurance	1,639.44	36.20	1,675.64
Repairs and maintenance	9,531.76	3,101.14	12,632.90
Building improvements	136.79		136.79
Building supplies	1,158.70	252.64	1,411.34
Janitorial supplies	639.00	236.06	875.06
Amortization of property cost	19,906.97	3,868.05	23,775.02
Building equipment	307.33	1,084.26	1,391.59
Total expenses	<u>\$66,740.57</u>	<u>\$18,858.39</u>	<u>\$85,598.96</u>
Net rental income or (loss)	<u>\$8,359.86</u>	<u>(\$5,024.55)</u>	<u>\$3,335.31</u>

KAFOURY, ARMSTRONG AND BERNARD
PUBLIC ACCOUNTANTS
100 CALIFORNIA AVENUE
RENO, NEVADA

November 10, 1964

NEVADA INDUSTRIAL COMMISSION
Carson City, Nevada

GENTLEMEN: Pursuant to the terms of our engagement, we have audited the accounts and records of the Nevada Industrial Commission for the fiscal year ended June 30, 1964. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and analyses as we deemed necessary in the circumstances.

Attached hereto and forming a part of this report are the following exhibits and related schedules which reflect the financial condition of the commission at June 30, 1964, together with the results of its operations for the fiscal year then ended:

Exhibit A—Statement of Financial Condition.

Exhibit B—Statement of Operations by Funds.

Exhibit C—Analysis of Surplus by Funds.

Exhibit D—Statement of Receipts and Disbursements by Funds.

Schedule No. 1—Cash on Hand and on Deposit, June 30, 1964.

Schedule No. 2—Bonds Owned, State Insurance Fund. (Bond schedule not included in this report.)

Schedule No. 3—Bonds Owned, Accident Benefit Fund.

Schedule No. 4—Bonds Owned, Occupational Diseases Fund.

Schedule No. 5—Safety and Administrative Expenses.

Schedule No. 6—Miscellaneous Nonoperating Income.

Schedule No. 7—Investment Income.

Schedule No. 8—Rent and Expense Account.

Our comments on these exhibits follow.

EXHIBIT A—STATEMENT OF FINANCIAL CONDITION

Cash on Hand and on Deposit—\$434,674.13 (Schedule No. 1):

We verified by direct correspondence the cash on deposit with the State Treasurer of Nevada and with the First National Bank of Nevada, and reconciled these amounts to the commission's records. Petty cash held by the Las Vegas and Reno offices was certified to by the respective branch managers, while that of the Carson City office was verified by actual count.

The First National Bank of Nevada has deposited with the State Treasurer of Nevada \$260,000 par value United States Treasury Bonds, 2½ percent, due February 16, 1965, to secure the commission's commercial deposit with the bank's Carson City branch.

Earned Premiums Due—\$1,267,743.58:

Industrial insurance premiums earned by the commission but not received as of June 30, 1964, are analyzed as follows:

Unreported premiums, 1964 fiscal year (estimated).....	\$1,197,665.37
Unreported premiums, prior fiscal years (estimated).....	14,000.00
Premiums reported but unpaid.....	56,078.21
Total.....	<u>\$1,267,743.58</u>

Unreported premiums have been estimated on a basis substantially consistent with that applied in prior years. The premiums reported but unpaid are considered by the commission to be collectible. We have reviewed these accounts and are in agreement that any losses which may be sustained will not be significant. The current status of unpaid premiums has been substantially improved through the implementation of the data processing system installed during fiscal year 1963, and expanded during the year under review.

Accounts Receivable—\$1,090.56:

Miscellaneous accounts due the commission of \$1,090.56 are analyzed as follows:

Returned checks.....	\$457.23
Insurance claim due on repairs to air-conditioning unit.....	633.33
Total.....	<u>\$1,090.56</u>

The commission's control of contributors' returned checks was reviewed and found to be properly administered. Insurance proceeds receivable represents claims submitted to and approved by the insurance company for repair of the Carson City office heating and air-conditioning unit.

Accrued Interest Receivable—\$228,108.03:

Interest on the commission's investments which was earned at June 30, 1964, but collectible at a subsequent date totaled \$228,108.03.

All interest collectible during the year under review was received except for that earned on the Overton Water District General Obligation Bonds, Series of February 1, 1960. The circumstances of this delinquency are described later in this report. Accrued interest receivable on this issue, \$27,752.85, is reported under the Other Assets section of Exhibit A.

Investments—\$21,797,067.34:

The commission's investment portfolio consists of negotiable bonds with a book value of \$21,765,278.77 and a secured note receivable of \$31,788.57. All investments are stated at cost adjusted by applicable amortization of premium or discount.

Schedules Nos. 2, 3, and 4 describe in detail the negotiable bonds owned by the commission during the year under review. At June 30, 1964, these securities were held for the account of the commission by the following agents:

State Treasurer of Nevada (par value \$6,189,000)	Book value of bonds held at June 30, 1964	Percent
Trust Department, First National Bank of Nevada (par value \$14,472,000)	\$6,190,792.13	28.4
Loan Service Department, Bank of America, 532 East Colorado Boulevard, Pasadena, California (par value \$1,014,311.16)	14,540,149.47	66.8
	1,034,337.17	4.8
Total	\$21,765,278.77	100.0

All bonds maturing during the year under review were collected except the February 1, 1964, maturity of \$6,000 due on the previously noted Overton Water District Bonds. These matured bonds continue to bear interest at 6 percent from the date they became delinquent.

We confirmed by inspection the bonds and matured interest coupons held by the State Treasurer of Nevada. Securities held by the First National Bank of Nevada and the Bank of America as custodians were verified by certification from those agencies, and were reconciled to the commission's records.

It is the commission's continuing policy not to invest its funds in either common or preferred stock.

The note receivable held by the State Insurance Fund is secured by a first trust deed on the commission's former Carson City offices. This note bears interest at 6½ percent per annum on the declining balance. All payments due during the year under review were received. The unpaid balance at June 30, 1964, was confirmed by direct correspondence with the debtor.

On May 2, 1961, the commission granted the Overton Water District a 2-year moratorium on principal and interest payments on its \$160,000 February 1, 1960, issue. Current interest payments on this issue have not been paid since this moratorium expired on May 2, 1963.

During the fiscal year under review, payments were received on Bond No. 1, par value \$4,000, maturing February 1, 1962, and Bond No. 2, par value \$6,000, maturing February 1, 1963. We analyze below the status of unpaid interest and principal on this issue at June 30, 1964:

Payments due	Interest	Principal	Total
February 1, 1961 (balance due)	\$3,200.00	.....	\$3,200.00
August 1, 1961	3,600.00	.....	3,600.00
February 1, 1962	3,600.00	.....	3,600.00
August 1, 1962	3,510.00	.....	3,510.00
February 1, 1963	3,510.00	.....	3,510.00
August 1, 1963	3,375.00	.....	3,375.00
February 1, 1964	3,375.00	\$6,000.00	9,375.00
Interest earned to June 30, 1964, on matured bonds	882.85	.....	882.85
Total due on matured bonds and interest	\$25,052.85	\$6,000.00	\$31,052.85
Interest accrued to June 30, 1964, on payment due August 1, 1964	\$2,700.00		\$2,700.00

The current plan of payment for this issue, as agreed upon at a joint meeting of the water board and the commissioners in Overton, Nevada, on January 31, 1964, is that the Overton Water District will meet current interest payments as they become due. In addition, the water board is to keep the commission informed as to the financial condition of the Overton Water District in order that arrangements can be made for payments on delinquent interest and matured bonds.

The commission has been advised by the secretary of the Overton Water District that efforts are being made to include provision for retirement of this debt in the fiscal year 1965-66 county tax roll. It is the expressed intent of the water board that in the event the district's revenue should improve, payments from operating sources will also be applied to the delinquent indebtedness.

Fixed Assets—\$881,952.03:

Office facilities at a cost of \$985,861.10 are being amortized against rental income over a 40-year period. We analyze below the book value of these facilities at June 30, 1964:

	Carson City	Las Vegas	Total
Total cost.....	\$798,752.12	\$187,108.98	\$985,861.10
Accumulated amortization.....	94,210.98	9,700.09	103,911.07
Book value.....	<u>\$704,541.14</u>	<u>\$177,408.89</u>	<u>\$881,950.03</u>

Furniture and equipment and automobiles are each carried at a nominal value of \$1 as in prior years.

As a part of our examination, we made numerous tests of the commission's fixed assets records. Substantial improvements in these records have been effected by new machine accounting procedures instituted during the year.

In our opinion, the valuation of fixed assets as outlined above is in accord with properly conservative insurance practice, giving appropriate consideration to the liquidity of the commission's admitted assets.

Other Assets—\$28,177.85:

We confirmed the commission's air travel card deposit with United Air Lines in an amount of \$425.

As noted previously in this report, accrued interest due on the Overton Water District bonds issued February 1, 1960, has been segregated from current interest receivable because of the delinquent status of prior maturities of this issue.

In conformity with the commission's established practice, no provision has been made for prepaid premiums on insurance policies in effect at June 30, 1964. We have reviewed these policies, however, and their coverage appears reasonable.

Current Liabilities—\$1,280,515.25:

Cash advance premium deposits held by the commission at June 30, 1964, totaled \$1,243,256.07. Pursuant to the provisions of NRS 616.395-3, contributors had also posted surety bonds aggregating \$1,734,400, and had pledged negotiable securities of \$63,000 in lieu of the usual cash deposit.

We verified the cash deposits and surety bonds posted by reviewing employer account records selected by a random sample of account balances at yearend. We did not, however, verify these records by direct correspondence with contributors. Pledged securities held by the commission were examined and compared with the records of the employer accounts department. The advance deposit subsidiary records were found to be in agreement with the general ledger subsidiary control.

During the course of the year under review, the commission continued to expand its data processing system. At present, all employer premium charges and credits are being processed through the system. Through the computer, each employer's account is evaluated currently for delinquent premium status, and for the maintenance of the required advance premium deposit. The internal control features of the computer programs, together with other internal examinations performed by the commission's various departments, were reviewed and found to be functioning satisfactorily.

We verified the current unpaid operating expenses of \$3,837.52 by examination of vendor invoices in support thereof and by review of their subsequent payment.

Premium rebates payable of \$1,177.40 represents current year's rebates withheld for administrative purposes. These rebates were paid during the course of our examination subsequent to June 30, 1964.

Deductions withheld from employees' earnings for the purchase of United States savings bonds totaled \$203.13 at balance sheet date.

Accrued employees' payroll of \$30,432.42 and accrued employees' retirement of \$1,608.71 represents employees' salaries and wages earned but not paid at June 30, 1964.

Reserves—\$14,843,446.23:

At their meeting of September 23, 1964, the commissioners adopted the following reserves as of June 30, 1964:

For pending claims.....	\$4,837,584.00
For pensions.....	7,260,344.47
For reopened claims.....	200,000.00
For catastrophe.....	1,000,000.00
For fluctuation in value of investments.....	544,132.00
For stabilization of rates.....	1,000,000.00
Total.....	<u>\$14,842,060.47</u>

In addition, the reserve for major building repairs was \$1,385.76 at balance sheet date. This reserve is discussed further with our comments on the rent and expense account, later in this report.

Reserves for pending claims and for pensions have been calculated by the commission's claims department. These reserves recognize the commission's estimated remaining liability for claims originating prior to June 30, 1964, and not closed at that date. Included in the reserves for pensions is \$36,757.47 in respect to the silicosis benefits pool established by NRS 617, Secs. 2, 3(a).

The reserve for reopened claims provides for the contingency of reopening claims previously closed, but subject to reevaluation under commission regulations or pursuant to judicial order.

The catastrophe reserve of \$1,000,000 remained unchanged from that of the prior year. This reserve has been established to provide for unusual losses arising from single, multiple injury catastrophes.

In order to maintain a reasonable relationship between the reserve for fluctuation in value of investments and the current investment portfolio of each fund, these reserves have been reestablished at June 30, 1964, at 2½ percent of the book value of the securities held by each fund.

The reserve for stabilization of rates remains unchanged from the preceding year.

In accordance with the terms of our engagement, we assume no responsibility for the adequacy of the reserves adopted by the commission.

Surplus—\$8,514,852.04:

The commission's unappropriated or free surplus is analyzed in detail in Exhibit C. Presented below is a comparison of the yearend surplus balances of the last 2 fiscal years:

	June 30, 1963	June 30, 1964	Increase or (decrease)
State insurance fund.....	\$4,376,523.87	\$5,263,575.35	\$887,051.48
Accident benefit fund.....	2,563,140.85	2,368,534.48	(194,606.37)
Occupational diseases fund.....	668,798.29	882,742.21	213,943.92
Total.....	<u>\$7,608,463.01</u>	<u>\$8,514,852.04</u>	<u>\$906,389.03</u>

A discussion of the present level of unappropriated surplus follows in the General Comments section of this report.

EXHIBIT B—STATEMENT OF OPERATIONS BY FUNDS

Operations for the year ended June 30, 1964, resulted in a net income of \$1,247,362.87. This was \$774,169.79 less than the net income realized in the preceding fiscal year. We present below a brief comparison of the operations of the year under review with those of the prior year:

	YEAR ENDED JUNE 30—		Increase or (decrease)
	1963	1964	
Premiums earned.....	\$8,614,832	\$9,212,803	\$597,971
Benefits expense.....	6,548,061	7,752,567	1,204,506
Excess of premiums.....	\$2,066,771	\$1,460,236	(\$606,535)
Administrative and safety expenses.....	861,205	1,036,905	175,700
Underwriting gain.....	\$1,205,566	\$423,331	(\$782,235)
Other income and expense (net).....	815,967	824,032	8,065
Net income.....	<u>\$2,021,533</u>	<u>\$1,247,363</u>	<u>(\$774,170)</u>

The disproportionate increase of benefits expense in relation to premium income is primarily attributable to the effect of the commission's premium rate decreases of January 1, 1963, and January 1, 1964.

The commission's investment income continues to show a high yield under the guidance of the investment counsel, Scudder, Stevens and

Clark, Inc., (successor firm to Willis & Christy, Inc.). Our review of the progressive maturities of the portfolio indicates that proper consideration has been given to the liquidity of the commission's investments.

The net rental loss of \$2,525.91, as presented in detail in Schedule No. 8, represents a decrease of \$5,861.25 from the net rental income of the prior fiscal year. A net rental income of \$2,073.78 was realized from the Carson City office rentals, while the Las Vegas office rentals produced a net loss of \$4,599.69. We have been informed by the commission that a rental rate increase is under consideration at this time for the Las Vegas office.

Under statutory requirements, the building income and expenses are attributable in total to the State Insurance Fund. Since the occupancy of these offices benefits the Accident Benefit and Occupational Diseases Fund as well, a rental charge based upon rates charged other lessees is paid by the commission to itself. This procedure permits the accurate measurement of the buildings operations while insuring a provision of funds adequate to recapture through amortization the commission's investment in these facilities.

Provision for major building repairs has been made in a manner consistent with the adopted procedures outlined in detail in our report for the year ended June 30, 1962. Briefly, this calls for uniform annual charges to building operations which are utilized to establish a reserve for major repairs. Subsequent major building repairs, such as major roof or mechanical repairs, are then charged against this reserve rather than against the operations of the year in which the repair is actually made. We analyze below the status of this reserve at June 30, 1964:

Provisions for years prior to 1964.....	\$20,250.00
Charges to reserves prior to 1964 (roof and heating and air-conditioning repairs—Carson City).....	24,864.24
Reserve deficit, July 1, 1963.....	\$4,614.24
Add: Provision for 1964 fiscal year.....	6,000.00
Reserve, June 30, 1964.....	\$1,385.76

All building revenues and costs have been attributed to the State Insurance Fund as required by statute.

The commission has followed the practice of using the relative benefits expense as a guide for apportioning to the various funds the premium to be earned in the forthcoming year. With due consideration to the financial condition of the several funds, we recommend that the following be adopted as the basis for apportioning the premiums of the 1965 fiscal year:

	Full coverage (percent)	Ex-Medical (percent)
State insurance fund.....	51	93
Accident benefit fund.....	46	---
Occupational diseases fund.....	3	7
Total.....	100	100

Presented in detail in Schedule No. 5 are the specific costs comprising the commission's net administrative and safety expenses for the year. We compare briefly these expenses with those incurred in the previous year:

	—YEAR ENDED JUNE 30—		Increase or (decrease)
	1963	1964	
Administrative expense.....	\$735,263.56	\$893,137.84	\$157,874.28
Safety expense.....	125,941.84	143,767.59	17,825.75
Total.....	<u>\$861,205.40</u>	<u>\$1,036,905.43</u>	<u>\$175,700.03</u>

The rise in total administrative expense is primarily attributable to increased personnel and equipment rental costs. Salary and personnel cost increases were due primarily to a general pay raise effective July 1, 1963, while the increased cost of equipment rental expense is a direct result of the expanded data processing facilities.

Although the commission does not operate under the budgetary limitations of state agencies, an annual budget is prepared as a guide for the operations of the year. For the year under review, actual administrative and safety expenses exceeded those budgeted by \$8,918. In view of the continued growth pattern of the commission's operations, this variance appears reasonable.

EXHIBIT C—ANALYSIS OF EARNED SURPLUS

The changes in the unappropriated surplus accounts during the current year are presented in detail in Exhibit C. Normal adjustments of previous estimates of unreported premiums or benefit reserves account for the major portion of nonincome charges and credits during the year under review.

The net premium rebate paid of \$1,239,332.78 represented a return of premiums collected for the 1963 fiscal year.

Net adjustments of reserves for pending claims and pensions for years 1963 and prior increased surplus by \$955,272.61. This represents an increase of \$1,006,342.57 over the adjustment experienced in the prior fiscal year.

Our comments on the amount of unappropriated surplus follows under the General Comments section of this report.

EXHIBIT D—STATEMENT OF RECEIPTS AND DISBURSEMENTS

Receipts for the year under review exceeded disbursements by \$1,602,259.08. Presented below is a summary of this increase by funds:

State insurance fund.....	\$1,197,520.60
Accident benefit fund.....	267,435.85
Occupational diseases fund.....	137,302.63
Total increase.....	<u>\$1,602,259.08</u>

As a part of our examination, we made extensive tests of checks issued together with an examination of invoices and other evidence in support thereof. Controls over check writing equipment were reviewed

together with procedures controlling check signatures. Surety bond coverage on employees authorized to sign checks or use check signing machines was reviewed and found to be adequate.

Supporting documents for all transactions affecting the commission's investments were examined and found to substantiate the adjustments to the portfolio. Authority for material administrative transactions was traced to the commission's official minutes. We observed no material disbursements made during the year under review which were contrary to the regulations of the Nevada State Purchasing Department.

GENERAL COMMENTS

1. Our examination included a review and evaluation of the commission's system of internal control. As was noted previously in this report, the data processing activities of the commission were greatly increased during fiscal year 1964. It is our opinion that the internal control procedures now in operation are adequately supervised and sufficiently comprehensive.

2. In the conduct of our audit, we have been governed by the provisions of the Nevada Industrial Commission Acts (NRS 616-618) as to the propriety of the commission's transactions, particularly as they relate to fiscal operations. Whenever questions have existed as to interpretation concerning the applicability of the provisions of the acts or the general statutes, we have had the benefit of the opinion of the commission's counsel.

3. The underwriting gain for the year, \$423,331, represented a decrease of \$782,235 from that of the previous year. Unlike commercial insurance operations, this decrease in operating income is entirely desirable. NRS 616.380-3 states in part, "The objective to be accomplished by the commission shall be to prescribe and collect only such premiums as may be necessary to pay the obligation created by this chapter, administrative expenses, and to carry such reasonable reserves as may be prescribed by law or may be deemed necessary to meet such contingencies as may be reasonably expected."

Material rate reductions have been made during the last 2 years and another reduction has been proposed for the forthcoming year in an effort to achieve a result consistent with the expressed intent of the statute. In addition, substantial rebates have been declared to return excess premiums collected to employers. In the year under review, this rebate was nearly \$1,250,000.

In spite of the commission's efforts to establish a minimum premium scale, the growth of business activity within the State, the improved safety records of many employers and many other factors have combined to substantially offset these efforts. We note that unappropriated surplus has grown from \$6,871,192 at June 30, 1962, to \$8,514,852 at June 30, 1964.

Not only has income been substantial during this period, but we note that surplus adjustments resulting from a salvage of prior years' benefits reserves was unusually great in the year just concluded. A net surplus credit of \$955,273 resulted from this source. Salvage of this magnitude had not been experienced in recent years. The establishment

of benefits reserves is, of course, an estimating procedure based upon the commission's previous experience with similar unsettled claims. As in any estimating procedure, actual costs that materialize may prove somewhat different from those anticipated. We would not, however, expect similar adjustments of this magnitude to become a frequent occurrence.

4. In view of the operating results of the year under review, considered with the present level of unencumbered surplus, we would encourage the commission to consider declaring a substantial premium rebate for the 1964 fiscal year.

5. Discussions with the commission and its actuary, Mr. James Haley of Coates, Herfurth & England, indicate that consideration is also appropriate for a reevaluation of the magnitude of the commission's catastrophe reserve. Established in lieu of reinsurance to provide for exceptional losses in multiple injury calamities, this \$1,000,000 reserve may well be inadequate to provide for such losses as might reasonably occur in such incidents.

6. We note that the assignment of one member of the commission as resident commissioner in the Las Vegas office has contributed materially to the administration of the commission's activities.

In our opinion, the attached exhibits and related schedules reflect fairly the financial condition of the Nevada Industrial Commission at June 30, 1964, and results of its operations for the year then ended in conformity with generally accepted accounting principles consistently applied.

Respectfully submitted,
KAFOURY, ARMSTRONG AND BERNARD
Public Accountants

EXHIBIT A
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF FINANCIAL CONDITION, JUNE 30, 1964

ASSETS		State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Current Assets—					
Cash on hand and on deposit (Schedule No. 1)		\$161,459.51	\$7,654.35	\$265,560.27	\$434,674.13
Earned Premiums Receivable—					
Reported but unpaid		30,619.64	23,148.03	2,310.54	56,078.21
Estimated unreported—current year		651,898.61	493,349.14	49,417.62	1,197,665.37
Estimated unreported—prior years		7,460.00	5,960.00	580.00	14,000.00
Accounts receivable—miscellaneous		1,090.56			1,090.56
Accrued interest receivable—current		173,894.03	42,779.11	11,434.89	228,108.03
Total current assets		\$1,029,422.35	\$572,890.63	\$329,303.32	\$1,931,616.30
Investments—					
Bonds owned (Schedules Nos. 2, 3 and 4)		\$16,634,515.27			\$21,765,278.77
Notes receivable (secured by first deed of trust on real estate)		31,788.57	\$4,127,392.52	\$1,003,370.98	31,788.57
Total investments		\$16,666,303.84	\$4,127,392.52	\$1,003,370.98	\$21,797,067.34
Fixed Assets—					
Land and Buildings (At Cost Less Amortization)—					
Carson City					
Las Vegas		\$704,541.14			\$704,541.14
Furniture and equipment		177,408.89			177,408.89
Automobiles		1.00			1.00
Total fixed assets		\$881,952.03			\$881,952.03
Other Assets—					
Deposit service		\$425.00	\$27,752.85		\$435.00
Accrued interest receivable—other			\$27,752.85		27,752.85
Total other assets		\$18,578,103.22	\$4,728,036.00	\$1,332,674.30	\$28,177.85
Total assets					\$24,638,813.52

REPORT OF NEVADA INDUSTRIAL COMMISSION

EXHIBIT A—Continued

LIABILITIES, RESERVES, AND SURPLUS

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Current Liabilities—				
Advance premiums	\$1,243,266.07	\$1,580.67	\$158.49	\$1,243,266.07
Accounts payable	2,098.36	506.28	47.10	3,837.52
Premium rebates payable	203.13			1,177.40
Savings bond deduction—employees	17,234.33	11,995.35	1,202.74	30,432.42
Accrued payroll	914.20	631.22	63.29	1,608.71
Accrued employees' retirement		\$14,713.52	\$1,471.62	\$1,280,515.25
Total current liabilities	\$1,264,330.11	\$17,616.03	\$74,344.00	\$1,837,584.00
Reserves—				
For pending claims	\$3,001,637.00		269,032.47	7,260,344.47
For reopened claims	6,991,312.00	50,000.00	10,000.00	2,000,000.00
For catastrophe	1,000,000.00			1,000,000.00
For fluctuation in value of investments	415,863.00	103,185.00	25,084.00	544,132.00
For stabilization of rates	530,000.00	400,000.00	70,000.00	1,000,000.00
For major repairs—buildings	1,485.76			1,385.76
Total reserves	\$12,050,197.76	\$2,344,788.00	\$448,460.47	\$14,843,446.23
Surplus (Exhibit C)	\$5,263,575.35	\$2,368,534.48	\$882,742.21	\$8,514,852.04
Total liabilities, reserves, and surplus	\$18,578,103.22	\$4,728,036.00	\$1,332,674.30	\$24,638,813.52

REPORT OF NEVADA INDUSTRIAL COMMISSION

EXHIBIT B
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF OPERATIONS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1964

Earned Premiums— Reported	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Estimated additional	\$4,382,781.39	\$3,301,643.86	\$330,712.38	\$8,015,137.63
Total earned premiums	654,898.61	493,349.14	49,417.62	1,197,665.37
Benefits Expenses— Benefits paid—net	\$5,037,680.00	\$3,794,993.00	\$380,130.00	\$9,212,803.00
Estimated pending claims	1,464,880.83			
Pensions paid	2,290,354.99			
Pensions awarded and unawarded	16,150.33			
Total benefits expenses	438,930.00			
Excess of earned premiums over benefits expenses	\$4,210,315.18	\$3,432,025.94	\$110,226.00	\$7,752,567.12
Operating Expenses—Net (Schedule No. 5)— Administrative	\$827,364.82	\$362,967.06	\$269,904.00	\$1,460,235.88
Safety				
Total operating expenses	\$488,367.77	\$367,883.48	\$36,886.59	\$893,137.84
Operating profit or (loss)	78,612.12	59,217.87	5,987.60	143,767.59
Other Income— Investment income—net (Schedule No. 7)	\$566,979.89	\$427,101.95	\$42,824.19	\$1,036,905.43
Rental income—Net (Schedule No. 8)	\$260,384.93	(\$64,134.29)	\$227,079.81	\$423,330.45
Miscellaneous nonoperating income (Schedule No. 6)				
Total other income	\$629,071.32	\$167,385.07	\$41,891.55	\$838,347.94
Other Expenses— Bad debts	(2,525.91)	2,468.62	247.52	(2,525.91)
Excess of income over expenses	\$890,207.46	\$169,853.69	\$42,139.07	\$841,815.29
	9,723.68	\$105,719.40	\$269,218.88	\$1,265,145.74
	\$880,483.78	7,324.76	734.43	17,782.87
		\$98,394.64	\$268,484.45	\$1,247,362.87

EXHIBIT C
NEVADA INDUSTRIAL COMMISSION
ANALYSIS OF SURPLUS BY FUNDS, JUNE 30, 1964

Balance, July 1, 1963.....	\$4,376,523.87	State Insurance Fund	\$2,563,140.85	Accident Benefit Fund	\$668,798.29	Occupational Diseases Fund	\$7,608,463.01	Total
Additions—								
Adjustment of reserves for pending claims for years 1963 and prior.....	\$884,228.73		\$247,317.01		\$57,595.51		\$1,189,141.25	
Adjustment of reserve for fluctuations of investment.....	54,558.73		44,170.25		11.00		11.00	
Adjustment for under-estimate of prior year premiums.....	254.14		98,394.64		4,142.05		102,871.03	
Adjustment for long-outstanding checks absorbed.....	880,483.78		683.56		268,484.45		254.14	
Adjustment for excess of income over expenses (Exhibit B).....	948.15				86.20		1,223.91	
Excess of income over expenses (Exhibit B).....								
Adjustment for 1962 premium rebates forfeited.....	\$1,820,473.53		\$390,571.46		\$330,319.21		\$2,541,364.20	
Total additions.....								
Deductions—								
Premium rebates.....	\$656,846.37		\$532,913.09		\$49,573.32		\$1,239,332.78	
Adjustments of pension reserves for years 1963 and prior.....	167,880.50		37,674.74		66,388.14		233,868.64	
Adjustment of reserves for reopened claims.....	80,552.18		14,590.00		413.83		118,640.75	
Adjustment of reserves for fluctuations of investments.....	28,535.00						43,133.00	
Total deductions.....	\$933,422.05		\$585,177.83		\$116,375.29		\$1,634,975.17	
Balance, June 30, 1964.....	\$5,263,575.35		\$2,368,534.48		\$882,742.21		\$8,514,852.04	

EXHIBIT D
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF RECEIPTS AND DISBURSEMENTS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1964

Receipts—	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Premiums earned and collected				
Interest (less interest purchased and net charge for amortization of bond premium and discount)	\$5,033,116.61	\$3,797,003.75	\$379,969.46	\$9,210,089.82
Building rentals	649,752.76	162,679.46	42,894.52	855,326.74
Advance premium deposits (net)	94,700.62			94,700.62
Payments received on sale of property	156,341.70			156,341.70
Gain on sale of bonds	4,729.46			4,729.46
Miscellaneous receipts	2,822.58	1,508.75		4,331.33
Total receipts	\$5,957,597.25	\$3,973,345.21	\$424,082.55	\$10,355,025.01
Disbursements—				
Benefits paid				
Administrative and safety expenses	\$3,452,426.13	\$2,747,479.67	\$193,966.21	\$6,393,872.01
Furniture and equipment	546,326.28	406,776.90	40,786.32	993,889.50
Automobiles	15,866.18	11,816.28	1,184.73	28,687.24
Securities	2,290.86	3,985.56	399.62	6,676.04
Investment custodian fees and cost	7,157.45	1,780.22	331.94	9,369.61
Building expenses—ordinary	3,402.24	2,453.48	571.03	6,326.75
Building improvements—including improvements for lessee	64,945.72	129.67		64,945.72
Payment of old outstanding checks	3,377.92	129.67		3,377.92
Rebates paid	655,274.20	531,717.25	49,440.02	1,236,431.47
Total disbursements	\$4,760,076.65	\$3,705,909.36	\$286,779.92	\$8,752,765.93
Excess of receipts over disbursements	\$1,197,520.60	\$267,435.85	\$137,302.63	\$1,602,259.08
Balance in funds, July 1, 1963	15,598,454.18	3,867,611.92	1,131,628.62	20,597,693.82
Balance in funds, June 30, 1964	\$16,795,974.78	\$4,135,046.87	\$1,268,931.25	\$22,199,952.90
Represented by—				
Cash (Schedule No. 1)	\$161,459.51	\$7,654.35	\$265,560.27	\$434,674.13
Bonds owned, stated at cost less amortized premium and discount (Schedules Nos. 2, 3, and 4)	16,634,515.27	4,127,392.52	1,003,370.98	21,765,278.77
Totals	\$16,795,974.78	\$4,135,046.87	\$1,268,931.25	\$22,199,952.90

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 1
NEVADA INDUSTRIAL COMMISSION
CASH ON HAND AND ON DEPOSIT, JUNE 30, 1964

Cash on hand and on deposit—		\$242,317.18
State Treasurer of Nevada.....		
First National Bank of Nevada—		
Carson City Branch—General Account.....	\$161,759.94	
Reno Main Office—Custodian Account.....	30,247.01	192,006.95
Petty Cash Funds—	\$100.00	
Carson City office.....	50.00	
Reno office.....	200.00	350.00
Las Vegas office.....		
Total cash on hand and on deposit.....		\$434,674.13
Allocated to following funds—	\$161,459.51	
State insurance fund.....	7,654.35	
Accident benefit fund.....	265,560.27	
Occupational diseases fund.....		\$434,674.13
Total.....		
Bonds pledged to secure deposit—		\$260,000.00
In First National Bank of Nevada, Carson City Branch—		
U.S. Treasury Bonds, 2% percent, February 15, 1965.....		

SCHEDULE NO. 5
NEVADA INDUSTRIAL COMMISSION
SAFETY AND ADMINISTRATIVE EXPENSES FOR THE
YEAR ENDED JUNE 30, 1964

	Safety expense (Note 1)	Administrative expense	Total
Salaries—		\$40,846.40	\$40,846.40
Commissioners.....		53,348.00	53,348.00
Attorneys and physicians.....		104,936.76	104,936.76
Field audit department.....		154,910.70	154,910.70
Claims department.....	\$93,795.58	93,795.58	93,795.58
Safety department.....		77,285.77	77,285.77
Employer accounts department.....		53,022.73	53,022.73
Statistical department.....		107,180.55	107,180.55
All others.....			
Total salaries.....	\$93,795.58	\$591,530.91	\$685,326.49
Transportation—		\$7,127.70	\$7,127.70
Commissioners.....		8,256.26	8,256.26
Field auditors.....		3,018.54	3,018.54
Claims investigators.....	\$10,957.31	10,957.31	10,957.31
Safety inspectors.....		3,191.52	3,191.52
All others.....			
Total transportation.....	\$10,957.31	\$21,594.02	\$32,551.33
Hotels, meals, etc.—		\$3,585.13	\$3,585.13
Commissioners.....		6,143.06	6,143.06
Field auditors.....		2,385.42	2,385.42
Claims investigators.....	\$4,372.07	4,372.07	4,372.07
Safety inspectors.....		3,004.20	3,004.20
All others.....			
Total hotel, meals, etc.....	\$4,372.07	\$15,117.81	\$19,489.88
Office expenses—	\$8,450.73	\$53,278.47	\$61,729.20
Office rentals and utilities.....	13.82	87.18	101.00
Tenants' building expenses.....	2,108.93	13,295.97	15,404.90
Postage and express.....	2,383.16	18,503.69	20,886.85
Telephone and telegraph.....	3,044.25	24,288.47	27,332.72
Printing and stationery.....	2,481.12	15,642.48	18,123.60
Supplies and other expense.....		57,403.32	57,403.32
Furniture and equipment rentals.....			
Total office expenses.....	\$18,482.01	\$182,499.58	\$200,981.59

SCHEDULE NO. 5—Continued

	Safety expense (Note 1)	Administrative expense	Total
Personnel costs—			
Personnel department costs.....			
Contribution to public employees' retirement fund.....	\$563.00	\$4,175.00	\$4,738.00
Industrial insurance.....	5,322.53	31,652.67	36,975.20
Employee group insurance.....	540.55	3,395.90	3,936.45
	333.00	1,968.00	2,301.00
Total personnel costs.....	\$6,759.08	\$41,191.57	\$47,950.65
General expenses—			
Actuarial fees.....			
Audit and other professional accounting services.....		\$6,500.00	\$6,500.00
Rejected claims cost.....	\$1,479.32	9,326.53	10,805.85
Dues and subscriptions.....		924.22	924.22
General insurance.....	24.75	2,039.25	2,064.00
Miscellaneous.....	580.40	3,659.23	4,239.63
	4,461.45	6,759.14	11,220.59
Total general expenses.....	\$6,545.92	\$29,208.37	\$35,754.29
Capital outlay—			
Office furniture and equipment.....	\$1,801.60	\$26,885.64	\$28,687.24
Automobiles.....	1,492.22	8,183.82	9,676.04
Total capital outlay.....	\$3,293.82	\$35,069.46	\$38,363.28
Gross administrative and Safety expense.....	\$144,205.79	\$916,211.72	\$1,060,417.51
Less: Miscellaneous administrative income—			
Delinquency penalties.....		\$22,726.06	\$22,726.06
Miscellaneous administrative reimbursements.....	\$438.20	347.82	786.02
Total miscellaneous administrative income.....	\$438.20	\$23,073.88	\$23,512.08
Net administrative and safety expenses.....	\$143,767.59	\$893,137.84	\$1,036,905.43
Allocated to (Note 2)—			
State insurance fund.....	\$78,612.12	\$488,367.77	\$566,979.89
Accident benefit fund.....	59,217.87	367,883.48	427,101.35
Occupational diseases fund.....	5,937.60	36,886.59	42,824.19
	\$143,767.59	\$893,137.84	\$1,036,905.43

Note 1: Expenses directly allocable to safety expense or to administrative expense have been so allocated. All other costs have been allocated in the same ratio as safety salaries bear to administrative salaries.

Note 2: The total administrative and safety expenses have been allocated to each fund in proportion to the premium income for the fiscal year ended June 30, 1964.

SCHEDULE NO. 6
NEVADA INDUSTRIAL COMMISSION
MISCELLANEOUS NONOPERATING INCOME FOR THE
YEAR ENDED JUNE 30, 1964

Bad debts recovered.....			
Industrial insurance rebate.....		\$143.98	
Other nonoperating income.....		494.42	
Advance deposits absorbed for failure to report.....		268.00	
		5,086.86	
			\$5,993.26
Allocated to (Note 1)—			
State insurance fund.....			
Accident benefit fund.....		\$3,277.12	
Occupational diseases fund.....		2,468.62	
		247.52	
			\$5,993.26

Note 1: The total nonoperating income has been allocated to each fund in proportion to the premium income for the fiscal year ended June 30, 1964.

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 7
NEVADA INDUSTRIAL COMMISSION
INVESTMENT INCOME FOR THE YEAR ENDED JUNE 30, 1964

Securities Income	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
Interest earned	\$640,553.34	\$170,423.46	\$43,312.50	\$854,289.30
Less: Premium or (discount) amortized (Schedules 2, 3, and 4)	(106.32)	413.44	417.98	725.10
Net bond interest earned	\$640,659.66	\$170,010.02	\$42,894.52	\$853,564.20
Net gains on sales of bonds	2,322.58	1,508.75		4,331.33
Gross securities income	\$643,482.24	\$171,518.77	\$42,894.52	\$857,895.53
Less: Custodian fees and costs	\$7,157.45	\$1,780.22	\$431.94	\$9,369.61
Investment advisory fees	9,462.24	2,353.48	571.03	12,386.75
Total securities costs	\$16,619.69	\$4,133.70	\$1,002.97	\$21,756.36
Net income from securities	\$626,862.55	\$167,385.07	\$41,891.55	\$836,139.17
Interest earned on first trust deed	2,208.77			2,208.77
Net investment income	\$629,071.32	\$167,385.07	\$41,891.55	\$838,347.94

Net investment income in the ratio that the par value of bonds owned by each fund bears to the total par value of all bonds owned at balance sheet date.

REPORT OF NEVADA INDUSTRIAL COMMISSION

SCHEDULE NO. 8
 NEVADA INDUSTRIAL COMMISSION
 RENT AND EXPENSE ACCOUNT
 RENTAL INCOME—NET
 FOR THE YEAR ENDED JUNE 30, 1964

	Carson City	Las Vegas	Total
Revenues—			
Rental income—			
Nevada Industrial Commission	\$38,728.80		\$38,728.80
Others	38,360.88	\$17,600.40	55,961.28
Miscellaneous income	10.54		10.54
Total revenues	\$77,100.22	\$17,600.40	\$94,700.62
Expenses—			
Building superintendence	\$7,868.82		\$7,868.82
Janitorial salaries	16,980.48		16,980.48
Contribution to retirement fund	1,294.01	\$8,866.06	10,160.07
Industrial insurance	143.53	495.92	639.45
Employee group insurance	90.00	50.98	140.98
Utilities	10,476.94	30.00	10,506.94
Insurance	732.95	3,435.74	4,168.69
Repairs and maintenance	12,788.68	848.82	13,637.50
Building improvements	1,002.92	2,672.26	3,675.18
Building supplies	1,829.43	400.01	2,229.44
Janitorial supplies	723.99	330.62	1,054.61
Amortization of property costs	19,906.97	4,914.89	24,821.86
Amortization of leasehold improvements	705.60		705.60
Building equipment	482.12		482.12
Total expenses	\$75,026.44	154.79	75,181.23
Net rental income or (loss)	\$2,073.78	(\$4,599.69)	(\$2,525.91)



