

STATE OF NEVADA

BIENNIAL REPORT

OF THE

NEVADA INDUSTRIAL COMMISSION

For the Period
July 1, 1964, to June 30, 1966, Inclusive



LETTER OF TRANSMITTAL

CARSON CITY, NEVADA
November 1, 1966

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, 1966.

Respectfully submitted,

C. A. HECKETHORN, *Chairman*

KEITH MOUNT, *Commissioner for Industry*

JAMES J. BANNER, *Commissioner for Labor*



ADJUDICATING BOARD—The three-man commission set a new record in the number of claims adjudicated during the period July 1, 1964, to June 30, 1966. A total of 3,548 cases was reviewed. The board conducts hearings weekly in Las Vegas and Carson City and reviews cases in Ely on a semiannual basis. Pictured (left to right) are Commissioner Keith Mount, Chairman C. A. Heckethorn, and Commissioner James J. Banner. (Randall Photo)

BIENNIAL REPORT OF THE NEVADA INDUSTRIAL COMMISSION

FOREWORD

The adoption of new statistical methods in management, improved reserve procedures, and a decrease in registered claims keynoted the biennium ending June 30, 1966.

Statistical records were used in determining probability, expectation, and decision making on claims and resulted in a scientific method of reserving claims on a continuous basis. The procedure proved especially effective in determining future liabilities and adopting reserves.

Surprisingly, claims showed a marked decrease despite the steady economic growth and increase in the work force. There were 547 less claims in 1965 than the preceding 12-month period, reflecting a percentage slightly more than 2 percent. Fiscal 1966 ended with a decrease of 1,141, nearly 5 percent. This was attributed to the aggressive action of the NIC Accident Prevention Department and spontaneous assistance from employers due to the effect of the debit-credit rating system and annual dividend rebates. Increased investigations of claims also affected the number of accepted claims.

Debit-Credit Rating

The Commission adopted a prospective debit-credit rating plan in 1961 which allowed the rates of individual accounts to be either surcharged or reduced in accordance with their own experience compared with other employers in the same classification. This served as a major incentive to safety-conscious employers to actively participate in the program to reduce accidents and claim costs. Simultaneously there emerged throughout Nevada numerous intraindustry and intraplant safety groups with their objectives to reduce on-the-job accidents and screen claims with the mission of reducing medical costs.

So effective was the support from employers and labor groups in the statewide safety program, the Commission has been able to reduce rates each of the past 6 years despite the fact that compensation benefits, pensions, and medical costs have increased consistently with the nation's rising cost of living.

Dividend Plan

Another program which has encouraged employers to promote safety is the dividend plan instituted by the NIC in 1961. This program provides for refunds to employers with good experience rating based on the immediate past year's record. With the use of financial leverage and closer projections on the cash flow, the Commission has been able to increase its interest income nearly threefold in the past 7 years, and this money is used primarily to reward employers with good experience records.

Administrative

To meet the work-injury needs of the nation's fastest growing state and provide increased service together with personal attention to individual claims, the Commission found it necessary to streamline many administrative procedures. Staff studies have been instituted in all departments and are most effective in the claims department where contested cases, medical problems, and other matters requiring Commission attention are analyzed by the examiner on a problem-solution report.

The Commission administratively has intensified its investigation—both in the audit and claims departments. This has proven effective in reducing fraudulent claims and providing the Commission with evidence in some matters which develop into litigation.

Litigation

The NIC has made progress in reducing litigation. In 1958, 20 cases had been litigated or were on the court dockets. In fiscal 1966, only six claims required legal interpretation. This shows that by administrative procedures—formal hearings and medical investigation—the Nevada Industrial Commission has made strides in the problem of litigation often referred to as the “bug-a-boo” of workmen's compensation.

Rehabilitation

The Commission has met the challenge of rehabilitation. This new phase of workmen's compensation is designed to return the injured workman to the labor market as soon as possible and, in many cases, train him for a position requiring less physical exertion. The objective is to reduce the possibility of re-injury or aggravation of a pre-existing condition. In 1965 the NIC was successful in obtaining legislative approval for a cooperative agreement with the State-Federal Rehabilitation Department whereby the two departments will be able to rehabilitate the industrially sick and injured during the period of convalescence without duplication of efforts and costs. Under this program, there will be no additional expense to the workmen's compensation phase, but the agreement will enable the NIC to pay compensation on a temporary total basis and provide medical benefits as authorized by law, while simultaneously VRD is retraining the individual for a different occupation.

New Medical Fees

In 1966 the NIC realized the need to completely revamp its Medical Fee Schedule. It was apparent that over the past years great changes had been made in techniques and methods of treatment which could not have been foreseen when the Industrial Commission's last fee schedule was promulgated in 1959. Thus, the Commission adopted the Relative Values Studies with modifications which provides a most practical approach as it offers an equitable basis for fees and will facilitate future changes.

Safety

Safety codes were revised and updated during a series of labor-management meetings. Final adoption was made by the Commission effective July 1, 1964.

Benefits

The industrially sick and injured have received benefit increases at every regular session and the 1966 special session of the Legislature. This has enabled Nevada's disabled workmen to receive compensation raises consistent with the rising cost of living. Today Nevada ranks among the top seven states in most benefits paid for work injuries.

Future Plans

The NIC will further its efforts to meet the challenge of rehabilitation; it has pledged itself to reduce the number of litigated cases; and it will seek new means of providing better service to both employers and the industrially sick and injured.

Respectfully submitted,

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

BIENNIAL SUMMARY**EMPLOYER ACCOUNTS**

	1965	1966
Earned premium.....	\$9,422,673.00	\$9,039,804.00
Bad debt writeoff.....	12,742.28	8,971.39
Rebate paid.....	871,928.04	1,204,357.32
Accounts registered.....	11,316	11,615
Accounts opened and reopened.....	2,345	2,447
Accounts closed.....	1,848	2,138
Other miscellaneous change policies.....	2,985	4,082
Out-of-state certificates registered.....	1,414	1,549
Employers with NIC and out-of-state coverage.....	531	632
Outgoing mail processed.....	125,072	123,384

FIELD AUDIT

	1965	1966
Audits completed.....	8,207	7,759
Net premium pickup.....	\$296,578.48	\$190,327.36
Average pickup per audit.....	36.13	24.53
Miscellaneous assignments.....	283	216
Assignments for employer accounts.....	1,144	1,422
Field representative contacts.....	1,165	1,167

SAFETY DEPARTMENT

	1965	1966
Inspections completed.....	15,276	23,104
Recommendations made.....	7,424	10,310

CLAIMS LITIGATION

Cases Filed—		
1965 cases filed.....		10
1966 cases filed.....		6
Cases Disposed of—		
Settled and dismissed (for NIC, 8; against NIC, 3).....	11	
Abandoned by claimant.....	1	
Dismissed (won by NIC).....	1	
Disallowed (won by NIC).....	1	
Tried and judgment against NIC.....	2	
Cases disposed of, 1965–1966.....		16
Supreme Court Appeal (1965–1966 won by NIC).....		1
Cases Pending—		
Tried, decision pending.....	2	
Pre-trial had and set for trial.....	7	
Referred for further administrative procedure.....	2	
Settled or abandoned.....	3	
Issues joined, pending further action.....	8	
Cases pending 1965–1966.....		22
Referrals to Vocational Rehabilitation Division—		
Total cases referred.....	266	239
Workmen successfully rehabilitated.....	31	32

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.....	15,804	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
1965.....	24,310	9,422,673
1966.....	23,169	9,039,804

*The Occupational Diseases Act 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 1965

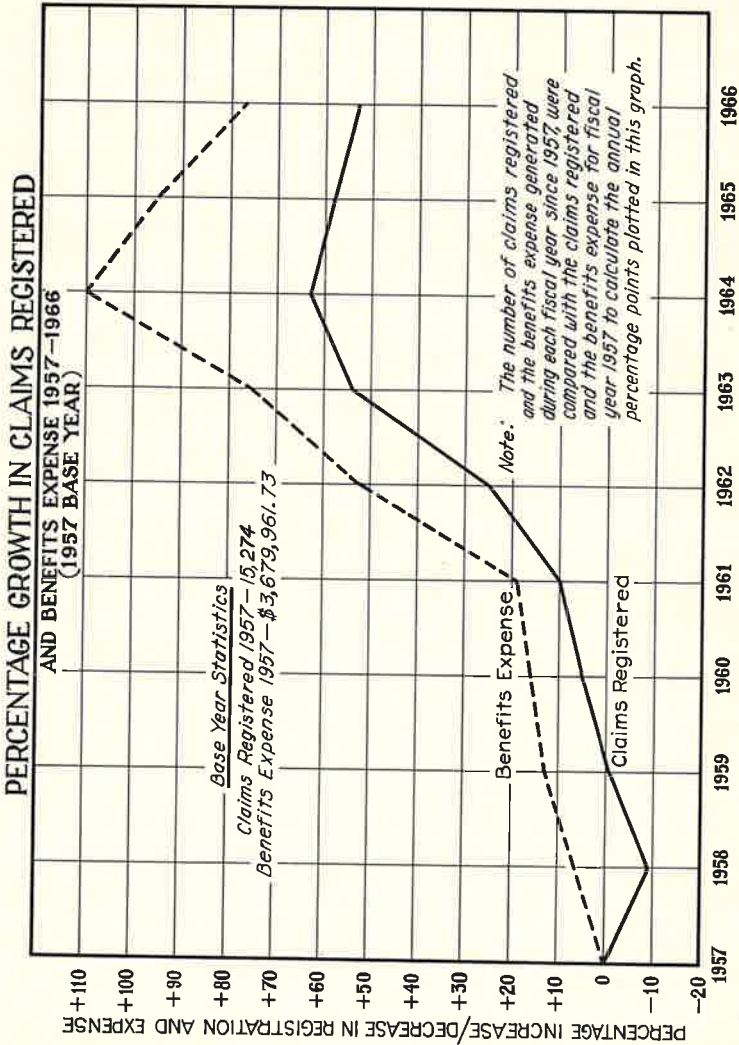
	Carson City	Las Vegas
July 1964.....	940	972
August 1964.....	1,126	1,101
September 1964.....	1,181	837
October 1964.....	1,101	1,116
November 1964.....	988	865
December 1964.....	993	1,082
January 1965.....	897	891
February 1965.....	974	897
March 1965.....	1,059	1,157
April 1965.....	974	948
May 1965.....	929	872
June 1965.....	1,199	1,211
	12,361	11,949

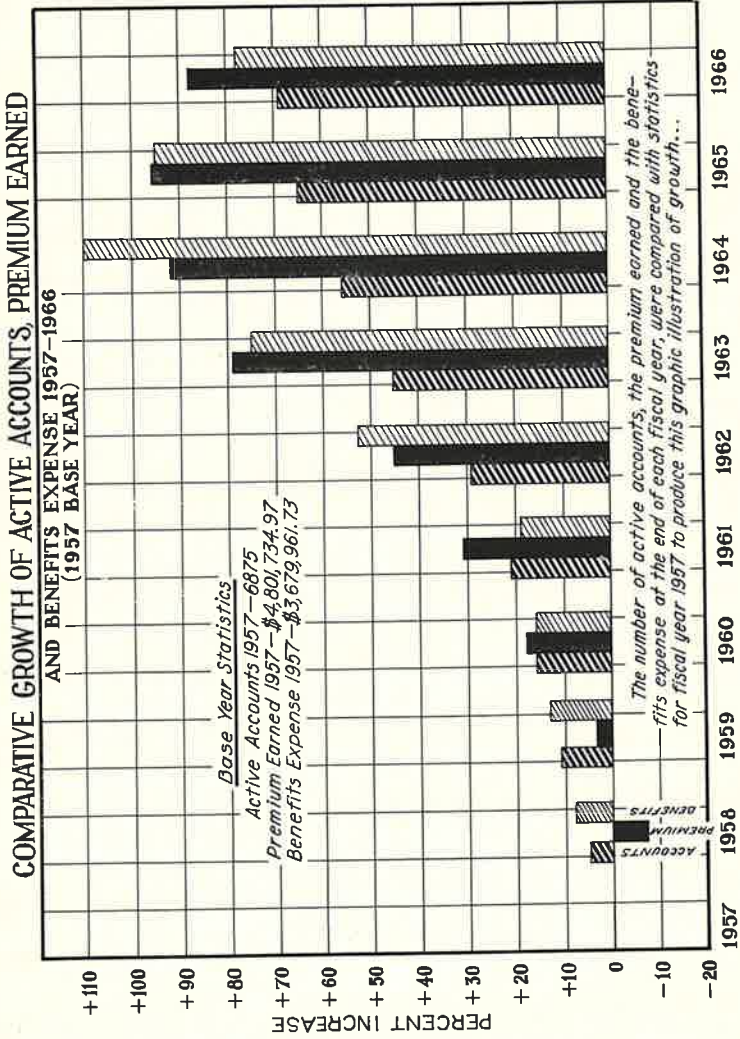
Grand total..... 24,310

CLAIMS ESTABLISHED FOR FISCAL YEAR 1966

	Carson City	Las Vegas
July 1965.....	1,022	903
August 1965.....	1,240	846
September 1965.....	1,185	874
October 1965.....	1,002	1,037
November 1965.....	960	912
December 1965.....	894	884
January 1966.....	921	943
February 1966.....	900	899
March 1966.....	952	993
April 1966.....	926	877
May 1966.....	1,054	937
June 1966.....	1,075	933
	12,131	11,038

Grand total..... 23,169





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

November 1, 1965

NEVADA INDUSTRIAL COMMISSION
CARSON CITY, NEVADA

GENTLEMEN: We have examined the statement of financial condition of the Nevada Industrial Commission at June 30, 1965, and the statement of operations, analysis of surplus, statement of receipts and disbursements, and their related schedules for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests and analyses of the records as we deemed necessary in the circumstances. We did not, however, examine benefits reserves in detail but confined our examination to the reasonableness of such reserves taken as a whole.

In our opinion, the financial statements described above present fairly the financial condition of the Nevada Industrial Commission at June 30, 1965, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applicable in the circumstances, applied on a basis consistent with that of the preceding year.

KAFOURY, ARMSTRONG AND BERNARD
Certified Public Accountants

COMMENTS ON FINANCIAL STATEMENTS

EXHIBIT A—STATEMENT OF FINANCIAL CONDITION

Cash on Hand and on Deposit—\$225,778.03 (Schedule No. 1)

Cash on deposit with the State Treasurer of Nevada and with the First National Bank of Nevada was verified by direct correspondence with the depositories and reconciled 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 on deposit with the State Treasurer of Nevada \$260,000 par value United States Treasury Bonds, 3¾ percent, due August 15, 1968, as security for the Commission's commercial deposit with the bank's Carson City branch.

Earned Premiums Due—\$1,294,032.75

Analyzed below are the industrial insurance premiums earned by the Commission but not received as of June 30, 1965:

Unreported premiums, 1965 fiscal year (estimated).....	\$1,219,236.28
Unreported premiums, prior fiscal years (estimated).....	14,000.00
Premiums reported but unpaid.....	60,796.47
Total.....	<u><u>\$1,294,032.75</u></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.

Accounts Receivable—\$431.90

Miscellaneous accounts receivable of \$431.90 represents returned checks held by the Commission at June 30, 1965. A review of this account indicated that the Commission has maintained a proper system of control over these returns.

Accrued and Matured Interest Receivable—\$273,973.78

At June 30, 1965, the Commission's investments had current earned interest accrued of \$255,723.78. Additional accrued interest of \$27,640.35 on the Overton Water District General Obligation Bonds, Series of February 1, 1960, at June 30, 1965, is being reported under the Other Asset section of this report. A more detailed description of that issue is outlined later in this report.

Matured interest receivable in the amount of \$18,250 represents interest coupons which had matured on or before June 30, 1965, but had not been redeemed at the close of the year.

All other interest collectible during the year was received by the Commission.

Investments—\$23,552,973.07

The investment portfolio at June 30, 1965, consisted of bonds, notes, and insured mortgages with a book value aggregating \$23,552,973.07. All investments are stated at cost adjusted by applicable amortization of premium or discount and are presented in detail in Schedules Nos. 2, 3, and 4. These securities were held for the account of the Commission by the following agents:

	Book value of bonds held at June 30, 1965	Percent
State Treasurer of Nevada (par value \$5,890,000).....	\$5,899,128.61	25.05
Trust Department, First National Bank of Nevada (par value \$15,658,000).....	15,734,889.07	66.80
Real Estate Loan Service Center, Bank of America, Pasadena, California (par value \$885,097.13).....	901,621.95	3.83
Community Funding Corporation, Jamaica, New York (par value \$1,003,195.19).....	1,017,333.44	4.32
Totals.....	<u>\$23,552,973.07</u>	<u>100.00</u>

We confirmed the bonds and matured interest coupons held by the State Treasurer of Nevada by examination of the various securities held by that office. Securities held by the First National Bank of Nevada, the Bank of America, and the Community Funding Corporation as custodians were confirmed by direct correspondence with those agencies and were reconciled to the records of the Commission.

All bonds maturing during the year were collected except the \$6,000 February 1, 1965, maturity of the Overton Water District General Obligation Bond. However, the District did redeem the \$6,000 February 1, 1964, maturity of that bond. The matured Overton bonds bear interest at 6 percent from the date they become delinquent.

In accordance with the plan of payment as agreed upon between the Overton Water District and the Nevada Industrial Commission on January 1, 1964, all current interest payments due on the Water District's \$160,000 February 1, 1960, issue were paid by the District to the Commission. The accrued interest on this issue was \$27,640.35 at June 30, 1965, compared with \$27,752.85 at the close of the prior fiscal year.

The Commission received full payment of the balance of the note receivable arising from the sale of its former Carson City offices.

It is the Commission's continuing policy that no investments be made in either common or preferred stock.

Fixed Assets—\$856,171.94

Office facilities at Carson City and Las Vegas at an aggregate cost of \$985,861.10 are being amortized against rental income over a 40-year period. The book value of these facilities at June 30, 1965, is analyzed below:

	Carson City	Las Vegas	Total
Total cost.....	\$798,752.12	\$187,108.98	\$985,861.10
Accumulated amortization.....	115,076.18	14,614.98	129,691.16
Book value.....	<u>\$683,675.94</u>	<u>\$172,494.00</u>	<u>\$856,169.94</u>

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

The Commission's fixed asset record, as maintained by the data processing department, was tested during our examination and was found to be in substantial agreement with those maintained by the various department supervisors and with the assets actually on hand.

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—\$28,065.35

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. On April 23, 1965, the Commission adopted a "status quo" policy with regard to this issue. This policy requires that the Water District must continue to pay the current interest and redeem one matured bond each year. No demand for payment of the delinquent matured bond or interest is contemplated until the District's financial position improves, although the Commission reserves the right to make such demand as circumstances may require.

No provision has been made for prepaid premiums on insurance policies in effect at June 30, 1965, in conformity with the established practice of the Commission.

Current Liabilities—\$1,290,638.63

Cash advance premium deposits held by the Commission totaled \$1,237,957.03. Surety bonds totaling \$1,955,400 had been posted and

\$74,500 in negotiable securities had been pledged to the Commission in lieu of the usual cash deposit in accordance with the provisions of NRS 616.395-3.

We reviewed the cash deposits and surety bonds posted by examining employer account records selected by a random sample of account balances at year end. We did not verify these records by direct correspondence with contributors. Pledged securities held in the Commission's vault were examined and compared with the records of the employer accounts department. The subsidiary record for advance deposits was found to be in agreement with that of the general ledger subsidiary control.

Unpaid operating expenses of \$18,277.42 were verified by examination of vendors' invoices and the subsequent payment thereof.

United States savings bond deductions withheld from employees' payroll totaled \$148.75 at year end.

Accrued employees' payroll of \$32,526.42 and accrued employees' retirement of \$1,729.01 represent costs of salaries and wages earned but not paid at June 30, 1965.

Reserves—\$14,988,659.98

The following reserves have been adopted by the Commission as of June 30, 1965:

For pending claims.....	\$4,084,438.51
For pensions.....	7,612,249.50
For reopened claims.....	200,000.00
For catastrophe.....	1,500,000.00
For fluctuation in value of investments.....	588,825.00
For stabilization of rates.....	1,000,000.00
Total.....	<u>\$14,985,513.01</u>

In addition to the above reserves, the reserve for major repairs was \$3,146.97 at year end. This reserve is discussed in greater detail later in this report.

Pending claims reserves, together with the reserves for pensions, have been set up to recognize the Commission's estimated remaining liability for claims arising prior to June 30, 1965, and not closed at that time. Individual reserves for pending claims were calculated by the Commission's staff and the total thereof was reviewed by us for reasonableness. Our examination included a comparative analysis of projected reserves with prior years' benefits experience and with known costs experienced through September 30, 1965. We believe that these reserves are reasonably stated. Pension reserves were calculated by the Commission's staff on an established mortality table basis. Included in the reserve for pensions is \$7,394.50 in respect to the silicosis benefits pool established by NRS 617, Sections 2, 3(a).

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

In accordance with Commission approval on January 6, 1965, the Catastrophe Reserve was increased by \$500,000 to a total of \$1,500,000 at June 30, 1965. The increase was provided for in equal amounts from the State Insurance Fund and the Accident Benefit Fund. 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 reserves for fluctuation in value of investments and the current investment portfolios of each fund, these reserves have been revalued at June 30, 1965, at 2½ percent of the book value of the securities held by each fund.

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

Surplus—\$9,952,128.21

Presented below is a comparison of the Commission's unappropriated or free surplus balances at June 30, 1965, and June 30, 1964:

	June 30, 1965	June 30, 1964	Increase or (decrease)
State Insurance Fund.....	\$6,068,638.35	\$5,263,575.35	\$805,063.00
Accident Benefit Fund.....	3,015,366.57	2,368,534.48	646,832.09
Occupational Diseases Fund.....	868,123.29	882,742.21	(14,618.92)
Totals.....	<u>\$9,952,128.21</u>	<u>\$8,514,852.04</u>	<u>\$1,437,276.17</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

Net income from operations for the year of \$1,865,544.82 represents an increase of \$618,181.95 over that experienced in fiscal year 1964. Presented below is a brief comparison of the operations of the current year with those of the prior year:

	—YEAR ENDED JUNE 30—		Increase or (decrease)
	1965	1964	
Premiums earned.....	\$9,422,673	\$9,212,803	\$209,870
Benefits expense.....	7,194,507	7,752,567	(558,060)
Excess of premiums.....	\$2,228,166	\$1,460,236	\$767,930
Administrative and safety expenses.....	1,075,343	1,036,905	38,438
Underwriting gain.....	\$1,152,823	\$423,331	\$729,492
Other income and expense (net).....	712,722	824,032	(111,310)
Excess of income over expense.....	<u>\$1,865,545</u>	<u>\$1,247,363</u>	<u>\$618,182</u>

The decrease in benefits expense observed above, \$558,060, is directly attributable to a more realistic approach to reserving for pending claims. As indicated by the substantial salvage credited to surplus during the last 2 years, pending claims reserves had been too often based on a policy of providing for all contingencies in each claim reserve. Such a policy necessarily overstates reserves, resulting in understated current income and excessive salvage of prior years' reserves.

We believe the current policy, which provides for reasonable reserves based on the experience of the average claim of a given type, will permit a more accurate measurement of the Commission's current operations.

In an effort to improve the return on certain portions of the portfolio, \$2,800,000 par value 2½ percent government bonds were sold during the year. The funds thus provided were invested in higher income issues, notably V.A. guaranteed Vender Mortgages and 4¼ percent government bonds. The sale resulted in a recognized loss of \$202,412.71. However, the Commission's investment counsel has projected that the income

that will be earned on the new issues through the original maturity date of the bonds sold will offset this loss and provide a greater return than that which would otherwise have been realized.

The above described transaction led to a net decrease in other income and expense in the amount of \$111,310 from that of fiscal year 1964.

Schedule No. 7 presents a detailed description of the Commission's net investment income for the year under review.

Rental income, as detailed in Schedule No. 8, was \$3,308.01. The Carson City offices produced a net rental income of \$6,704.63, while the Las Vegas office experienced a loss of \$3,396.62. In view of these results, we again recommend that the Commission consider a rental rate increase for the Las Vegas office in order to comply with the Commission's intent that a reasonable rate of return on the building assets be realized by the State Insurance Fund. 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 Funds as well, a rental charge based upon rates comparable to those charged to other lessees is paid by the Commission to itself. This procedure permits the accurate measurement of the building operations, while insuring a provision of funds adequate to recapture through amortization the State Insurance Fund's investment in these facilities.

Provision for major building repairs has been made in a manner consistent with that of the prior years. Briefly, this calls for uniform annual charges to building operations which are used to establish a reserve for major repairs. Subsequent building repairs and maintenance charges of a material amount are then charged against this reserve rather than against the current year operations in which the repair was actually made. Analyzed below is the status of this reserve at June 30, 1965:

Provisions for years prior to 1965.....	\$26,250.00
Net charges to reserves prior to 1965 (roof and heating and air conditioning repairs, Carson City).....	24,864.24
Reserve balance, July 1, 1964.....	\$1,385.76
Add: Provisions for 1965 fiscal year.....	6,000.00
	<u>\$7,385.76</u>
Less: Net charges for heating and air conditioning repairs during fiscal year 1965, Carson City.....	4,238.79
Reserve balance, June 30, 1965.....	<u>\$3,146.97</u>

The Commission has followed the practice of using the current 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 1966 fiscal year:

	Full coverage (percent)	Ex-medical (percent)
State Insurance Fund.....	51	94
Accident Benefit Fund.....	47	....
Occupational Diseases Fund.....	2	6
Totals.....	<u>100</u>	<u>100</u>

Schedule No. 5 presents in detail the various costs comprising the Commission's net administrative and safety expenses for fiscal year 1965. Below is a brief comparison of these expenses with those of the prior year:

	YEAR ENDED JUNE 30		Increase or (decrease)
	1965	1964	
Administrative expense.....	\$917,449.68	\$893,137.84	\$24,311.84
Safety expense.....	157,892.97	143,767.59	14,125.38
Totals.....	<u>\$1,075,342.65</u>	<u>\$1,036,905.43</u>	<u>\$38,437.22</u>

Although the Commission does not operate under the budgetary limitations of appropriation agencies, an annual budget is prepared as a guide for the operations of the year. The Commission's administrative and safety budget for the year under review contemplated expenses of \$1,119,389. Actual expenses of \$1,104,697 (before credits for administrative reimbursements) were \$14,692 less than estimated.

EXHIBIT C—ANALYSIS OF EARNED SURPLUS

The year's changes in the unappropriated surplus accounts of the various funds are presented in detail in Exhibit C. The net adjustments for pending claims and pensions for 1964 and prior again were a major factor in the increase in surplus, contributing \$1,042,700.49 of the net increase.

Net premium rebates paid of \$870,750.64 represent a return of premiums collected for the 1964 fiscal year.

During the year, the Commission authorized charges to surplus to effect an increase in the Catastrophe Reserve of \$500,000.

EXHIBIT D—STATEMENT OF RECEIPTS AND DISBURSEMENTS

Receipts for the year exceeded disbursements by \$1,578,798.20. Presented below is a summary by funds of this increase:

State Insurance Fund.....	\$972,024.21
Accident Benefit Fund.....	503,573.92
Occupational Diseases Fund.....	103,200.07
Total increase.....	<u>\$1,578,798.20</u>

We made extensive tests of checks issued by the Commission during the year and reviewed invoices and other evidences in support thereof. Controls over check writing equipment and procedures controlling check signatures were reviewed in detail by our staff and found to be satisfactory. Surety bond coverage on employees authorized to sign checks or use check signing machines was found to be adequate.

Supporting documents for all transactions affecting the Commission's investments were examined and found to substantiate the adjustments to the investment portfolio. Authority for material administrative transactions was traced to the Commission's official minutes. No material disbursements contrary to the regulations of the Nevada State Purchasing Department were noted in our examination.

GENERAL COMMENTS

1. A review and evaluation of the Commission's system of internal control was performed by our staff and, in our opinion, 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. During the year the Commission again experienced a substantial salvage from prior years' benefits reserves. A net surplus credit of \$1,042,700 resulted from this source. It was due to this salvage, as well as that of \$955,273 experienced during fiscal year 1964, that the philosophy applied to evaluate the reserves for pending claims was reexamined and modified this year. Although conservative reserving practices are indicated in the management of any insurance fund, such practices cannot be so conservative as to consistently distort current operating results. For it is only through analysis of underwriting gain or loss that the Commission can formulate a premium policy which will result in the objective set forth in NRS 616.380-3, which states:

"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 be reasonably expected."

In view of the operating results of the year and the reserve salvage experienced, we would again encourage the Commission to consider declaring a substantial premium rebate for the 1965 fiscal year.

4. As was noted earlier in this report, the Commission authorized an increase of \$500,000 to the Catastrophe Reserve, bringing it to a total of \$1,500,000. This reserve is maintained in lieu of reinsurance to provide for exceptional losses in multiple injury calamities. As the Commission's exposure increases, it will continue to be prudent to make periodic additions to this reserve.

5. The Nevada Industrial Insurance Acts have, for some time, contained certain ambiguities in respect to the use of the term "State Insurance Fund." In some sections, the term referred to the composite activities of the Commission as a whole (NRS 616.200). Conversely, the same words have been used to denote that fund responsible for the payment of compensation (other than that arising out of occupational diseases). This conflict was partially resolved by the enactment of S.B. 77 in early 1965. By this legislation, a Compensation Payment Fund was established "for the transaction of the ordinary business and functions of the commission, including compensation."

Unfortunately, this legislation also uses "Compensation Payment Fund" to describe the moneys held by the State Treasurer against which all Commission checks or warrants are to be drawn.

We believe that the moneys held or to be held by the State Treasurer should best be designated as a part of the State Insurance Fund—in the composite sense—since such moneys by their nature are attributable to all three funds of the Commission, the Compensation Payment Fund, the Accident Benefit Fund, and the Occupational Diseases Fund. The moneys held by the State Treasurer do not in themselves constitute a fund, but rather a pooling of the greater part of the cash of three separate and distinct funds.

We recommend that the term "Compensation Payment Fund" be limited in its meaning to the fund from which nonoccupational diseases compensation is to be paid and that appropriate amendatory legislation be encouraged to effect this limitation.

The term "State Insurance Fund" has been used throughout this report and in the Commission's financial statements in the sense of the Compensation Payment Fund, consistent with the terminology employed in prior years. In the future, the new statutory designation of "Compensation Payment Fund" will be employed to describe this particular activity of the Commission.

Respectfully submitted,

KAFOURY, ARMSTRONG AND BERNARD
Certified Public Accountants

EXHIBIT A
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF FINANCIAL CONDITION, JUNE 30, 1965

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
ASSETS				
CURRENT ASSETS—				
Cash on hand and on deposit (Schedule No. 1)	\$56,536.70	\$100,220.77	\$69,020.56	\$225,778.03
Earned Premiums Receivable—				
Reported but unpaid	32,055.65	26,813.41	1,927.41	60,796.47
Estimated unreported (current year)	638,925.17	541,925.66	38,385.45	1,219,236.28
Estimated unreported (prior years)	7,140.00	6,440.00	420.00	14,000.00
Accounts receivable (miscellaneous)	431.90			431.90
Accrued interest receivable (current)	192,913.47	49,617.61	13,192.70	255,723.78
Matured interest receivable	14,750.00	3,500.00		18,250.00
Total current assets	<u>\$942,752.89</u>	<u>\$728,517.45</u>	<u>\$122,946.12</u>	<u>\$1,794,216.46</u>
INVESTMENTS—				
Bonds owned (Schedules Nos. 2, 3, and 4)	\$17,711,462.29	\$4,538,400.02	\$1,303,110.76	\$23,552,973.07
FIXED ASSETS—				
Land and Buildings (at cost less amortization)—				
Carson City	\$683,675.94			\$683,675.94
Las Vegas	172,494.00			172,494.00
Furniture and equipment	1.00			1.00
Automobiles	1.00			1.00
Total fixed assets	<u>\$856,171.94</u>			<u>\$856,171.94</u>
OTHER ASSETS—				
Deposit (service)	\$425.00	\$27,640.35		\$425.00
Accrued interest receivable (other)	\$425.00	\$27,640.35		\$28,065.35
Total other assets	<u>\$19,510,812.12</u>	<u>\$5,294,557.82</u>	<u>\$1,426,056.88</u>	<u>\$26,231,426.82</u>

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.....	\$1,237,957.03			\$1,237,957.03
Accounts payable.....	9,637.69	\$8,060.34	\$579.39	18,277.42
Savings bond deduction (employees).....	148.75			148.75
Accrued payroll.....	17,151.18	14,344.15	1,031.09	32,526.42
Accrued employees' retirement.....	911.71	762.49	54.81	1,729.01
Total current liabilities.....	<u>\$1,265,806.36</u>	<u>\$23,166.98</u>	<u>\$1,665.29</u>	<u>\$1,290,638.63</u>
RESERVES—				
For pending claims.....	\$2,641,374.44	\$1,412,564.27	\$30,499.80	\$4,084,438.51
For pensions.....	7,109,059.00		413,190.30	7,612,249.50
For reopened claims.....	1,110,000.00		10,000.00	1,200,000.00
For catastrophe.....	1,250,000.00	80,000.00		1,500,000.00
For fluctuation in value of investments.....	442,787.00	230,000.00		688,787.00
For stabilization of rates.....	530,000.00	113,460.00	32,578.00	688,825.00
For major repairs (buildings).....	3,146.97	400,000.00	70,000.00	1,000,000.00
Total reserves.....	<u>\$12,176,367.41</u>	<u>\$2,256,024.27</u>	<u>\$556,268.30</u>	<u>\$14,988,659.98</u>
Surplus (Exhibit C).....	\$6,068,638.35	\$3,015,366.57	\$868,123.29	\$9,952,128.21
Total liabilities, reserves, and surplus.....	<u>\$19,510,812.12</u>	<u>\$5,294,537.82</u>	<u>\$1,426,056.88</u>	<u>\$26,231,426.82</u>

EXHIBIT B
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF OPERATIONS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1965

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
EARNED PREMIUMS—				
Reported.....	\$4,329,391.83	\$3,613,944.34	\$260,100.55	\$8,203,436.72
Estimated additional.....	638,925.17	\$41,925.66	38,385.45	1,219,236.28
Total earned premiums.....	\$4,968,317.00	\$4,155,870.00	\$298,486.00	\$9,422,673.00
BENEFITS EXPENSES—				
Benefits paid (net).....	\$1,465,856.49	\$2,114,642.35	\$31,894.91	\$3,612,393.75
Estimated pending claims.....	1,864,496.44	1,124,610.27	21,069.80	3,010,176.51
Pensions paid.....	26,386.40	1,396.75	1,396.75	27,783.15
Pensions awarded and unawarded.....	530,631.00	.....	13,523.00	544,154.00
Total benefits expenses.....	\$3,887,370.33	\$3,239,252.62	\$67,884.46	\$7,194,507.41
Excess of earned premiums over benefits expenses.....	\$1,080,946.67	\$916,617.38	\$230,601.54	\$2,228,165.59
OPERATING EXPENSES (Net)—(Schedule No. 5)—				
Administrative.....	\$483,771.22	\$404,595.31	\$29,083.15	\$917,449.68
Safety.....	83,256.96	69,630.80	5,005.21	157,892.97
Total operating expenses.....	\$567,028.18	\$474,226.11	\$34,088.36	\$1,075,342.65
Operating profit or (loss).....	\$513,918.49	\$442,391.27	\$196,513.18	\$1,152,822.94
OTHER INCOME—				
Investment income (net)—(Schedule No. 7).....	\$493,124.32	\$186,943.94	\$38,262.04	\$718,330.30
Rental income (net)—(Schedule No. 8).....	3,308.01	.....	3,308.01	3,308.01
Miscellaneous nonoperating income (Schedule No. 6).....	2,017.37	1,687.20	.....	3,825.85
Total other income.....	\$498,449.70	\$188,631.14	\$38,383.32	\$725,464.16
OTHER EXPENSES—				
Bad debts.....	\$1,012,368.19	\$631,022.41	\$234,896.50	\$1,878,287.10
Excess of income over expenses.....	\$6,719.00	\$5,619.35	\$403.93	\$12,742.28
	\$1,005,649.19	\$625,403.06	\$234,492.57	\$1,865,544.82

EXHIBIT C
NEVADA INDUSTRIAL COMMISSION
ANALYSIS OF SURPLUS BY FUNDS, JUNE 30, 1965

	<i>State Insurance Fund</i>	<i>Accident Benefit Fund</i>	<i>Occupational Diseases Fund</i>	<i>Total</i>
Balance, July 1, 1964.....	\$5,263,575.35	\$2,368,534.48	\$882,742.21	\$8,514,852.04
ADDITIONS—				
Adjustment of reserves for pending claims for years 1964 and prior.....	\$870,165.42	\$666,040.87	\$42,017.01	\$1,578,223.30
Adjustment for underestimate of prior year premiums.....	16,006.91	21,508.13	1,150.44	38,665.48
Adjustment for 1963 premium rebates.....	1,637.54	1,328.57	123.59	3,089.70
Excess of income over expense (Exhibit B).....	1,005,649.19	625,403.06	234,492.57	1,865,544.82
Total additions.....	\$1,893,459.06	\$1,314,280.63	\$277,783.61	\$3,485,523.30
DEDUCTIONS—				
Premium rebates.....	\$463,135.38	\$375,751.35	\$34,953.61	\$873,840.34
Adjustment of pension reserves for years 1964 and prior.....	285,611.94	249,910.87	535,522.81	93,962.33
Adjustment of reserves for reopened claims.....	62,602.39	31,324.94	35.00	44,693.00
Adjustment of reserves for fluctuations in value of investments.....	26,924.00	10,275.00	7,494.00	500,000.00
Adjustment of catastrophe reserves.....	250,000.00	250,000.00	.....	228.65
Reinstatement of absorbed advance deposits.....	122.35	97.25	9.05	.....
Total Deductions.....	\$1,088,396.06	\$667,448.54	\$292,402.53	\$2,048,247.13
Balance, June 30, 1965.....	\$6,068,638.35	\$3,015,366.57	\$868,123.29	\$9,952,128.21

EXHIBIT D
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF RECEIPTS AND DISBURSEMENTS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1965

	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
RECEIPTS—				
Premiums earned and collected.....	\$4,993,121.00	\$4,119,036.88	\$310,807.81	\$9,422,965.69
Interest (less interest purchased and net charge for amortization of bond premium and discount).....	670,580.07	184,438.76	42,571.03	897,589.86
Building rentals.....	96,456.59			96,456.59
Payments reserved on sale of property.....	31,788.57			31,788.57
Miscellaneous receipts.....	17,495.79	14,632.36	1,051.80	33,179.95
Total receipts.....	\$5,809,442.02	\$4,318,108.00	\$354,430.64	\$10,481,980.66
DISBURSEMENTS—				
Benefits paid.....	\$3,517,934.80	\$2,953,575.42	\$175,499.49	\$6,647,009.71
Administrative and safety expenses.....	582,439.31	480,116.93	35,324.90	1,097,881.14
Investment advisory and custodian expenses.....	9,575.03	2,465.46	707.51	12,748.00
Building expenses (ordinary).....	61,436.38			61,436.38
Building expenses (major repairs)—(net).....	4,238.79			4,238.79
Repairs paid.....	462,121.86	374,929.06	34,877.12	871,928.04
Advance premium deposits.....	5,299.04	97.25	9.05	5,299.04
Reinstatement of absorbed advance deposits.....	122.35	3,949.96	4,812.50	228.65
Loss on sale of bonds.....	194,250.25			194,250.25
Total disbursements.....	\$4,837,417.81	\$3,814,534.08	\$251,230.57	\$8,903,182.46
Excess of receipts over disbursements.....	\$972,024.21	\$503,573.92	\$103,200.07	\$1,578,798.20
Balance in funds, July 1, 1964.....	16,795,974.78	4,135,046.87	1,268,931.25	22,199,952.90
Balance in funds, June 30, 1965.....	\$17,767,998.99	\$4,638,620.79	\$1,372,131.32	\$23,778,751.10
REPRESENTED BY—				
Cash (Schedule No. 1).....	\$56,536.70	\$100,220.77	\$69,020.56	\$225,778.03
Bonds owned, stated at cost less amortized premium and discount (Schedules Nos. 2, 3, and 4).....	17,711,462.29	4,538,400.02	1,303,110.76	23,552,973.07
Totals.....	\$17,767,998.99	\$4,638,620.79	\$1,372,131.32	\$23,778,751.10

SCHEDULE NO. 1
NEVADA INDUSTRIAL COMMISSION
CASH ON HAND AND ON DEPOSIT JUNE 30, 1965

CASH ON HAND AND ON DEPOSIT—		
State Treasurer of Nevada.....		\$79,608.21
First National Bank of Nevada—		
Carson City Branch (general account).....	\$107,515.07	
Reno Main Office (custodian account).....	38,304.75	
	<hr/>	145,819.82
Petty Cash Funds—		
Carson City office.....	\$100.00	
Reno office.....	50.00	
Las Vegas office.....	200.00	
	<hr/>	350.00
Total cash on hand and on deposit.....		<u>\$225,778.03</u>
ALLOCATED TO FOLLOWING FUNDS—		
State insurance fund.....	\$56,536.70	
Accident benefit fund.....	100,220.77	
Occupational diseases fund.....	69,020.56	
	<hr/>	<u>\$225,778.03</u>
BONDS PLEDGED TO SECURE DEPOSIT—		
In First National Bank of Nevada,		
Carson City Branch—		
U.S. Treasury Bonds, 3 3/4 percent, August 15, 1968.....		\$260,000.00

SCHEDULE NO. 5
NEVADA INDUSTRIAL COMMISSION
SAFETY AND ADMINISTRATIVE EXPENSES FOR THE
YEAR ENDED JUNE 30, 1965

	<i>Safety expense*</i>	<i>Administrative expense*</i>	<i>Total</i>
SALARIES—			
Commissioners.....	\$39,735.68	\$39,735.68	\$39,735.68
Attorneys and physicians.....	57,875.92	57,875.92	57,875.92
Field audit department.....	111,804.40	111,804.40	111,804.40
Claims department.....	164,751.42	164,751.42	164,751.42
Safety department.....	\$100,481.28	100,481.28	100,481.28
Employer accounts department.....	80,672.48	80,672.48	80,672.48
Statistical department.....	59,245.38	59,245.38	59,245.38
All others.....	111,310.45	111,310.45	111,310.45
Total salaries.....	<hr/> \$100,481.28	<hr/> \$625,395.73	<hr/> \$725,877.01
TRANSPORTATION—			
Commissioners.....	\$6,523.36	\$6,523.36	\$6,523.36
Field auditors.....	8,767.01	8,767.01	8,767.01
Claims investigators.....	3,929.08	3,929.08	3,929.08
Safety inspectors.....	\$12,389.37	12,389.37	12,389.37
All others.....	2,371.68	2,371.68	2,371.68
Total transportation.....	<hr/> \$12,389.37	<hr/> \$21,591.13	<hr/> \$33,980.50
HOTEL, MEALS, ETC.—			
Commissioners.....	\$2,843.54	\$2,843.54	\$2,843.54
Field auditors.....	5,640.31	5,640.31	5,640.31
Claims investigators.....	2,068.26	2,068.26	2,068.26
Safety inspectors.....	\$3,755.95	3,755.95	3,755.95
All others.....	2,320.95	2,320.95	2,320.95
Total hotel, meals, etc.....	<hr/> \$3,755.95	<hr/> \$12,873.06	<hr/> \$16,629.01
OFFICE EXPENSES—			
Office rentals and utilities.....	\$8,724.18	\$54,311.82	\$63,036.00
Tenants' building expenses.....	17.81	110.84	128.65
Postage and express.....	2,279.64	14,191.74	16,471.38
Telephone and telegraph.....	2,545.37	18,750.37	21,295.74
Printing and stationery.....	10,136.75	34,261.76	44,398.51
Supplies and other expense.....	2,306.52	14,359.10	16,665.62
Furniture and equipment rentals.....	59,484.94	59,484.94	59,484.94
Total office expenses.....	<hr/> \$26,010.27	<hr/> \$195,470.57	<hr/> \$221,480.84

SCHEDULE NO. 5—Continued

	<i>Safety expense*</i>	<i>Administrative expense*</i>	<i>Total</i>
PERSONNEL COSTS—			
Personnel department costs.....	\$578.37	\$3,932.37	\$4,510.74
Contribution to public employees' retirement fund.....	5,705.36	33,529.38	39,234.74
Industrial insurance.....	542.74	3,391.34	3,934.08
Employee group insurance.....	330.00	2,475.00	2,805.00
Total personnel costs.....	<u>\$7,156.47</u>	<u>\$43,328.09</u>	<u>\$50,484.56</u>
GENERAL EXPENSES—			
Actuarial fees.....		\$6,500.00	\$6,500.00
Audit and other professional accounting services.....	\$2,030.46	12,640.52	14,670.98
Collection costs and fees.....	55.29	344.21	399.50
Rejected claims cost.....		2,385.27	2,385.27
Dues and subscriptions.....	37.00	2,385.78	2,422.78
General insurance.....	690.09	4,296.12	4,986.21
Miscellaneous.....	5,400.15	7,956.60	13,356.75
Total general expenses.....	<u>\$8,212.99</u>	<u>\$36,508.50</u>	<u>\$44,721.49</u>
CAPITAL OUTLAY—			
Office furniture and equipment.....	\$1,189.74	\$6,475.96	\$7,665.70
Automobiles.....		3,857.64	3,857.64
Total capital outlay.....	<u>\$1,189.74</u>	<u>\$10,333.60</u>	<u>\$11,523.34</u>
Gross administrative and safety expense.....	<u>\$159,196.07</u>	<u>\$945,500.68</u>	<u>\$1,104,696.75</u>
LESS: MISCELLANEOUS ADMINISTRATIVE INCOME—			
Delinquency penalties.....		\$27,181.70	\$27,181.70
Miscellaneous administrative reimbursements.....	\$1,303.10	869.30	2,172.40
Total miscellaneous administrative income.....	<u>\$1,303.10</u>	<u>\$28,051.00</u>	<u>\$29,354.10</u>
Net administrative and safety expenses.....	<u>\$157,892.97</u>	<u>\$917,449.68</u>	<u>\$1,075,342.65</u>
ALLOCATED TO**—			
State insurance fund.....	\$83,256.96	\$483,771.22	\$567,028.18
Accident benefit fund.....	69,630.80	404,595.31	474,226.11
Occupational diseases fund.....	5,005.21	29,083.15	34,088.36
Total allocated.....	<u>\$157,892.97</u>	<u>\$917,449.68</u>	<u>\$1,075,342.65</u>

*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 bears to total administrative salaries.

**The total administrative and safety expenses have been allocated to each fund in proportion to the relative premium income for the fiscal year ended June 30, 1965.

**SCHEDULE NO. 6
NEVADA INDUSTRIAL COMMISSION
MISCELLANEOUS NONOPERATING INCOME FOR THE
YEAR ENDED JUNE 30, 1965**

MISCELLANEOUS NONOPERATING INCOME—			
Bad debts recovered.....		\$323.45	
Other nonoperating income.....		35.38	
Advance deposits absorbed for failure to report.....		3,467.02	
Total miscellaneous nonoperating income.....			<u>\$3,825.85</u>
ALLOCATED TO*—			
State insurance fund.....		\$2,017.37	
Accident benefit fund.....		1,687.20	
Occupational diseases fund.....		121.28	
Total allocated.....			<u>\$3,825.85</u>

*The total nonoperating income has been allocated to each fund in proportion to the relative premium income for the fiscal year ended June 30, 1965.

SCHEDULE NO. 7
NEVADA INDUSTRIAL COMMISSION
INVESTMENT INCOME FOR THE YEAR ENDED JUNE 30, 1965

SECURITIES INCOME—					
Interest earned.....					
Less: Premium or (discount) amortized (Schedules 2, 3, and 4).....					
Net bond interest earned.....					
Net loss on sales of bonds.....					
Gross securities income.....					
Less*—					
Custodian fees and costs.....					
Investment advisory fees.....					
Total securities costs.....					
Net income from securities.....					
Interest earned on first trust deed.....					
Net investment income.....					
	State Insurance Fund	Accident Benefit Fund	Occupational Diseases Fund	Total	
	\$708,048.59	\$194,645.35	\$44,714.06	\$947,408.00	
	3,822.02	(19.41)	385.22	4,187.83	
	\$704,226.57	\$194,664.76	\$44,328.84	\$943,220.17	
	(194,250.25)	(3,349.96)	(4,812.50)	(202,412.71)	
	\$509,976.32	\$191,314.80	\$39,516.34	\$740,807.46	
	\$9,491.28	\$2,443.90	\$701.32	\$12,636.50	
	7,483.66	1,926.96	552.98	9,963.60	
	\$16,974.94	\$4,370.86	\$1,254.30	\$22,600.10	
	\$493,001.38	\$186,943.94	\$38,262.04	\$718,207.36	
	122.94	.....	.....	122.94	
	\$493,124.32	\$186,943.94	\$38,262.04	\$718,330.30	

*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.

SCHEDULE NO. 8
NEVADA INDUSTRIAL COMMISSION
RENT AND EXPENSE ACCOUNT (RENTAL INCOME, NET)
FOR THE YEAR ENDED JUNE 30, 1965

	<i>Carson City</i>	<i>Las Vegas</i>	<i>Total</i>
REVENUES—			
Rental income (Nevada Industrial Commission).....	\$38,728.80	\$18,907.20	\$57,636.00
Rental income (other).....	38,814.72	.....	38,814.72
Miscellaneous income.....	5.87	.....	5.87
Total revenues.....	\$77,549.39	\$18,907.20	\$96,456.59
EXPENSES—			
Building superintendence.....	\$7,068.00	.....	\$7,068.00
Janitorial salaries.....	15,998.70	\$9,390.20	25,388.90
Contribution to retirement fund.....	1,309.87	438.94	1,748.81
Industrial insurance.....	125.65	51.56	177.21
Employee group insurance.....	114.00	24.00	138.00
Utilities.....	10,827.67	3,249.47	14,077.14
Insurance.....	974.83	219.68	1,194.51
Repairs and maintenance.....	10,862.79	3,002.44	13,865.23
Building improvements.....	.....	268.60	268.60
Building supplies.....	1,616.85	215.02	1,831.87
Janitorial supplies.....	908.82	345.97	1,254.79
Amortization of property costs.....	19,924.40	4,914.89	24,839.29
Amortization of leasehold improvements.....	940.80	.....	940.80
Building equipment.....	.....	114.80	114.80
Personnel assessments.....	172.38	68.25	240.63
Total expenses.....	\$70,844.76	\$22,303.82	\$93,148.58
Net rental income or (loss).....	\$6,704.63	(\$3,396.62)	\$3,308.01

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

September 7, 1966

NEVADA INDUSTRIAL COMMISSION
CARSON CITY, NEVADA

GENTLEMEN: We have examined the statement of financial condition of the Nevada Industrial Commission at June 30, 1966, and the statement of operations, analysis of surplus, and statement of receipts and disbursements for the year then ended. Our examination was made in accordance with generally accepted auditing standards and included such tests and analyses of the records as we considered necessary. We did not, however, examine benefits reserves in detail but confined our examination to the reasonableness of such reserves taken as a whole.

In our opinion, the attached statements described above present fairly the financial condition of the Nevada Industrial Commission at June 30, 1966, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

KAFOURY, ARMSTRONG, BERNARD AND BERGSTROM

COMMENTS ON FINANCIAL STATEMENTS

The following schedules were also examined:

- Schedule No. 1—Cash on Hand and on Deposit.
- Schedule No. 2—Bonds Owned, Compensation Payment Fund.
- Schedule No. 3—Bonds Owned, Accident Benefit Fund.
- Schedule No. 4—Bonds Owned, Occupational Diseases Fund.
- Schedule No. 5—Safety and Administrative Expense.
- Schedule No. 6—Miscellaneous Nonoperating Income.
- Schedule No. 7—Investment Income.
- Schedule No. 8—Rent and Expense Account.

These schedules present supplementary information and are not required for the fair presentation of the Nevada Industrial Commission's financial position or the results of its operations.

We have included, where informative, the auditing procedure used in analyzing certain accounts. These comments, however, do not include all of the auditing procedures performed during the course of our examination.

EXHIBIT A—STATEMENT OF FINANCIAL CONDITION

Cash on Hand and on Deposit—\$437,781.56 (Schedule No. 1)

Cash on deposit with the State Treasurer of Nevada and the First National Bank of Nevada was confirmed by direct correspondence with the respective depositories and reconciled to the Commission's records.

The custodian account at the Bank of America, Pasadena, California, represents principal and interest collected from various V. A. Vendee notes held by that institution as custodian, which had not been remitted to the Commission at June 30, 1966.

Petty cash at the Carson City office was verified by actual count, and the cash held by the Reno and Las Vegas offices was attested to by the branch office managers.

As security for the Commission's commercial deposit, the First National Bank of Nevada has on deposit with the State Treasurer of Nevada \$260,000 par value United States Treasury Bonds, 3¾ percent, due August 15, 1968.

Earned Premiums Receivable—\$1,151,180.26

Industrial insurance premiums earned by the Commission but not received by June 30 are analyzed as follows:

Unreported premiums, 1966 fiscal year (estimated).....	\$1,071,621.63
Unreported premiums, prior fiscal years (estimated).....	39,000.00
Premiums reported but unpaid.....	40,558.63
Total.....	<u>\$1,151,180.26</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.

Accounts Receivable—\$1,749.02

Returned checks held by the Commission at June 30, 1966, totaled \$424.97. A review of this account indicated that a proper system of control over returned checks had been maintained throughout the year.

At balance sheet date the State Purchasing Department had sold, by auction, a number of the Commission's used automobiles. The proceeds of these sales, \$1,324.05, were transmitted to the Commission in July, 1966.

Accrued Interest Receivable—\$270,140.13

Current interest earned on the Commission's investments but not received at June 30, 1966, aggregated \$270,140.13. In addition, interest of \$27,368.85 on the Overton Water District General Obligation Bonds, Series of February 1, 1960, had accrued to June 30, 1966, and is reported under the Other Assets section of Exhibit A. A more detailed description of that issue follows later in this report.

All interest collectible during the year was received.

Investments—\$24,192,957.86

The investment portfolio at June 30, 1966, consisted of bonds, notes, and insured mortgages with a book value of \$24,192,957.86. All investments are stated at cost adjusted for appropriate amortization of premium or discount and are presented in detail in Schedules Nos. 2, 3, and 4. These securities were held for the account of the Commission by the following agents:

	Book Value of Bonds Held at June 30, 1966	Percent
State Treasurer of Nevada (par value \$4,560,000).....	\$4,567,713.98	18.88
Trust Department, First National Bank of Nevada (par value \$16,879,000).....	16,952,843.89	70.07
Real Estate Loan Service Center, Bank of America, Pasadena, California (par value \$1,722,659.70).....	1,749,326.94	7.23
Community Funding Corporation, Jamaica, New York (par value \$911,140.02).....	923,073.05	3.82
Totals.....	<u>\$24,192,957.86</u>	<u>100.00</u>

Bonds held by the State Treasurer of Nevada were confirmed by examination. Securities in the custody of the First National Bank of Nevada, the Bank of America, and the Community Funding Corporation were confirmed by direct correspondence with the respective agencies and were reconciled to the records of the Commission.

All bonds which matured during the year were collected. In addition, the Commission collected the \$6,000 February 1, 1965, delinquent maturity of the Overton Water District General Obligation Bond.

The Overton Water District has continued to pay interest and principal in accordance with the plan of payment in effect since January 1, 1964. Briefly, this plan calls for payment of current interest annually and redemption of the annual maturity of principal on February 1 of each year. The Commission received all current payments due during the year. At balance sheet date, the accrued delinquent interest of prior years was \$27,368.85.

It is the Commission's continuing policy that no investments be made in either common or preferred stock.

Fixed Assets—\$837,230.36

The costs of the Carson City and Las Vegas office facilities are being amortized over a 40-year period against rental income derived from those facilities. The book value of these assets is analyzed as follows:

	Carson City	Las Vegas	Total
Total cost.....	\$803,797.25	\$188,630.74	\$992,427.99
Accumulated amortization.....	135,628.16	19,571.47	155,199.63
Book value.....	<u>\$668,169.09</u>	<u>\$169,059.27</u>	<u>\$837,228.36</u>

Furniture and equipment and automobiles are carried at a nominal value of \$2.

During the course of our examination, a test of the Commission's assets indicated that the items on hand were in substantial agreement with those indicated by the control records maintained by the data processing department and the various department supervisors.

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—\$27,793.85

The air travel card deposit with United Airlines in the amount of \$425 was verified by direct correspondence with that agency. Interest earned on this deposit was \$7.16 and is reported in Exhibit B under Miscellaneous Administrative Income.

Accrued interest receivable in the amount of \$27,368.85 on the previously noted Overton Water District bonds of February 1, 1960, has been segregated from current interest receivable because of the delinquent status of these coupons. In conformity with the established practice of the Commission, no provision has been made for prepaid premiums on insurance policies in effect at June 30, 1966.

Current Liabilities—\$1,266,094.02

Cash advance premium deposits totaled \$1,214,606.05. In addition, surety bonds aggregating \$1,933,900 had been posted and \$83,500 in securities had been pledged to the Commission in lieu of the usual cash deposit in accordance with NRS 616.395-3. Records of surety bonds and securities are maintained in memorandum form and are not reflected in the accounts of the Commission as presented in the statement of financial condition at June 30, 1966.

Employer account records reviewed were selected for examination by random sample. We did not verify these records by direct correspondence with the various employers. Accounts were reviewed for the adequacy of the deposit and for the amount and timeliness of premium payments to the Commission.

Pledged securities held in the Commission's vault were examined and compared to the records maintained by the Employer Accounts Department. This subsidiary record, together with those of the cash deposits and surety bonds, was found to be in agreement with that of the subsidiary controls.

Benefits payable of \$6,024 represents unpaid benefit costs incurred prior to June 30, 1966, which were not provided for in the year end reserving. These benefits were determined to be payable after a review of the various claimants' files indicated that certain payments previously made had been miscalculated.

Unpaid operating expenses of \$5,443.69 were verified by examination of vendors' invoices and the subsequent payment thereof.

United States Savings Bond deductions withheld from employees' payroll at June 30, 1966, totaled \$222.50.

Accrued employees' payroll of \$37,818.94 and accrued employees' retirement of \$1,978.84 represents costs of salaries and wages earned but unpaid at June 30, 1966.

Reserves—\$14,815,603.02

The Commission adopted the following reserves as of June 30, 1966:

For pending claims.....	\$2,960,243.00
For unreported claims.....	414,250.00
For pensions.....	8,127,139.05
For reopened claims.....	200,000.00
For catastrophe.....	1,500,000.00
For fluctuation in value of investments.....	604,824.00
For stabilization of rates.....	1,000,000.00
Total.....	<u>\$14,806,456.05</u>

In addition to the above reserves, the reserve for major building repairs was \$9,146.97. This reserve is discussed in greater detail later in this report.

Reserves for pending and unreported claims and for pensions have been established to recognize the estimated remaining liabilities for all industrial accident losses arising prior to June 30, 1966, and not settled at that time. Individual reserves for pending claims were calculated by the Commission's staff and the total was reviewed by us for the reasonableness thereof. Claims incurred but unreported to the Commission are estimated to be \$414,250 at balance sheet date. In previous years such unreported claims have been provided for in the reserves for pending claims. Disability and survivor pension reserves were calculated by the Commission's staff on an established mortality basis. Included in the reserve for pensions is \$17,872.05 in respect to the silicosis benefits pool established by NRS 617.465-466.

The reserve for reopened claims provides for the contingency of reopening claims previously closed but subject to revaluation pursuant to Commission regulations or judicial order. Charges to this reserve during the year totaled \$111,644.54, as compared with \$93,962.33 for the preceding year.

The reserve for unusual losses arising from single, multiple injury catastrophes has been established at \$1½ million.

In order to maintain a reasonable relationship between the reserves for fluctuation in value of investments and the current investment portfolios of each fund, these reserves have been revalued at June 30, 1966, at 2½ percent of the book value of the securities held by each fund. The adequacy of this reserve is discussed under the General Comments section of this report.

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

Surplus—\$10,837,136.00

A comparison of the unappropriated or free surplus balances at June 30, 1965 and 1966, is presented below:

	June 30, 1966	June 30, 1965	Increase or (decrease)
Compensation Payment Fund.....	\$6,497,300.20	\$6,068,638.35	\$428,661.85
Accident Benefit Fund.....	3,455,454.36	3,015,366.57	440,087.79
Occupational Diseases Fund.....	884,381.44	868,123.29	16,258.15
Totals.....	<u>\$10,837,136.00</u>	<u>\$9,952,128.21</u>	<u>\$885,007.79</u>

The present level of unappropriated surplus is discussed under the General Comments section of this report.

EXHIBIT B—STATEMENT OF OPERATIONS BY FUNDS

Net income from operations for the year totaled \$2,182,196.46 and represents an increase of \$316,651.64 over that of the prior year. Presented below is a brief comparison of the operations of the current year with those of the prior year:

	Year Ended June 30, 1966	Year Ended June 30, 1965	Increase or (decrease)
Premiums earned.....	\$9,039,804	\$9,422,673	(\$382,869)
Benefits expense.....	6,514,518	7,194,507	(679,989)
Excess of premiums.....	\$2,525,286	\$2,228,166	\$297,120
Administrative and safety expenses.....	1,193,305	1,075,343	117,962
Underwriting gain.....	\$1,331,981	\$1,152,823	\$179,158
Other income and expense (net).....	850,215	712,722	137,493
Excess of income over expense.....	<u>\$2,182,196</u>	<u>\$1,865,545</u>	<u>\$316,651</u>

The decrease in premiums earned of \$382,869 is attributable to an overall 4 percent premium rate reduction effective January 1, 1966, and an overall 5 percent reduction effective January 1, 1965.

Benefits expense decreased \$679,989 from that experienced during fiscal year 1965. This decrease is directly attributable to the Commission's efforts to set reserves for pending claims at an amount more in line with actual costs incurred. In prior years, the techniques employed by the Commission in setting such reserves tended to overstate benefit expenses during the year of operations necessitating a credit to surplus in subsequent years when the estimated costs failed to materialize. During the year under review, the Commission performed extensive analyses of the reserves at June 30, 1965, and of the actual cost incurred as compared with those estimated at that time. Data thus obtained has been used to establish the reserves for pending claims and unreported claims at June 30, 1966, at a total of \$3,374,493, or \$709,945.51 less than those established at the close of the previous year.

The net administrative and safety expense for the year is presented in detail by Schedule No. 5. Presented below is a brief comparison of these expenses for the fiscal years 1965 and 1966:

	Year Ended June 30, 1966	Year Ended June 30, 1965	Increase or (decrease)
Administrative expense.....	\$1,018,023.64	\$917,449.68	\$100,573.96
Safety expense.....	175,281.20	157,892.97	17,388.23
Totals.....	<u>\$1,193,304.84</u>	<u>\$1,075,342.65</u>	<u>\$117,962.19</u>

The major portion of this increase in total administrative and safety expense is attributable to additional salary costs. The current year's salary expenses were \$98,828.10 greater than those of the preceding year.

Although the Commission does not operate under the budgetary limitations of appropriation agencies, an annual budget is prepared as a guide for the operations of the year. The Commission's administrative and safety budget for the year under review contemplated expenses of \$1,277,080. Actual expenses of \$1,221,133, before credit for administrative reimbursements, were \$55,947 less than estimated.

Schedule No. 7 sets out in detail the net investment income for the year of \$847,751.95. This represents an increase of \$129,421.65 over that realized in fiscal year 1965. Increased Commission investments in high yield bonds and insured mortgages continue to upgrade the earnings potential of its portfolio.

Rental income, as detailed in Schedule No. 8, was \$8,101.02. The Carson City office produced a net rental income of \$6,388.48 as compared with \$6,704.63 in the previous year. The Las Vegas office increased its office rental rate from 30 to 35 cents per square foot and realized a net income of \$1,712.54 as compared with a net loss of \$3,396.62 in fiscal year 1965.

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

Provision for major building repairs has been made in a manner consistent with that of the prior years. In brief, this calls for uniform annual charges to building operations which are used to establish a reserve against any major repairs required to be made. Subsequent building repairs and maintenance charges of a material amount are then charged against this reserve rather than to the operations of the year during which such repairs are completed. The status of this reserve is analyzed as follows:

Provision for years prior to 1966.....	\$32,250.00
Net charges to reserves prior to 1966 (roof and heating and air conditioning repairs, Carson City).....	29,103.03
Reserve balance, July 1, 1965.....	\$3,146.97
Add: Provisions for 1966 fiscal year.....	6,000.00
Reserve balance, June 30, 1966.....	<u>\$9,146.97</u>

The commission has followed the practice of using the current 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 1967 fiscal year:

	Full Coverage (percent)	Ex-Medical (percent)
Compensation Payment Fund.....	51	94
Accident Benefit Fund.....	47	.....
Occupational Diseases Fund.....	2	6
Totals.....	<u>100</u>	<u>100</u>

EXHIBIT C—ANALYSIS OF EARNED SURPLUS

The year's changes in the unappropriated surplus accounts of the three funds are presented in detail in Exhibit C. The adjustments for pending claims for 1965 and prior resulted in an addition of \$1,062,257 to unappropriated surplus. This increase is due partially to the overly conservative reserving policies of prior years, as well as to the normal closing out of pending claims to pensions.

A charge to surplus of \$972,482 for adjustments of pension reserves for 1965 fiscal year and prior reflects the increases in benefits authorized by the special session of the Nevada State Legislature in 1966. In addition, this charge includes the establishment of pension reserves for cases previously carried as pending claims, as noted above.

Net premium rebates paid of \$1,204,357 represent a return to employers of excess premiums collected during the 1965 fiscal year.

EXHIBIT D—STATEMENT OF RECEIPTS AND DISBURSEMENTS

Receipts for the year exceeded disbursements by \$851,988.32. A summary of the excess of receipts over disbursements by funds is presented as follows:

Compensation Payment Fund.....	\$619,103.13
Accident Benefit Fund.....	233,894.37
Occupational Diseases Fund.....	(1,009.18)
Total increase.....	<u>\$851,988.32</u>

Extensive tests of checks issued by the Commission were made and invoices and other evidences in support thereof were reviewed. We found that the Commission maintained adequate records in support of the disbursements made during the year. Controls over check writing equipment, and procedures controlling check signatures were reviewed in detail by our staff and found to be satisfactory. Surety bond coverage on employees authorized to sign checks or use check signing machines was found to be adequate.

Supporting documents for all transactions affecting the Commission's investments were examined and found to substantiate the adjustments to the investment portfolio. Authority for material administrative transactions was traced to the Commission's official minutes. No material disbursements contrary to the regulations of the Nevada State Purchasing Department were noted in our examination.

GENERAL COMMENTS

1. 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.

2. Our examination included a review and evaluation of the Commission's system of internal control. In the course of this review, we found certain controls within the Claims Department to be inadequate, as noted below. These problems were subsequently corrected or are presently under review by Commission personnel. In our opinion, other internal control procedures in use by the Commission are adequately supervised and sufficiently comprehensive.

3. At the request of the Commission, our staff made an extensive examination of the Claims Department accounting system. In general, we found that the department was well managed and performed its function adequately. However, we found that certain procedures lacked

proper internal supervision. Consequently, some errors in the payments of benefits have occurred. Where appropriate, underpayments of benefits have been rectified by supplemental payments during the year.

In addition, the Commission failed to recognize the limiting provisions of NRS 616.580-3 effective July 1, 1965, which provided that:

Those recipients who have been adjudged to be permanent disability cases, and are receiving \$162.50 per month, plus dependency allowance, shall continue to receive such benefits, and *they shall not participate in any increase in benefits* resulting from the amendment of subsection 1. (Italics supplied.)

As a result of this oversight, the Commission overpaid various pensioners a total of \$9,577.24 through December, 1965. This overpayment was considered by the Commissioners to be an administrative error and the several pensioners affected were not billed for these overpayments. These costs have been included in miscellaneous administrative expense.

4. The net effect of the adjustment of pending claims and pension benefits reserves was to increase unappropriated surplus by \$89,775. In view of the substantial benefits increases enacted by the 1966 session of the Legislature, it is clear that such an increase in surplus could only come about through the correction of overstated reserves of prior years. Adoption this year of new reserving procedures should eliminate such substantial salvage in future years.

5. In view of the operating results of the year, we would encourage the Commission to declare a substantial premium rebate for the 1966 fiscal year.

6. Throughout this report and in the Commission's financial statements, the term "Compensation Payment Fund" has been used to denote that fund responsible for the payment of compensation, other than that arising out of occupational diseases. As outlined in our June 30, 1965, report, certain ambiguities exist in the statutory use of the terms "Compensation Payment Fund" and "State Insurance Fund." We again recommend that the term "Compensation Payment Fund" be limited in its meaning to the fund from which non-occupational diseases compensation is to be paid and that the term "State Insurance Fund" be used in the composite sense. Amendatory legislation should be encouraged to effect these limitations.

7. In accordance with the policy of the Commission, the reserve for fluctuation in value of investments has been adjusted to 2½ percent of the par value of the portfolio at June 30, 1966. In view of the current trends in the market value of fixed income securities, we recommend that the Commission's investment advisors be requested to evaluate the entire portfolio in order to determine whether or not this method of establishing a reserve continues to be valid.

8. In view of the extensive charges made in recent years against the reserve for reopened claims, we suggest that the Commission and its actuary consider the advisability of increasing the level of this reserve. We would further recommend that future replenishments to this reserve could then be properly charged against current operations, recognizing the probability that certain current year claims will have to be reopened at some future time.

EXHIBIT A
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF FINANCIAL CONDITION, JUNE 30, 1966

	Compensation Payment Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
ASSETS				
CURRENT ASSETS—				
Cash on hand and on deposit (Schedule No. 1)		\$123,247.73	\$68,173.85	\$437,781.56
Earned Premiums Receivable—	\$246,359.98			
Reported but unpaid		18,101.32	896.34	40,558.63
Estimated unreported (current year)	21,560.97	470,845.98	24,049.89	1,071,621.63
Estimated unreported (prior years)	576,725.76	18,330.00	780.00	39,000.00
Accounts receivable (miscellaneous)	19,890.00	1,128.97	29.13	1,749.02
Accrued interest receivable (current)	207,406.22	49,541.21	13,192.70	270,140.13
Total current assets	\$1,073,071.90	\$680,657.16	\$107,121.91	\$1,860,850.97
INVESTMENTS—				
Bonds owned (Schedules Nos. 2, 3, and 4)	\$18,140,742.14	\$4,749,267.43	\$1,302,948.29	\$24,192,957.86
FIXED ASSETS—				
Land and Buildings (At Cost Less Amortization)—				
Carson City	\$668,169.09			\$668,169.09
Las Vegas	169,059.27			169,059.27
Furniture and equipment	1.00			1.00
Automobiles	1.00			1.00
Total fixed assets	\$837,230.36			\$837,230.36
OTHER ASSETS—				
Deposit (service)	\$425.00	\$27,368.85		\$425.00
Accrued interest receivable (other)				27,368.85
Total other assets	\$425.00	\$27,368.85		\$27,793.85
Total all assets	\$20,051,469.40	\$5,457,293.44	\$1,410,070.20	\$26,918,833.04

EXHIBIT A—Continued

LIABILITIES, RESERVES, AND SURPLUS

CURRENT LIABILITIES—				
Advance premiums.....	\$1,214,606.05	Compensation Payment Fund		Total
Benefits payable.....	600.00			\$1,214,606.05
Accounts payable.....	2,894.41			6,024.00
Savings bond deduction (employees)	222.50			5,443.69
Accrued payroll.....	20,724.37			222.50
Accrued employees' retirement.....	1,087.90			37,818.94
Total current liabilities.....	\$1,240,135.23			1,978.84
RESERVES—				\$1,266,094.02
For pending claims.....	\$1,978,684.00			
For unreported claims.....	220,000.00			
For pensions.....	7,762,685.00			
For reopened claims.....	110,000.00			
For catastrophe.....	1,250,000.00			
For fluctuations in value of investments.....	453,518.00			
For stabilization of rates.....	530,000.00			
For major repairs (buildings).....	9,146.97			
Total reserves.....	\$12,314,033.97			
Surplus (Exhibit C).....	6,497,300.20			
Total liabilities, reserves, and surplus.....	\$20,051,469.40			
		Accident Benefit Fund	Occupational Diseases Fund	
		\$5,424.00		
		2,429.51	\$119.77	
		16,291.49	803.08	
		849.08	41.86	
		\$24,994.08	\$964.71	
		\$933,863.00	\$47,696.00	\$2,960,243.00
		194,250.00		414,250.00
		80,000.00	364,454.05	8,127,139.05
		250,000.00	10,000.00	200,000.00
		118,732.00		1,500,000.00
		400,000.00	32,574.00	604,824.00
			70,000.00	1,000,000.00
				9,146.97
		\$1,976,845.00	\$524,724.05	\$14,815,603.02
		3,455,454.36	884,381.44	10,837,136.00
		\$5,457,293.44	\$1,410,070.20	\$26,918,833.04

EXHIBIT B
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF OPERATIONS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1966

	Compensation Payment Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
EARNED PREMIUMS—				
Reported.....	\$4,229,319.24	\$3,563,823.02	\$175,040.11	\$7,968,182.37
Estimated additional.....	576,725.76	470,845.98	24,049.89	1,071,621.63
Total earned premiums.....	\$4,806,045.00	\$4,034,669.00	\$199,090.00	\$9,039,804.00
BENEFITS EXPENSES—				
Benefits paid (net).....	\$1,514,556.72	\$2,033,841.47	\$54,583.28	\$3,602,981.47
Estimated pending claims.....	1,568,427.00	977,219.00	36,932.00	2,582,578.00
Pensions paid.....	8,869.36	.....	.....	8,869.36
Pensions awarded and unawarded.....	320,089.00	.....	.....	320,089.00
Total benefits expenses.....	\$3,411,942.08	\$3,011,060.47	\$91,515.28	\$6,514,517.83
Excess of earned premiums over benefits expenses.....	\$1,394,102.92	\$1,023,608.53	\$107,574.72	\$2,525,286.17
OPERATING EXPENSES (net)—(Schedule No. 5)—				
Administrative.....	\$541,283.17	\$454,343.95	\$22,396.52	\$1,018,023.64
Safety.....	93,197.01	78,228.00	3,856.19	175,281.20
Total operating expenses (net).....	\$634,480.18	\$532,571.95	\$26,252.71	\$1,193,304.84
Operating profit.....	\$759,622.74	\$491,036.58	\$81,322.01	\$1,331,981.33
OTHER INCOME—				
Investment income (net)—(Schedule No. 7).....	\$632,441.33	\$158,726.21	\$56,584.41	\$847,751.95
Rental income (net)—(Schedule No. 8).....	8,101.02	.....	.....	8,101.02
Miscellaneous nonoperating income (Schedule No. 6).....	1,772.45	1,487.76	73.34	3,333.55
Total other income.....	\$642,314.80	\$160,213.97	\$56,657.75	\$859,186.52
OTHER EXPENSES—				
Bad debts.....	\$1,401,937.54	\$651,250.55	\$137,979.76	\$2,191,167.85
.....	4,770.09	4,003.93	197.37	8,971.39
Excess of income over expenses.....	\$1,397,167.45	\$647,246.62	\$137,782.39	\$2,182,196.46

REPORT OF NEVADA INDUSTRIAL COMMISSION

EXHIBIT C
NEVADA INDUSTRIAL COMMISSION
ANALYSIS OF SURPLUS BY FUNDS, JUNE 30, 1966

	<i>Compensation Payment Fund</i>	<i>Accident Benefit Fund</i>	<i>Occupational Diseases Fund</i>	<i>Total</i>
Balance, July 1, 1965.....	\$6,068,638.35	\$3,015,366.57	\$868,123.29	\$9,952,128.21
ADDITIONS—				
Adjustment of reserves for pending claims for years 1965 and prior.....	\$626,654.96	\$442,685.88	(\$7,083.87)	\$1,062,256.97
Adjustment for years 1965 and prior premium rebates.....	50.37	40.86	3.80	95.03
Miscellaneous adjustments.....	353.45			353.45
Excess of income over expense (Exhibit B).....	1,397,167.45	647,246.62	137,782.39	2,182,196.46
Total Additions.....	\$2,024,226.23	\$1,089,973.36	\$130,702.32	\$3,244,901.91
DEDUCTIONS—				
Premium rebates.....	\$614,222.22	\$554,004.37	\$36,130.73	\$1,204,357.32
Adjustment for overestimate of prior years' premiums.....	16,384.19	37,996.99	830.50	55,411.68
Adjustment of reserves for fluctuation in values of investments.....	10,731.00	5,272.00	(4.00)	15,999.00
Adjustment of pension reserves for years 1965 and prior.....	895,031.64		77,449.94	972,481.58
Adjustment of reserves for reopened claims.....	58,995.33	52,612.21	37.00	111,644.54
Total deductions.....	\$1,595,564.38	\$649,885.57	\$114,444.17	\$2,359,894.12
Balance, June 30, 1966.....	\$6,497,300.20	\$3,455,454.36	\$884,381.44	\$10,837,136.00

EXHIBIT D
NEVADA INDUSTRIAL COMMISSION
STATEMENT OF RECEIPTS AND DISBURSEMENTS BY FUNDS FOR THE YEAR ENDED JUNE 30, 1966

	Compensation Payment Fund	Accident Benefit Fund	Occupational Diseases Fund	Total
RECEIPTS—				
Premiums earned and collected.....				\$9,118,280.35
Interest (less interest purchased and net charge for amortization of bond premium and discount).....	\$4,844,641.74	\$4,060,569.85	\$213,068.76	
Payments reserved on sale of property.....	793,211.63	219,025.64	57,212.53	1,069,449.80
Miscellaneous receipts.....	100,335.61	13,907.35	.....	100,335.61
	16,642.30		685.55	31,235.20
Total receipts.....	\$5,754,831.28	\$4,293,502.84	\$270,966.84	\$10,319,300.96
DISBURSEMENTS—				
Benefits paid.....	\$3,617,425.08	\$2,900,014.07	\$207,626.34	\$6,725,065.49
Administrative and safety expenses.....	647,808.86	344,782.37	27,377.88	1,219,969.11
Investment advisory and custodian expenses.....	22,411.21	8,905.07	1,454.35	32,770.63
Building expenses (ordinary).....	62,686.27	.....	.....	62,686.27
Building improvements.....	4,533.70	.....	.....	4,533.70
Rebates paid.....	614,171.85	553,963.51	36,126.93	1,204,262.29
Advance premium deposits.....	23,350.98	.....	.....	23,350.98
Loss on sale of bonds.....	143,340.20	51,943.45	(609.48)	194,674.17
Total disbursements.....	\$5,135,728.15	\$4,059,608.47	\$271,976.02	\$9,467,312.64
Excess of receipts over disbursements.....	\$619,103.13	\$233,894.37	(\$1,009.18)	\$851,988.32
Balance in funds, July 1, 1965.....	17,767,998.99	4,638,620.79	1,372,131.32	23,778,751.10
Balance in funds, June 30, 1966.....	\$18,387,102.12	\$4,872,515.16	\$1,371,122.14	\$24,630,739.42
REPRESENTED BY—				
Cash (Schedule No. 1).....	\$246,359.98	\$123,247.73	\$68,173.85	\$437,781.56
Bonds owned, stated at cost less amortized premium and discount (Schedules Nos. 2, 3, and 4).....	18,140,742.14	4,749,267.43	1,302,948.29	24,192,957.86
Totals.....	\$18,387,102.12	\$4,872,515.16	\$1,371,122.14	\$24,630,739.42

SCHEDULE NO. 1
NEVADA INDUSTRIAL COMMISSION
CASH ON HAND AND ON DEPOSIT JUNE 30, 1966

CASH ON HAND AND ON DEPOSIT—		
State Treasurer of Nevada.....		\$301,782.01
First National Bank of Nevada—		
Carson City office (general account).....	\$63,997.64	
Reno Main office (custodian account).....	52,927.00	
	<hr/>	116,924.64
Bank of America, Real Estate Loan Service Center, Pasadena, California (custodian account).....		18,624.91
Petty Cash Funds—		
Carson City office.....	\$200.00	
Reno office.....	50.00	
Las Vegas office.....	200.00	
	<hr/>	450.00
Total cash on hand and on deposit.....		<hr/> <u>\$437,781.56</u>
ALLOCATED TO FOLLOWING FUNDS—		
Compensation payment fund.....	\$246,359.98	
Accident benefit fund.....	123,247.73	
Occupational diseases fund.....	68,173.85	
	<hr/>	\$437,781.56
In First National Bank of Nevada, Carson City Office—		
U.S. Treasury Bonds, 3 3/4 percent, August 15, 1968.....		<hr/> <u>\$260,000.00</u>

SCHEDULE NO. 5
NEVADA INDUSTRIAL COMMISSION
SAFETY AND ADMINISTRATIVE EXPENSES FOR THE
YEAR ENDED JUNE 30, 1966

	<i>Safety Expense*</i>	<i>Administrative Expense*</i>	<i>Total</i>
SALARIES—			
Commissioners.....		\$42,240.00	\$42,240.00
Attorneys and physicians.....		33,020.00	33,020.00
Field audit department.....		127,830.42	127,830.42
Claims department.....		256,469.77	256,469.77
Safety department.....	\$120,393.13		120,393.13
Employer accounts department.....		114,476.50	114,476.50
Statistical department.....		66,889.84	66,889.84
All others.....		63,385.45	63,385.45
Total salaries.....	<hr/> \$120,393.13	<hr/> \$704,311.98	<hr/> \$824,705.11
TRANSPORTATION—			
Commissioners.....		\$4,778.02	\$4,778.02
Field auditors.....		8,581.39	8,581.39
Claims investigators.....		3,929.24	3,929.24
Safety inspectors.....	\$9,063.34		9,063.34
All others.....		2,645.59	2,645.59
Total transportation.....	<hr/> \$9,063.34	<hr/> \$19,934.24	<hr/> \$28,997.58
HOTEL, MEALS, ETC.—			
Commissioners.....		\$2,989.73	\$2,989.73
Field auditors.....		6,780.11	6,780.11
Claims investigators.....		2,560.65	2,560.65
Safety inspectors.....	\$3,539.25		3,539.25
All others.....		2,437.40	2,437.40
Total hotel, meals, etc.....	<hr/> \$3,539.25	<hr/> \$14,767.89	<hr/> \$18,307.14
OFFICE EXPENSES—			
Office rental and utilities.....	\$9,940.32	\$58,144.08	\$68,084.40
Tenants' building expenses.....	18.82	110.08	128.90
Postage and express.....	2,453.61	14,351.91	16,805.52
Telephone and telegraph.....	3,085.23	22,130.54	25,215.77
Printing and stationery.....	2,691.92	30,814.66	33,506.58
Supplies and other expense.....	2,125.73	12,434.07	14,559.80
Furniture and equipment rentals.....		54,535.53	54,535.53
Total office expenses.....	<hr/> \$20,315.63	<hr/> \$192,520.87	<hr/> \$212,836.50

SCHEDULE No. 5—Continued

	Safety expense*	Administrative expense*	Total
PERSONNEL COSTS—			
Personnel department costs.....	\$765.00	\$5,345.00	\$6,110.00
Contribution to public employees' retirement fund..	6,430.80	38,281.77	44,712.57
Industrial insurance.....	660.62	3,524.32	4,184.94
Employee group insurance.....	272.00	2,263.00	2,535.00
Total personnel costs.....	<u>\$8,128.42</u>	<u>\$49,414.09</u>	<u>\$57,542.51</u>
GENERAL EXPENSES—			
Actuarial fees.....		\$6,500.00	\$6,500.00
Audit and other professional accounting services.....	\$2,113.27	12,361.16	14,474.43
Collection costs and fees.....	(55.29)	(344.21)	(399.50)
Rejected claims cost.....		4,129.42	4,129.42
Dues and subscriptions.....	43.70	2,710.73	2,754.43
General insurance.....	978.98	5,726.35	6,705.33
Miscellaneous.....	5,771.72	12,323.79	18,095.51
Total general expenses.....	<u>\$8,852.38</u>	<u>\$43,407.24</u>	<u>\$52,259.62</u>
CAPITAL OUTLAY—			
Office furniture and equipment.....	\$755.19	\$9,245.25	\$10,000.44
Automobiles.....	5,551.96	10,931.88	16,483.84
Total capital outlay.....	<u>\$6,307.15</u>	<u>\$20,177.13</u>	<u>\$26,484.28</u>
Gross administrative and safety expense.....	<u>\$176,599.30</u>	<u>\$1,044,533.44</u>	<u>\$1,221,132.74</u>
LESS: MISCELLANEOUS ADMINISTRATIVE INCOME—			
Delinquency penalties.....		\$26,153.23	\$26,153.23
Miscellaneous administrative reimbursements.....	\$1,318.10	356.57	1,674.67
Total miscellaneous administrative income.....	<u>\$1,318.10</u>	<u>\$26,509.80</u>	<u>\$27,827.90</u>
Net administrative and safety expense.....	<u>\$175,281.20</u>	<u>\$1,018,023.64</u>	<u>\$1,193,304.84</u>
ALLOCATED TO**—			
Compensation payment fund.....	\$93,197.01	\$541,283.17	\$634,480.18
Accident benefit fund.....	78,228.00	454,343.95	532,571.95
Occupational diseases fund.....	3,856.19	22,396.52	26,252.71
Total allocated.....	<u>\$175,281.20</u>	<u>\$1,018,023.64</u>	<u>\$1,193,304.84</u>

*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 total administrative salaries.

**The total administrative and safety expenses have been allocated to each fund in proportion to the relative premium income for the fiscal year ended June 30, 1966.

SCHEDULE NO. 6
NEVADA INDUSTRIAL COMMISSION
MISCELLANEOUS NONOPERATING INCOME FOR THE
YEAR ENDED JUNE 30, 1966

MISCELLANEOUS NONOPERATING INCOME—			
Bad debts recovered.....		\$1,205.29	
Other nonoperating income.....		9.16	
Advance deposits absorbed for failure to report.....		2,119.10	
Total miscellaneous nonoperating income.....			<u>\$3,333.55</u>
ALLOCATED TO*—			
Compensation payment fund.....		\$1,772.45	
Accident benefit fund.....		1,487.76	
Occupational diseases fund.....		73.34	
Total allocated.....			<u>\$3,333.55</u>

*The total nonoperating income has been allocated to each fund in proportion to the relative premium income for the fiscal year ended June 30, 1966.

SCHEDULE NO. 7
NEVADA INDUSTRIAL COMMISSION
INVESTMENT INCOME FOR THE YEAR ENDED JUNE 30, 1966

SECURITIES INCOME—					
Interest earned.....					\$1,072,445.66
Less: Premium or (discount) amortized (Schedules Nos. 2, 3, and 4).....					7,101.01
Net bond interest earned.....					\$1,065,344.65
Net loss on sale of bonds.....					(194,674.17)
Gross securities income.....					\$870,670.48
LESS*—					
Custodian fees and costs.....					
Investment advisory fees.....					
Total securities costs.....					\$1,237.60
Net investment income.....					\$847,751.95
	Compensation Payment Fund	Accident Benefit Fund	Occupational Diseases Fund	Total	
	\$799,010.57	\$216,060.09	\$57,375.00	\$1,072,445.66	
	6,056.19	882.35	162.47	7,101.01	
	\$792,954.38	\$215,177.74	\$57,212.53	\$1,065,344.65	
	(143,340.20)	(51,943.45)	609.48	(194,674.17)	
	\$649,614.18	\$163,234.29	\$57,822.01	\$870,670.48	
	\$7,629.77	\$2,002.91	\$549.85	\$10,182.53	
	9,543.08	2,505.17	687.75	12,736.00	
	\$17,172.85	\$4,508.08	\$1,237.60	\$22,918.53	
	\$632,441.33	\$158,726.21	\$56,584.41	\$847,751.95	

*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.

SCHEDULE NO. 8
NEVADA INDUSTRIAL COMMISSION
RENT AND EXPENSE ACCOUNT (RENTAL INCOME, NET)
FOR THE YEAR ENDED JUNE 30, 1966

REVENUES—	<i>Carson City</i>	<i>Las Vegas</i>	<i>Total</i>
Rental income (Nevada Industrial Commission).....	\$40,626.00	\$22,058.40	\$62,684.40
Rental income (other).....	37,142.56	502.20	37,644.76
Miscellaneous income.....	6.45	.....	6.45
Total revenues.....	\$77,775.01	\$22,560.60	\$100,335.61
EXPENSES—			
Building superintendence.....	\$8,037.40	.....	\$8,037.40
Janitorial salaries.....	17,314.62	\$7,665.05	24,979.67
Contribution to retirement fund.....	1,382.42	448.40	1,830.82
Industrial insurance.....	148.42	44.62	193.04
Employee group insurance.....	102.00	21.00	123.00
Utilities.....	10,295.45	3,322.65	13,618.10
Insurance.....	974.83	219.68	1,194.51
Repairs and maintenance.....	10,248.85	3,238.79	13,487.64
Building supplies.....	921.88	397.48	1,319.36
Janitorial supplies.....	1,146.01	458.90	1,604.91
Amortization of property costs.....	19,976.10	4,924.77	24,900.87
Amortization of leasehold improvements.....	575.88	31.72	607.60
Building equipment.....	47.67	.....	47.67
Personnel assessments.....	215.00	75.00	290.00
Total expenses.....	\$71,386.53	\$20,848.06	\$92,234.59
Net rental income.....	\$6,388.48	\$1,712.54	\$8,101.02

