

STATE OF NEVADA
PERMANENT SCHOOL FUND

FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2016
(Unaudited)

RON KNECHT, MS, JD, PE (CA)
STATE CONTROLLER
CARSON CITY, NEVADA

RON KNECHT,
MS, JD, PE (CA)
State Controller

STATE OF NEVADA



JAMES W. SMACK
Chief Deputy Controller

GEOFFREY LAWRENCE
Assistant Controller

**OFFICE OF THE
STATE CONTROLLER**

March 10, 2017

The Honorable Brian Sandoval
Chairman, State Board of Finance
101 N. Carson Street, Suite 1
Carson City, NV 89701-4786

Dear Governor Sandoval:

Pursuant to NRS 387.013, I am pleased to provide you with the financial statements of the Permanent School Fund for the quarter ended December 31, 2016.

Sincerely,

A handwritten signature in black ink that reads "Ronald L. Knecht".

Ronald L. Knecht, MS, JD, PE (CA)
State Controller

RK: ss

Office of the Governor (1)
State Board of Education (2)
Governor's Office of Finance (2)
Nevada State Treasurer (1)
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STATE OF NEVADA
PERMANENT SCHOOL FUND

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STATE OF NEVADA
PERMANENT SCHOOL FUND

BALANCE SHEETS
December 31, 2016 and 2015
(Unaudited)

Exhibit A

Assets	<u>12/31/2016</u>	<u>12/31/2015</u>
Cash and cash equivalents	\$ 35,081,203	\$ 222,766,651
Accrued interest		
Investments	545,046	368,857
Treasurer	43,447	18,137
Total accrued interest	<u>588,493</u>	<u>386,994</u>
Receivables		
Land sales	4,320,247	-
Fines and penalties	296,539	237,157
Total receivables	<u>4,616,786</u>	<u>237,157</u>
Investments		
Fixed income securities	264,051,720	81,112,310
Equity securities	11,311,417	10,136,769
Total investments	<u>275,363,137</u>	<u>91,249,079</u>
Other Assets		
Due from component unit (NCIC)	35,341,126	22,665,675
Total Assets	<u><u>\$ 350,990,745</u></u>	<u><u>\$ 337,305,556</u></u>
 Liabilities		
Due to (from) the Distributive School Account	\$ 3,164,373	\$ 1,588,620
Due to heirs	304,596	267,034
Total liabilities	<u>3,468,969</u>	<u>1,855,654</u>
 Fund Balances		
Nonspendable: permanent fund principal	<u>347,521,776</u>	<u>335,449,902</u>
Total Liabilities and Fund Balances	<u><u>\$ 350,990,745</u></u>	<u><u>\$ 337,305,556</u></u>

The notes to the financial statements and schedules are an integral part of this statement.

STATE OF NEVADA
PERMANENT SCHOOL FUND

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES**

For the Quarter and six months ended December 31, 2016
(Unaudited)

	<u>Exhibit B</u>	
Revenues	Quarter Ended 12/31/2016	Six Months Ended 12/31/2016
Fines - State Penal Laws		
Justice Courts	\$ 722,209	\$ 1,445,149
District Courts	124,860	272,906
Other fines and penalties	54,105	63,325
Total fines	901,174	1,781,380
Investment income (loss)	1,173,382	1,876,025
Land sales	4,320,247	4,663,698
Escheated estates	(30,871)	(47,436)
Miscellaneous	1	1,305
Total revenues	6,363,933	8,274,972
Other Financing Sources (Uses)		
Transfer (to) from Distributive School Account	(1,173,382)	(1,875,905)
Net change in fund balances	5,190,551	6,399,067
Fund balances, beginning of period	342,331,225	341,122,709
Fund balances, end of period	\$ 347,521,776	\$ 347,521,776

The notes to the financial statements and schedules are an integral part of this statement.

**STATE OF NEVADA
PERMANENT SCHOOL FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2016**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

Transactions are recorded on the modified accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation:

The Permanent School Fund is classified as a permanent fund in accordance with Governmental Accounting Standards Board Statement No. 34. This designation ensures that the corpus of the Fund will be preserved. All earnings on the Fund's assets are transferred to the Distributive School Account of the General Fund that apportions it among the several school districts of the state, in accordance with State Statutes.

Cash and Cash Equivalents:

Cash and Cash Equivalents consist of cash with treasurer and investments that mature within three months of acquisition and are readily convertible to known amounts of cash.

Treasurer's Interest Accrual:

Accrued earnings from the investment pool are transferred quarterly to the Permanent School Fund based on its pro rata share of average daily cash balances. For the quarter ended December 31, 2016, the Permanent School Fund's average balance in the State Treasurer's investment pool was \$24,744,327, and funds held by the State Treasurer earned interest at an effective rate of 0.70 percent.

Investments:

Investments are stated at fair value, which approximates market value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fund Balance:

Non-spendable fund balance cannot be spent, and represents the permanent fund principal which must remain in the fund in perpetuity under the State Constitution.

Revenues:

Article 11, Section 3 of the Constitution of the State of Nevada provides that all estates that escheat to the state; proceeds from the sale of lands given or bequeathed under this section; and fines collected under the penal laws of the state shall be pledged for educational purposes only, and shall not be transferred to any other funds for other uses. The 1956 special session of the Legislature enacted Chapter 32, which provided for the creation of the State Permanent School Fund to account for the money accruing to the State of Nevada under Article 11, Section 3 of the State Constitution.

The following illustrates some of the potential revenue sources of the Permanent School Fund:

- Surplus on sale of unclaimed freight after charges of common carriers and warehousemen (NRS 108.430)
- Surplus on sale of property after charges of bailees for hire (NRS 108.460)

**STATE OF NEVADA
PERMANENT SCHOOL FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED DECEMBER 31, 2016**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues: (continued)

- Escheated estates (NRS 154.115)
- Fees of the State Land Registrar (NRS 321.065)
- All moneys accruing to the State of Nevada from sale of lands heretofore given or bequeathed, or that may hereafter be given or bequeathed, for public school purposes (Art. 11, Sec. 3)
- All fines collected under the penal laws of the state (Art. 11, Sec. 3)
- Fines imposed by courts martial (NRS 412.086)
- Fines resulting from suits on excavations (NRS 455.050)
- All fines and penalties for violations of the criminal provisions of the Unemployment Compensation Act (NRS 612.585)
- Penalties imposed on banks for failure to make certain reports (NRS 665.115)

Note 2 – COMMITMENTS AND CONTINGENCIES:

The 1997 legislature added Nevada Revised Statutes 387.513 through 387.528. These statutes allow school districts to enter into guarantee agreements with the State Treasurer whereby the money in the Permanent School Fund is used to guarantee the debt service payments on certain bonds issued by the school districts. The amount of the guarantee for bonds of each school district outstanding at any one time must not exceed \$40 million. Bond guarantees at December 31, 2016 were:

<u>School District</u>	<u>Original Amount</u>	<u>Balance</u>
Carson City	\$51,060,000	\$28,425,000
Churchill	43,370,000	37,405,000
Douglas	36,000,000	32,810,000
Humboldt	2,950,000	2,270,000
Lincoln	5,759,300	4,615,400
Lyon	41,060,000	37,430,000
Mineral	2,825,000	495,000
Nye	52,120,000	36,380,000
Pershing	4,725,000	4,125,000
Storey	11,220,300	8,148,600
Washoe	40,000,000	40,000,000
White Pine	<u>10,890,000</u>	<u>8,095,000</u>
 Total	 <u>\$301,979,600</u>	 <u>\$240,199,000</u>

STATE OF NEVADA
PERMANENT SCHOOL FUND
SCHEDULE OF INVESTMENTS
December 31, 2016

	Stated				Schedule 1
	Interest	Maturity	Face	Amortized	Fair
	Rate	Date	Amount	Cost*	Value
Fixed Income Securities					
Farmer Mac	0.920	06/30/17	\$ 29,000,000	\$ 29,000,000	\$ 29,014,500
Farmer Mac	0.550	04/28/17	15,000,000	14,973,187	14,973,600
Fed. Home Loan Bank	1.125	12/08/17	29,000,000	29,025,907	29,072,210
Fed. Home Loan Bank	0.360	01/09/17	20,000,000	19,998,400	19,998,800
Fed. Home Loan Bank	0.320	02/24/17	25,000,000	24,988,000	24,982,000
Fed. Home Loan Bank	0.460	03/31/17	25,000,000	24,971,569	24,968,500
Fed. Home Loan Bank	0.600	05/25/17	25,000,000	24,940,000	24,945,750
Fed. Home Loan Bank	0.630	07/19/17	25,000,000	24,912,938	24,920,750
Fed. Home Loan Mtg. Corp Callable	0.850	07/28/17	20,000,000	20,000,000	20,016,400
Fed. Home Loan Mtg. Corp Callable	0.850	07/28/17	18,000,000	18,000,000	18,014,760
U.S. Treasury Note	1.375	06/30/18	29,000,000	29,117,858	29,136,010
U.S. Treasury Note	3.125	01/31/17	4,000,000	4,007,663	4,008,440
Total Fixed Income Securities			<u>\$ 264,000,000</u>	<u>\$ 263,935,522</u>	<u>\$ 264,051,720</u>
Cash and Cash Equivalents					
Morgan Stanley Global Liquid	0.450	N/A	N/A	\$ 9,772,696	\$ 9,772,696
Pooled Cash with State Treasurer	N/A	N/A	N/A	25,308,507	25,308,507
Total Cash and Cash Equivalents				<u>\$ 35,081,203</u>	<u>\$ 35,081,203</u>
Equity Securities					
Vanguard Inst Index Fund Inst	N/A	N/A	N/A	\$ 7,900,000	\$ 8,830,584
Vanguard S&P Mid-Cap 400 Index Ist	N/A	N/A	N/A	1,400,000	1,614,452
Vanguard S&P Small-Cap 600 Index Ist	N/A	N/A	N/A	700,000	866,381
Total Equity Securities				<u>\$ 10,000,000</u>	<u>\$ 11,311,417</u>
Private Equity Investments (Due from Component Unit)					
Nevada Capital Investment Corporation	N/A	N/A	N/A	<u>\$ 35,341,126</u>	N/A

* Values do not include purchased interest

STATE OF NEVADA
PERMANENT SCHOOL FUND
SCHEDULE OF JUSTICE COURT FINES BY COUNTY
For the Quarter and six months ended December 31, 2016

County	Schedule 2	
	Quarter Ended 12/31/2016	Six Months Ended 12/31/2016
Carson City	\$ 2,633	\$ 4,422
Churchill	13,745	23,992
Clark	325,750	647,366
Douglas	2,121	3,021
Elko	49,254	76,380
Esmeralda	10,709	21,235
Eureka	850	1,725
Lander	-	220
Lincoln	268	1,168
Lyon	14,883	27,442
Mineral	438	6,576
Nye	73,983	156,048
Pershing	489	824
Washoe	223,406	467,736
White Pine	3,680	6,994
Total	\$ 722,209	\$ 1,445,149

STATE OF NEVADA

PERMANENT SCHOOL FUND

SCHEDULE OF DISTRICT COURT FINES BY COUNTY

For the Quarter and six months ended December 31, 2016

County	Schedule 3	
	Quarter Ended 12/31/2016	Six Months Ended 12/31/2016
Carson City	\$ 1,640	\$ 3,622
Churchill	3,215	10,613
Clark	73,043	142,822
Douglas	4,282	6,807
Elko	5,705	15,304
Humboldt	2,430	4,479
Lander	75	5,690
Lincoln	50	1,175
Lyon	1,953	11,263
Nye	2,460	8,517
Pershing	850	9,600
Washoe	28,363	51,609
White Pine	794	1,405
Total	<u>\$ 124,860</u>	<u>\$ 272,906</u>