

**TEACHERS HEALTH TRUST**

**JUNE 30, 2007 AND 2006**

**TEACHERS HEALTH TRUST  
JUNE 30, 2007 AND 2006**

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**KAFOURY, ARMSTRONG & CO.**  
A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Teachers Health Trust

We have audited the accompanying statements of net assets available for benefits and of benefit obligations of the Teachers Health Trust (the "Trust") as of June 30, 2007 and 2006, and the related statements of changes in net assets available for benefits and of changes in benefit obligations for the years then ended. The financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Teachers Health Trust as of June 30, 2007 and 2006, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules for the years ended June 30, 2007 and 2006, listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Trust's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Kafoury, Armstrong + Co.*

Reno, Nevada  
December 4, 2007

# TEACHERS HEALTH TRUST

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS AS OF JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
INVESTMENTS, at fair value	\$ 21,077,257	\$ 19,918,528
RECEIVABLES:		
Related party	21,797	20,042
State Emergency Fund	-	1,900,000
	<u>21,797</u>	<u>1,920,042</u>
CASH AND CASH EQUIVALENTS	11,923,360	444,909
FIXED ASSETS (net of accumulated depreciation of \$3,910,696 and \$3,286,927, respectively)	4,593,198	4,762,621
OTHER ASSETS	86,217	6,480
PREPAID EXPENSES	<u>348,161</u>	<u>229,978</u>
Total assets	<u>38,049,990</u>	<u>27,282,558</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable for administrative expenses	502,484	334,147
Due to related party	96,155	28,442
Deferred contributions	<u>7,968,903</u>	<u>39,884</u>
Total liabilities	<u>8,567,542</u>	<u>402,473</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 29,482,448</u>	<u>\$ 26,880,085</u>

See accompanying notes

# TEACHERS HEALTH TRUST

## STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ADDITIONS:		
Contributions		
Clark County School District	\$ 94,329,893	\$ 81,380,594
Employee deduction	20,717,021	19,319,588
Retiree participants	648,047	710,758
Self-pay, COBRA, staff participants	1,998,478	1,820,503
	<u>117,693,439</u>	<u>103,231,443</u>
Interest and other income	3,567,354	1,144,314
State Emergency Fund	<u>-</u>	<u>1,900,000</u>
Total additions	<u>121,260,793</u>	<u>106,275,757</u>
REDUCTIONS:		
Insurance premiums	<u>8,442,156</u>	<u>12,888,900</u>
Benefits paid for participants		
Medical	67,651,695	58,175,405
Prescription drugs	21,686,616	17,836,376
Dental	11,088,841	9,677,448
Vision	2,156,006	1,953,441
	<u>102,583,158</u>	<u>87,642,670</u>
Administrative expenses	<u>7,633,116</u>	<u>6,969,917</u>
Total deductions	<u>118,658,430</u>	<u>107,501,487</u>
NET INCREASE (DECREASE)	2,602,363	(1,225,730)
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>26,880,085</u>	<u>28,105,815</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$ 29,482,448</u>	<u>\$ 26,880,085</u>

See accompanying notes

# TEACHERS HEALTH TRUST

## STATEMENTS OF BENEFIT OBLIGATIONS AS OF JUNE 30, 2007 AND 2006

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	<u>2007</u>	<u>2006</u>
AMOUNTS CURRENTLY PAYABLE TO OR FOR PARTICIPANTS, BENEFICIARIES, AND DEPENDENTS:		
Insurance premiums	\$ 195,501	\$ 1,219,156
Benefit claims	4,019,003	1,302,118
Prescription drugs	1,035,820	789,579
Total currently payable	<u>5,250,324</u>	<u>3,310,853</u>
OTHER CURRENT BENEFIT COVERAGE OBLIGATIONS:		
Claims incurred but not reported, at present value of estimated amounts	<u>8,730,997</u>	<u>11,797,882</u>
Total obligations other than postretirement benefit obligations	<u>13,981,321</u>	<u>15,108,735</u>
POSTRETIREMENT BENEFIT OBLIGATIONS:		
Current retirees	<u>818,395</u>	<u>1,118,333</u>
TOTAL BENEFIT OBLIGATIONS	<u>\$ 14,799,716</u>	<u>\$ 16,227,068</u>

See accompanying notes

# TEACHERS HEALTH TRUST

## STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
AMOUNTS CURRENTLY PAYABLE TO OR FOR PARTICIPANTS, BENEFICIARIES, AND DEPENDENTS:		
Balance at beginning of year	\$ 3,310,853	\$ 3,553,681
Claims reported and approved for payment	112,964,785	100,288,742
Claims paid	<u>(111,025,314)</u>	<u>(100,531,570)</u>
Balance at end of year	<u>5,250,324</u>	<u>3,310,853</u>
OTHER OBLIGATIONS FOR CURRENT BENEFIT COVERAGE, at estimated amounts:		
Balance at beginning of year	11,797,882	8,234,599
Net change during year	<u>(3,066,885)</u>	<u>3,563,283</u>
Balance at end of year	<u>8,730,997</u>	<u>11,797,882</u>
TOTAL OBLIGATIONS OTHER THAN POSTRETIREMENT BENEFIT OBLIGATIONS	<u>13,981,321</u>	<u>15,108,735</u>
POSTRETIREMENT BENEFIT OBLIGATIONS:		
Retiree life insurance	<u>818,395</u>	<u>1,118,333</u>
TOTAL BENEFIT OBLIGATIONS, END OF YEAR	<u>\$ 14,799,716</u>	<u>\$ 16,227,068</u>

See accompanying notes

## TEACHERS HEALTH TRUST

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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#### NOTE 1 – DESCRIPTION OF THE TRUST

The following description of the Teachers Health Trust (the "Trust") provides only general information. Trust participants should refer to the Trust Agreement and plan document for a more complete description of the Trust provisions.

**General** - On October 1, 1983, as a result of contract negotiations between the Clark County Education Association ("CCEA"), operating at that time as the Clark County Classroom Teachers Association ("CCCTA"), and the Clark County School District ("CCSD"), the Trust was created under NRS 287.010. The responsibilities of administration and management of health and welfare benefits shifted from the CCSD, as an employer, to the CCEA as bargaining agents of education employees. The Trust was established by the CCEA to administer health benefits for its participants. All licensed employees of CCSD paid on the teachers' salary schedule and eligible for representation by the CCEA, and other groups identified by the Teachers Health Trust Board of Trustees, are eligible for coverage. The Trust has elected to follow, but is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended.

**Benefits** - The Trust provides medical, prescription drug, dental, vision, behavioral health, and death benefits to eligible participants. Participants become eligible for coverage on the first day of the month following their hire date.

**Contributions** - The collective bargaining agreement with the CCSD provides for monthly contributions to the Trust for eligible employees of the CCSD. The contribution rate is determined through collective bargaining between the CCEA and the CCSD. Participants may elect to make contributions to extend coverage to their eligible dependents. Any active participant who retires may elect to participate in the Teachers Health Trust Retiree Plan, on a self-pay basis, for retiree benefits in accordance with the terms of the plan document.

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** - The Trust maintains its records on the accrual basis of accounting. Revenue is recognized when earned, and administrative expenses are recognized when incurred.

**Investments** - Investments consist of a money market account and mutual funds through Charles Schwab, a certificate of deposit with Bank of Nevada. The money market account and mutual funds are recorded at fair market value based on quoted market prices. The certificate of deposit is recorded at cost, which approximates market. Purchases and sales of investments are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date and interest income on the accrual method. The Trust has contracted with an investment consultant, investment manager, and investment custodian to manage the Trust's investment assets.

**Cash Equivalents** - The Trust considers all highly liquid investments with maturity of three months or less at the date of purchase to be cash equivalents.



TEACHERS HEALTH TRUST

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed Assets, Net** - Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the various assets. The Trust depreciates its fixed assets using an estimated useful life of 40 years for buildings, 10 years for office furniture and equipment, and 5 years for computer hardware and software and telephone equipment. Costs of major improvements are capitalized, while costs of normal maintenance and repairs are expensed as incurred.

**Use of Estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates used by the Trust include the total benefit obligation and changes therein, claims incurred but not reported, claims payable, and the estimated useful lives for depreciable assets. Actual results could differ from these estimates.

**Priorities upon Termination** - Except as may be otherwise provided by law, in the event of termination, the Trust agreement provides that any monies remaining in the Trust will be used for the continuance of the purpose for which the Trust was established and for the administrative expense of the Trust, until such monies are exhausted.

**Other Assets** – Other assets consists primarily of construction-in-progress and deposits for security alarm, utilities, and workers compensation policy.

**State Emergency Fund** – CCSD received a state insurance subsidy pursuant to Senate Bill 525 (SB 525). The purpose of the SB 525 funding was to supplement the unexpected expenses related to providing health insurance for employees during the 2005-2007 biennium. The Trust's pro rata share of the subsidy per its agreement with CCSD totaled \$0 and \$1,900,000 for the fiscal years ended June 30, 2007 and 2006, respectively.

**Benefits and Insurance Premiums** – Benefits and insurance premiums are recorded when paid.

**Claims Payable and Estimated Claims Incurred but Not Reported** - Plan obligations at June 30, 2007 and 2006, for health claims payable and claims incurred by participants but not reported at that date, are estimated by the Trust's actuary in accordance with accepted actuarial principles.

**Income Taxes** - Based on a determination received from the Internal Revenue Service ("IRS") the Trust is exempt from federal income tax based upon Section 501 (c)(9) of the Internal Revenue Code ("IRC"). Accordingly, the Trust's net investment income is exempt from income taxes. The Trust has obtained a favorable tax determination letter, dated March 21, 1991, from the IRS, and management of the Trust believes it continues to qualify and to operate in accordance with applicable provisions of the IRC.

**Reclassifications** - Certain amounts in the 2006 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**TEACHERS HEALTH TRUST**

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

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**NOTE 3 – CONTRIBUTION RATE**

Under the terms of a July 1, 2003, collective bargaining agreement, the CCSD contribution for each participating licensed employee was increased to \$433.78 per month effective July 1, 2006. The previous contribution rate, effective July 1, 2005, for each eligible employee was \$401.09. The collective bargaining agreement remains effective until a new rate is negotiated.

**NOTE 4 – INVESTMENTS**

The Trust retains an investment consultant and manager to manage the Trust investments according to the investment policies established by the Trust's Board of Trustees. Investments consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Mutual funds – bond	\$ 14,099,908	\$ 10,426,182
Mutual funds – equity	6,273,308	6,784,195
Mutual funds – index	549,347	569,124
Certificate of deposit	-	2,060,433
Money market account	<u>154,694</u>	<u>78,594</u>
	<u>\$ 21,077,257</u>	<u>\$ 19,918,528</u>

The fair market value of individual investments that represent 5% or more of the Trust's net assets are as follows:

	<u>2007</u>	<u>2006</u>
Mutual Funds:		
PIMCO Diversified Income Fund, Class I (192,564 shares)	\$ 2,089,323	\$ 1,598,340
PIMCO Real Return Fund, Institutional Class (197,655 shares)	2,079,327	1,568,004
PIMCO Total Return Fund, Institutional Class (841,517 shares)	8,549,813	6,277,420
Certificate of Deposit:		
Bank of Nevada	-	2,060,433

During 2007 and 2006, the Trust's investments in mutual funds (including investments bought, sold and held during the year) appreciated in value by \$985,704 and depreciated in value by \$496,487, respectively. Additionally, during 2007 and 2006, the Trust received dividends of \$749,314 and \$785,445, respectively. These amounts are included in "Interest and other income" on the accompanying statements of changes in net assets available for benefits.

# TEACHERS HEALTH TRUST

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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### NOTE 5 – CONCENTRATION OF CREDIT RISK

The Trust maintains its cash balances with Bank of Nevada. At June 30, 2007, the Trust's bank balances totaled \$11,023,688, which is substantially in excess of the insurance coverage provided by the Federal Deposit Insurance Corporation. Trust management periodically evaluates financial soundness of the financial institution and believes such assets do not pose a financial risk to the Trust.

### NOTE 6 – FIXED ASSETS

Fixed assets, net are summarized as follows at June 30:

	<u>2007</u>	<u>2006</u>
Building – 2950 E. Rochelle Avenue	\$ 2,796,216	\$ 2,785,260
Land – 2950 E. Rochelle Avenue	640,000	640,000
Office furniture and equipment	487,424	453,754
Computer hardware and software	4,343,893	4,025,464
Telephone equipment	<u>236,361</u>	<u>145,070</u>
	8,503,894	8,049,548
Accumulated depreciation	<u>(3,910,696)</u>	<u>(3,286,927)</u>
Total fixed assets, net	<u>\$ 4,593,198</u>	<u>\$ 4,762,621</u>

Depreciation expense for the years ended June 30, 2007 and 2006 totaled \$661,362 and \$818,311, respectively.

### NOTE 7 – RELATED PARTIES

On April 12, 2005, CCEA signed a cancelable lease agreement with the Trust to rent office space in the building located at 2950 E. Rochelle Avenue. CCEA pays \$2,500 rent per month for the first twelve months and \$2,817 thereafter. See Note 6 for the cost of the land and building at June 30, 2007 and 2006. Accumulated depreciation on the building was \$215,367 and \$139,646 at June 30, 2007 and 2006, respectively.

The Trust also reimburses CCEA for costs incurred based on the relationship agreement between the CCEA and the Trust. The Trust and CCEA are separate entities and maintain separate records. As of June 30, 2007 and 2006, the Trust had a receivable due from CCEA of \$21,565 and \$19,810, respectively. In addition, the Trust had a payable due to CCEA of \$96,155 and \$28,442, respectively. Amounts paid to CCEA were \$384,106 and \$437,634, for the years ended June 30, 2007 and 2006, respectively.

### NOTE 8 – BENEFIT OBLIGATIONS

The Trust's benefit obligations, excluding the postretirement benefit obligation, represents claims incurred but not reported, claims unprocessed, claims in ready-to-pay status but not yet paid, insurance premium payable, and prescription drug claims payable. As of June 30, 2007, and 2006, the Trust had recorded benefit obligations (excluding the postretirement

## TEACHERS HEALTH TRUST

### NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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#### NOTE 8 – BENEFIT OBLIGATIONS (continued)

benefit obligation) of \$13.98 million and \$15.11 million, in the accompanying statements of benefit obligations, of which \$5,250,324 and \$3,310,853 is currently payable as of June 30, 2007 and 2006, respectively. The remaining amounts of \$8,730,997 and \$11,797,882 represent claims incurred but not reported.

As presented in the statements of changes in benefit obligations, the accumulated postretirement benefit obligation (APBO) is \$818,395 and \$1,118,333 as of June 30, 2007 and 2006, respectively. The APBO represents the liability for life insurance costs that exceed the value of the premiums charged to retirees.

The amount reported as the postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed by the terms of the plan. Benefits include amounts expected to be paid to retired or terminated employees or their beneficiaries. The actuarial present value of postretirement benefits is determined by an actuary and it is that amount that results from applying actuarial assumptions to adjust the postretirement benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and expected date of payment. The significant actuarial assumptions used in the June 30, 2007 (valuation date) and June 30, 2006 (valuation date) valuations were:

- **Discount Rate:** 7%
- **Mortality:** RP-2000 Combined Healthy Mortality Table for June 30, 2006  
RP-2000 Mortality Table for June 30, 2007

The foregoing actuarial assumptions are based on the presumption that the Trust will continue. Were the Trust to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated postretirement benefit obligation.

For all medical plans, there is no APBO since the current retiree contribution rates are expected to cover the upcoming fiscal year's retiree costs and the Trust intends to increase retiree contributions to pay for retiree costs every year into the future.

#### NOTE 9 – COMMITMENTS

The Trust pays monthly license and maintenance fees of \$18,701 for up to 30,000 members and an additional \$1,560 for each additional 2,500 members under a software licensing agreement signed with Quality Care Solutions, Inc. (QCSI).

#### NOTE 10 – EMPLOYEE BENEFIT PLAN

Effective January 1, 2007, the Trust established a 401(k) plan for its employees. No contributions to the plan were made or required to be made by the Trust for the year ended June 30, 2007.

TEACHERS HEALTH TRUST

NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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NOTE 11 – SUBSEQUENT EVENTS

**Contribution Rate** – Under the terms of the collective bargaining agreement, the CCSD monthly contribution for each participating licensed employee will increase effective July 1, 2007. The new rate is still under negotiation.

**Construction In Progress** – In October 2007, the Trust entered into a construction contract in the amount of \$2,281,967 to expand the Trust’s office building.

NOTE 12 – OTHER MATTERS

In connection with its 74<sup>th</sup> session, the State of Nevada Legislature passed Senate Bill No. 544 (SB 544) on June 13, 2007. SB 544 removes the option of retirees of local governments to join the State's Public Employees' Benefits Program (PEBP) if the local government was not a participant in PEBP effective November 30, 2008. Currently, CCSD is not a participant in PEBP and thus they, CCEA and the Trust are seeking ways to include future retirees in the Trust's insurance programs.

**SUPPLEMENTAL SCHEDULES**

# TEACHERS HEALTH TRUST

## SUPPLEMENTAL SCHEDULES OF ADMINISTRATIVE EXPENSES FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Salaries and related expenses		
Administrative	\$ 3,871,547	\$ 3,791,753
Health Traxx newsletter	14,355	-
Lifestyle decisions - wellness	171,407	-
Medical PPO network	334,123	145,145
Imaging	204,285	44,558
Benefit communications	14,354	-
	<u>4,610,071</u>	<u>3,981,456</u>
Depreciation expense	661,362	818,311
Computers - supplies and maintenance	444,689	416,770
Community foundation service fees	225,000	225,000
Claims data entry for electronic submission	147,695	25,980
Administrative fees	216,513	209,551
Rent	5,560	5,302
Benefit communications	233,188	247,565
Legal fees	205,932	113,568
Building expenses	129,150	109,923
Audit fees	56,700	29,100
Postage	105,538	62,466
Printing	63,679	49,964
Hospital service purchasing coalition fees	76,272	73,324
Health Traxx newsletter	37,395	45,450
Health education program	66,141	103,681
Telephone	31,479	28,726
Office expense	41,306	42,138
Professional fees	141,267	53,815
Claims review and processing expense	48,952	44,003
Bank charges	10	3,753
Fiduciary insurance	31,097	29,625
Manager and partner meetings and training	16,135	66,318
Insurance expense	16,029	15,960
Publications, subscriptions and dues	12,095	4,046
Payroll processing fees	7,826	6,689
Employee search	249	7,283
Repairs and maintenance	1,186	-
Temporary employee expense	-	149,876
Trustee meetings	600	274
	<u>600</u>	<u>274</u>
Total	<u>\$ 7,633,116</u>	<u>\$ 6,969,917</u>

# TEACHERS HEALTH TRUST

## SUPPLEMENTAL SCHEDULES OF INSURANCE PREMIUMS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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	<u>2007</u>	<u>2006</u>
POS/HMO Plan - Health Plan of Nevada	\$ 5,726,395	\$ 10,663,963
Pacificare/Secure Horizons	374,735	-
Group Term Life Insurance - C.N.A./Hartford	1,257,463	1,230,918
Utilization Management - Encompass	466,187	390,165
Medical PPO Network	111,959	144,377
Behavioral Health - HBI	203,358	176,774
Vision PPO Network - Vision Service Plan	163,360	153,148
Dental PPO Network - Diversified Dental	138,699	129,555
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Total	<u>\$ 8,442,156</u>	<u>\$ 12,888,900</u>