NEVADA PUBLIC AGENCY INSURANCE POOL

FINANCIAL STATEMENTS

June 30, 2006 and 2005

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Management's Discussion and Analysis

Purpose:
To further understanding of significant financial issues, this Nevada Public Agency Insurance Pool discussion and analysis a) provides an overview of the Pool's financial activities, b) identifies significant changes in the Pool's financial position and its ability to address subsequent year financial challenges, and c) provides insights into the long-term financial viability of the Pool.

Background:
As a result of changes in the Governmental Accounting Standards Board (GASB) requirements set forth in GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*, implementation begins with this financial year of the Pool. The Pool's financial information must be accompanied by enhanced analysis, both short and long term, and explanations of significant financial statement elements. Since the Nevada Public Agency Insurance Pool operates as an enterprise created pursuant to NRS 277, the Interlocal Cooperation Act, its financial statements will be presented in a manner that reflects its operations much like a private company.

Using this Annual Report:
Since the financial statements report information about the Pool using accounting methods similar to those used by private sector organizations, these statements offer short and long term financial information about the Pool's activity. The Statement of Net Assets includes all of the Pool's assets and liabilities and information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluation of the capital structure and for assessing the liquidity and financial flexibility of the Pool.

Current year revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Pool's operations for the fiscal year compared to the previous year and can be used as a measure of the Pool's credit worthiness and whether Pool successfully recovers its costs through its sources of revenue.

The Statement of Cash Flows serves to provide information about the Pool's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations and investments. It also discloses from where cash comes, for what it was used and the change in cash balance during the reporting period. Since the Pool incurs financial obligations to pay for claims that occurred in the past from current year resources and at the same time receives revenue that it must retain for payment of future claims from future resources, cash flow may vary significantly from year to year.

Financial Highlights:
By board policy, the Pool is audited each year by an independent auditor. Since its inception on May 1, 1987 and continuing through this fiscal year, the independent auditor's report offers an unqualified opinion on the financial statements. Such an opinion reflects the highest opinion that can be obtained from an independent auditor.

Total Assets of the Pool increased from $17,651,699 as of fiscal year end June 30, 2005 to $21,000,513 as of fiscal year end June 30, 2006. During previous fiscal years 2001 and 2002, the board purchased land and built its office building located at 201 S. Roop Street, Carson City, Nevada. As a result, $2,140,889 of the total assets for fiscal year end June 30, 2006 consists of capital assets.

Included in the total assets is the Pool's investment in the current fiscal year in starting its own non-profit captive mutual insurance company, Public Risk Mutual, in the amount of $1,000,000, an amount to be amortized over 10 years. Public Risk Mutual provided reinsurance to the Pool for certain property and liability coverage during this year. Although it operates independently, it is owned by Pool members and its board of directors consists of key leaders from the Pool board including its Fiscal Officer.

Total unpaid claims and claims adjustment expenses decreased from $9,334,000 for fiscal year end June 30, 2005 to $8,766,000 for fiscal year end June 30, 2006, a reduction of $568,000. A substantial portion of this change arises from decreases in provisions for insured events of prior years in the amount of $4,489,000 offsetting increases in reserves for events of the current year in the amount of $3,901,000 for a net decrease of $568,000 for the year ended June 30, 2006.

The Pool's primary revenue source comes from Member contributions to the Pool's Loss Fund, administrative budget and excess insurance and reinsurance costs. Rental income and interest income on investments constitute secondary revenue sources.

Operating revenues increased from $11,160,241 as of fiscal year end June 30, 2005 to $11,719,575 as of fiscal year end June 30, 2006, an increase of $559,334 (5%). Operating expenses decreased from $10,190,631as of fiscal year end June 30, 2005 to $7,864,349 as of fiscal year end June 30, 2006, a decrease of $2,326,282 or 30%. Overall operating net assets increased from $969,610 for fiscal year end June 30, 2005 to $3,855,226 for fiscal year ended June 30, 2006, an increase of $2,885,616 in one year, primarily as a result of decreases in prior year claims and claims adjustment expenses and a reduction in excess insurance costs.

Non-operating assets net of investment expenses for fiscal year ended June 30, 2006 increased by $66,549 compared to $408,090 for fiscal year ended June 30, 2005 on a portfolio of about $17 million invested when marked to market value. Pool is restricted by Nevada statutes to invest in governmental securities in the same manner as other political subdivisions. Securities, while marked to market value for the financial statement, normally are held to maturity and management anticipates earning full coupon rates for most of the investments.

Financial Analysis:
In order to enhance analysis, comparative information is provided for assets, liabilities, net equity, revenues and expenses in the chart following this narrative. Prior years, while not subject to GASB 34 requirements, are shown in a manner that, in all material respects, reflects an accurate comparison.

The benchmarks shown resulted from a pooling and captives' industry study conducted a few years ago by Tillinghast and provides a useful tool to facilitate management's analysis and understanding of the financial results. Other performance indicators may be used by insurance companies but are not necessarily useful comparative indicators for risk pools.

Assets:
Assets continued to grow steadily over the past several years from $4,046,171 in fiscal year ending June 30, 1997 to $21,000,513 for fiscal year ended June 30, 2006. The increase in total assets between fiscal years ending June 30, 2005 and June 30, 2006 was $3,348,814, a 19% increase. This strong asset base enables the Pool to absorb adverse fluctuations in claims reserve

development and investment income declines (both of which occurred in other fiscal years) without significantly impairing its ability to sustain operations or causing its key performance indicators to go outside of the benchmark ranges. It also enables the Pool to retain additional risk thus lowering the costs of excess insurance or reinsurance.

Revenues, Expenses and Changes in Assets:
Operating revenues increased from $11,160,241 as of fiscal year end June 30, 2005 to $11,719,575 as of fiscal year end June 30, 2006, an increase of $559,334 or 5% due largely to decreased losses and loss adjustment expense actuarial projections and casualty reinsurance rate decreases.

Non-operating assets net of investment expenses for fiscal year ended June 30, 2006 increased only $66,549 (a 0.239% return) marked to market value on a $17 million portfolio compared to $408,090 (a 3% return) on a portfolio of $13.7 million invested for fiscal year ended June 30, 2005 when marked to market value. Since Pool normally holds its investments to maturity, it is likely to achieve the coupon rates over time and present lowered market value does not present a significant problem.

Operating expenses decreased from $10,190,631 as of fiscal year end June 30, 2005 to $7,864,349 as of fiscal year end June 30, 2006, a decrease of $2,326,282 or 30%. Loss and loss adjustment expenses declined by $2,152,139. Excess insurance premiums decreased by $359,993. Pool administration expenses increased by $209,863 of which $77,171 was from increased operating expenses, $71,608 from increased member education and training expenses and $32,795 from increased consultant/appraisal costs.

Actuarial
The actuarial analysis for the current fiscal year revealed a significant reduction in prior years' estimated incurred losses, particularly in the last two years. In analyzing the factors leading to this positive change, several factors appear to apply: 1) ASC's (Pool's claims administrator) effective litigation management approach and experienced adjusters have been able to manage claims efficiently and effectively, thus reducing reserves or closing claims more quickly and cost effectively, as borne out by independent claims audits; 2) loss control efforts, including the Cooperative for Human Resources Management, have proven effective in avoiding or mitigating losses.

Both property and casualty coverages can experience significant volatility particularly when the retention levels per loss are high. Because the Pool retains a substantial portion of the property risk ($150,000 per loss) and of the casualty risk ($500,000 per loss), it is important to the long term viability of the Pool to be able to meet its financial obligations to its Members that the Pool grow its net assets. Insurance market conditions periodically make it important to be able to increase our retentions, which results in increased volatility that needs to be cushioned strongly. Pool management selected a 75% actuarial confidence level as a prudent level to develop a strong financial position in keeping with the Pool Board's goals of creating and sustaining a durable financial position.

Capital Assets and Debt Administration:
With the Pool's purchase of land and completion of construction of its headquarters building, the Pool's capital assets comprise 10% of its total assets. The building generates rental income and also diversifies the Pool's investments. The Pool remains debt free.

Creation by the Pool of Public Risk Mutual, its own non-profit captive mutual insurance company, by investing $1,000,000 created an additional capital asset that comprises 4% of the Pool's total capital assets.

Economic Factors:
For fiscal year ending June 30, 2006, economic conditions indicate a mixed economy. Medical inflation generally is running at about 12% nationally and this affects the underlying costs of claims payable by Pool. Based upon claims activity and the tendency of plaintiffs to appeal judgments more often, litigation costs continue to rise. The Pool's defense costs have risen as a result of the types of cases being filed and the increase in the hourly rate that assures retention of competent counsel to handle civil rights cases in particular.

Both fiscal years ending June 30, 2005 and June 30, 2006 evidenced difficult insurance market conditions for property and liability reinsurance. Rates in property coverage reversed previous downward trends as the effect on the world reinsurance market from hurricanes caused the property markets substantially to reduce capacity and increase rates. Liability rate increases that had spiked upward dramatically in the prior year settled down but did not reduce. The Pool had increased its property and liability retentions in the previous year and remarketed for a reinsurance program to gain control over form language and to mitigate costs. Public Risk Mutual, the POOL's captive, took on a share of the property and casualty reinsurance. POOL also continued its membership in County Reinsurance, Ltd., a captive mutual insurer, for liability coverage reinsurance.

The governmental securities markets lowered investment income continued unabated during this fiscal year due to poor bond market conditions in the government sector. Pool intends to keep most of its funds invested to maturity, a strategy which will enable the Pool to obtain the coupon rate as they mature, thus offsetting some of the marked to market value reductions. However, coupon rates have been falling so the bond market will not likely yield robust returns for the near term. Management is reevaluating the mix of investments as market conditions have begun to show opportunities to enhance results.

Subsequent Events:
As a result of concerns expressed by the Cooperative for Human Resources Management Oversight Committee, the POOL and PACT Board considered a limited renewal contract with the current vendor and the possibility of conducting a proposal process to determine whether alternatives could be obtained. However, the Boards' renewal contract offer was rejected by the vendor and the Executive Committees determined not to consider this vendor for another offer. Subsequently, they directed the Executive Director to develop alternatives for consideration. The Executive Committees then approved a grant to a nonprofit organization created by the Executive Director, called Pooling Resources, Inc., to provide the same human resources services and hire the remaining staff of the previous vendor. This two-year grant became effective on July 1, 2006.

Requests for Information:
While the purpose of this discussion and financial report is to provide a general overview of the Pool's financial position, requests for additional financial information should be addressed to Wayne Carlson, Executive Director, 201 S. Roop, Suite 102, Carson City, NV 89701-4790.

Wayne Carlson, Executive Director
Nevada Public Agency Insurance Pool

Key Financial Ratios	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006
Total Revenue	$ 5,649,046	$ 7,229,308	$ 10,654,954	$ 11,131,225	$ 11,160,241	$ 11,719,575
Total Income (excludes special reserve adjustments 96 & 98)	$ 1,467,275	$ 978,219	$ 1,256,911	$ (453,530)	$ 1,377,700	$ 3,921,775
Net Operating Income	$ 692,448	$ 287,592	$ 539,285	$ (487,562)	$ 969,610	$ 3,855,226
Net Investment Income	$ 774,827	$ 690,627	$ 717,626	$ 34,032	$ 408,090	$ 66,549
Total Assets	$ 8,386,164	$ 10,661,156	$ 12,692,777	$ 15,085,028	$ 17,651,699	$ 21,000,513
Total Liabilities	$ 3,288,814	$ 4,585,587	$ 5,360,297	$ 8,206,078	$ 9,395,049	$ 8,822,088
Retained Earnings	$ 5,097,350	$ 6,075,569	$ 7,332,480	$ 6,878,950	$ 8,256,650	$ 12,178,425
Retained Earnings to SIR (Board target: 8:1)	20.4	24.3	20.9	19.7	16.5	24.4
SIR to Retained Earnings (Benchmark: captives <.10; group capitves <.25)	0.05	0.04	0.05	0.05	0.06	0.04
% Assets attributable to Retained Earnings	60.8%	57.0%	57.8%	45.6%	46.8%	58.0%
Total assets/total liabilities	2.55	2.32	2.37	1.84	1.88	2.38
Revenues to Retained Earnings (Benchmark: <2.5:1 and >0	1.11	1.19	1.45	1.62	1.35	0.96
Loss Reserves to Retained Earnings (discounted): Benchmark <3:1 and >0	0.62	0.73	0.72	1.18	0.44	0.12
Total liabilities to liquid assets: Benchmark <100%	39%	43%	52%	64%	47%	38%
Change in Retained Earnings: >-10%	40.4%	19.2%	20.7%	-6.2%	20.0%	47.5%
Return on Retained Earnings: Net Operating Income/Retained Earnings	13.6%	4.7%	7.4%	-7.1%	11.7%	31.7%

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Net Assets
June 30, 2006 and 2005

ASSETS	**2006**	**2005**
Current assets:		
Cash and equivalents	$ 602,096	$ 326,557
Investments – Note C	17,001,375	13,701,470
Deductibles receivable	6,691	9,489
Prepaid expenses	61,894	47,563
Specific and aggregate recoverables	367,220	453,732
Other receivables	20,348	17,436
Total current assets	18,059,624	14,556,247
Capital assets:		
Land, building and equipment – Note D	2,327,849	2,327,849
Less accumulated depreciation	(186,960)	(132,397)
	2,140,889	2,195,452
Investment in Public Risk Mutual– Note I	1,000,000	1,000,000
Less amortization	(200,000)	(100,000)
Total non-current assets	800,000	900,000
Total Assets	**$ 21,000,513**	**$ 17,651,699**
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	$ 56,088	$ 61,049
Current portion of reserve for claims and adjustment expenses - Note G	3,726,617	3,459,017
Total current liabilities	3,782,705	3,520,066
Non-current liabilities:		
Reserve for claims and claims adjustment expenses – Note G	5,039,383	5,874,983
Total non-current liabilities	5,039,383	5,874,983
Net assets, unrestricted	10,037,536	6,061,198
Net assets, invested in capital assets	2,140,889	2,195,452
Total net assets	12,178,425	8,256,650
Total Liabilities & Net Assets	**$ 21,000,513**	**$ 17,651,699**

See accompanying notes to basic financial statements

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Revenues, Expenses and Changes in Net Assets
For Years Ended June 30, 2006 and 2005

	2006	**2005**
Operating revenues:		
Premiums written	$11,489,413	$ 10,931,164
Rental income	228,840	223,200
Other income	1,322	5,877
Total revenues	11,719,575	11,160,241
Operating expenses:		
Losses and loss adjustment expenses	1,473,894	3,626,033
Excess insurance premiums	3,358,462	3,718,455
Pooling and loss control fees	494,886	510,000
Third party administrator fees	353,413	320,555
Agent commissions	472,938	467,112
Taxes written	3,978	51,561
Total program expenses	6,157,571	8,693,716
Management fees	396,756	382,700
Building maintenance and utilities	32,411	33,265
Depreciation	54,563	54,564
Amortization	100,000	100,000
Travel	18,203	8,013
Casualty insurance	37,416	32,781
Operating expenses	256,748	179,577
Legal expenses	15,752	20,318
Loss control awards	20,250	15,421
Consultant appraisals	59,450	26,655
Member education & training	715,229	643,621
Total pool administration expenses	1,706,778	1,496,915
Total operating expenses	7,864,349	10,190,631
(Decrease) Increase in operating net assets	**$3,855,226**	**$ 969,610**
Increase in non-operating net investment income	66,549	408,090
(Decrease) Increase in net assets	**$ 3,921,775**	**$ 1,377,700**
Net assets, beginning of year	8,256,650	6,878,950
Net assets, end of year	**$ 12,178,425**	**$ 8,256,650**
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See accompanying notes to basic financial statements

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Cash Flows
For Years Ended June 30, 2006 and 2005

Cash Flows from Operating Activities:	**2006**	**2005**
Premiums written	$11,489,413	$ 10,931,164
Rental income	228,840	223,200
Other revenues	1,322	5,877
Payment for claims	(1,961,000)	(2,412,033)
Payment to vendors	(6,249,680)	(7,520,430)
Net Cash Provided from Operating Activities	3,508,895	1,227,778
Cash Flows from Investing Activities:		
Interest, dividends and realized net gains on investments	66,549	432,910
Purchases of investments	(5,000,000)	(3,410,392)
Proceeds from sales of investments	1,600,000	1,525,000
Net Cash Used for Investing Activities	(3,333,451)	(1,452,482)
Increase (decrease) in Cash and Cash Equivalents	275,539	(224,704)
Cash and Cash Equivalents, beginning of fiscal year	326,557	551,261
Cash and Cash Equivalents, years ended June 30	**$ 602,096**	**$ 326,557**
	========	=======

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating net income (loss)	$ 3,855,226	$ 969,610
to net cash provided by operating activities:		
Deductible receivable	2,798	34,840
Depreciation	54,563	54,563
Prepaid expense	(14,331)	(33,797)
Specific excess recoverable	86,512	(87,755)
Other receivables	(2,912)	1,346
Investment in Public Risk Mutual	-	(1,000,000)
Amortization	100,000	100,000
Accounts payable	(4,961)	(25,029)
Claims and loss adjustment expenses	(568,000)	1,214,000
Net Cash Provided by Operating Activities	**$ 3,508,895**	**$ 1,227,778**
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See accompanying notes to basic financial statements

NOTE A - NATURE OF ORGANIZATION

The Nevada Public Agency Insurance Pool (Pool) is a quasi-governmental entity formed by an intergovernmental agreement between political subdivisions of the state of Nevada and organized to operate as a group self insurer. The purpose of the organization is to seek the prevention or lessening of casualty losses to its members and injuries to persons, which might result in claims being made against such members. In addition to self-funding and excess insurance protection, the program provides risk management services with emphasis on loss control, claims administration, and management support services.

The Pool is fully funded by member participants. Members file claims with ASC, which has been contracted to perform claims adjustments for the Pool.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Presentation

The Nevada Public Agency Insurance Pool has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. POOL has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments***.**

The financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises, where applicable, which may differ from the basis of accounting followed in statutory reporting.

Accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash Equivalents:

For purposes of the statement of cash flows, the Pool considers investments that mature within 90 days after the balance sheet date to be cash equivalents.

Investment and Interest Income:

Investments are recorded at fair market value. Interest income, realized and unrealized gains and losses are shown as net investment income.

The Pool is authorized, by state statutes, to make investments in bonds and debentures of the United States, bills and notes of the U.S. Treasury the maturities of which cannot be more than 10 years from date of purchase. The Pool is also authorized to purchase negotiable certificates of deposit issued by commercial banks or insured savings and loan associations, the U.S. Postal Service and Government National Mortgage Association securities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deductible and Specific Excess Recoverable Receivables:

Deductibles receivable represents the portion of a claim to be collected from members.

Specific excess recoverables represents amounts to be collected from excess insurers on claims made by members against the Pool in excess of the Pool's retention.

Legal Fees:

Legal fees included in administration expenses are primarily for corporate legal work only; all legal expenses associated with a particular claim are charged directly to that claim's experience. Legal work on claims affects losses incurred and loss adjustment expenses.

Losses and Loss Adjustment Expenses:

Reserves for losses and allocated loss adjustment expenses are provided based on case basis estimates for losses reported and Pool's historical loss experience for claims incurred but not reported (IBNR). The liability for unpaid losses and loss adjustment expenses includes the estimated cost of investigating and settling all claims incurred as of the balance sheet date. Such amounts are determined on the basis of an evaluation of the Pool's independent consulting actuary. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money. Although such estimates are Pool's best estimates of the expected values, the actual results may vary from these values.

Member Loss Fund Contributions and Unearned Member Loss Fund Contributions:

Member contributions are collected in advance and recognized as revenue in the period for which insurance protection is provided. Contributions are allocated by PARMS with actuarial input.

Federal Income Taxes:

The Pool has received a determination letter from the Internal Revenue Service Stating the Pool's income is excludable from gross income for federal income tax purposes. The Pool is considered an exempt governmental agency in accordance with Internal Revenue Service Code Section 115.

NOTE C – CASH AND INVESTMENTS

The carrying amount of the Pool's deposits with financial institutions at June 30, 2006 and 2005 are $602,096 and $326,557, respectively.

A summary of cash and investments as of June 30, 2006 and 2005 is as follows:

	Fair value	
	2006	**2005**
Category 1 classification:		
Cash and equivalents	$ 602,096	$ 326,557
U.S. Government Securities	5,893,485	6,637,059
Mortgaged backed securities	8,286,214	5,292,032
Federal Home Loan Mortgages	590,436	1,447,033
Federal National Mortgage Assoc.	129,219	199,946
Miscellaneous government securities	1,959,678	-
Accrued Income	142,343	125,400
Total Category 1	$17,603,471	$14,028,027
	========	========

Financial institution balances at June 2006 and 2005 are $ 553,065 and $472,898, respectively.

	2006	2005
Amounts insured by FDIC	$ 100,000	$ 100,000
Amounts collateralized with securities held by the pledging Financial institution's trust department or its agent in the Pool's name	386,115	176,252
Securities held in trust by brokerage firm	115,981	50,305
Total deposits at financial institutions	$ 602,096	$ 326,557
	=======	=======

Pool maintains its cash, cash equivalents and investments in a commercial bank and a brokerage institution. All amounts in the commercial bank are insured by the FDIC or collateralized. Amounts at the brokerage firm are insured through SIPC and additional amounts are insured by the broker through an insurance company.

Pool's cash and investments would generally be categorized into one of three separate credit risk categories. Category 1 includes investments that are insured or registered, or are held by Pool or its agent in the Pool's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in Pool's name. Category 3 includes uninsured and unregistered investments, held by the counterparty, or by its trust department or agent, but not in Pool's name. There were no Category II or III investments as of June 30, 2006 and June 30, 2005.

NOTE D – LAND, BUILDING AND EQUIPMENT

Building and land are reported at cost less accumulated depreciation. Depreciation is calculated on the straight line basis over the estimated useful lives of the assets. When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. Activity for the year ended June 30, 2006 was as follows:

	Estimated Useful life (years)	June 30, 2005	Additions	Dispositions	June 30, 2006
Land	-	$ 466,653	-	-	$ 466,653
Building and improvements	40	1,783,716	-	-	1,783,716
Furniture and equipment	5 - 7	77,480	-	-	77,480
		2,327,849	-	-	2,327,849
Accumulated depreciation		(132,397)	(54,563)	-	(186,960)
		$ 2,195,452	(54,563)	-	$ 2,140,889
		=======	=======	=======	=======

Property and Equipment activity for the year ended June 30, 2005 was as follows:

	Estimated useful life (years)	June 30, 2004	Acquisitions	Dispositions	June 30, 2005
Land	-	$ 466,653	-	-	$ 466,653
Building & improvements	40	1,783,716	-	-	1,783,716
Furniture and equipment	5 - 7	77,480	-	-	77,480
		2,327,849	-	-	2,327,849
Accumulated depreciation		(77,834)	(54,563)	-	(132,397)
		$ 2,250,015	(54,563)	-	$ 2,195,452
		=======	=======	=======	=======

NOTE E – RETENTION

Nevada Public Agency Insurance Pool (POOL) retains a portion of claims prior to the application of coverage provided by its excess insurance contracts. The coverage limits provided by the Pool within its retention amounts are as follows:

Pool Limits:	2005-2006	2004-2005
Property blanket limit	$200,000	$200,000
Liability per Event	$500,000	$350,000
Crime per loss	$500,000	$100,000
Boiler & Machinery	none	none

Should the cumulative losses paid within the Pool's retention in any one year exceed the Pool's loss fund contributions for that year, the balance would be payable from the Pool's equity.

NOTE F – EXCESS INSURANCE OR REINSURANCE

Nevada Public Agency Insurance Pool (Pool) offers limits as shown in the table below; however, Pool obtains various excess or reinsurance policies from several excess or reinsurance companies to bear a portion of the risks not retained by the Pool under its retention. For the fiscal year ending June 30, 2005, a combination of excess and reinsurance was utilized, but for the fiscal year ending June 30, 2006, only reinsurance was utilized.

Should the cumulative losses paid within the Pool's retention in any one year exceed the Pool's loss fund contributions for that year, the balance would be payable from the Pool's equity. The Pool's retention amounts are described in Note E.

	2006	2005
Property limits		
Blanket limit of $300,000 per loss:	$300,000,000	$300,000,000
Earthquake Aggregate sublimit:	100,000,000	100,000,000
Flood Aggregate Sublimit:	100,000,000	100,000,000
Equipment Breakdown Sublimit:	60,000,000	60,000,000
Money & Securities (including Employee Dishonesty) Sublimit:	500,000	Not applicable
Employee Dishonesty Sublimit:	Not applicable	500,000
Money & Securities (within premises) Sublimit:	Not applicable	250,000
Money Orders and Counterfeit Currency	Not applicable	250,000
Depositor's forgery	Not applicable	250,000
Liability Limits:		
Limits of liability (limits apply per "campus" rather than "per member" for school district members):		
Each and Every Event Limit:	10,000,000	10,000,000
Emergency Response to Pollution Sublimit	1,000,000	1,000,000
Aggregate limits:		
General Aggregate (per member)	13,000,000	13,000,000
Products/Completed Operations Aggregate (per member)	13,000,000	13,000,000
Wrongful Acts Aggregate (per member)	10,000,000	10,000,000
Law Enforcement Aggregate (per member)	13,000,000	13,000,000
Emergency Response to Pollution Aggregate Sublimit:	1,000,000	1,0000,00

NOTE G – UNPAID CLAIMS LIABILITIES

POOL estimates losses and loss adjustment expense based on historical experience and payment and reporting patterns. These estimates are based on data available at the time of the estimate and are reviewed by POOL's independent consulting actuary.

Inherent in the estimates of the ultimate liability for unpaid claims are expected trends in claim severity, claim frequency, and other factors that may vary as claims are settled. The amount and uncertainty in the estimates are affected by such factors as the knowledge of the actual facts and circumstances and amount of historical claims experienced relative to the development period that has been affected by the change in premium levels and increase in closing and settlement of claims.

As discussed in Note A, the POOL establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the POOL in the last two years:

	2006	**2005**
Incurred claims and claim adjustment expenses At the beginning of the fiscal year	$9,334,000	$ 8,120,000
Incurred claims and claim adjustment expenses:		
Provisions for insured events of current year	4,355,000	5,687,000
(Decreases) increase in provision for insured events of prior years	(2,881,106)	(2,060,967)
Total Incurred claim adjustment expenses	1,473,894	3,626,033
Payments:		
Claims and Claim Adjustment Expenses attributable to Insured Events of Current year	(434,000)	(858,000)
Claims and Claim Adjustment Expenses attributable to insured events of prior years	(1,607,894)	(1,554,033)
Total payments	(2,041,894)	(2,412,033)
Total unpaid claims and claims adjustment expenses At fiscal year end June 30	**$ 8,766,000**	**$ 9,334,000**
	========	========

Current portion of the reserve, cash expected to be paid within 12 months, is $ 3,726,617 and the long-term portion is $ 5,039,383.

At June 30, 2006 and 2005, POOL recorded the liability for losses and loss adjustment expenses based on an estimate of its independent consulting actuary. The reserve balances were developed by an independent actuary and is management's best estimate of reserves at June 30, 2006 and 2005.

NOTE H - RELATED PARTY TRANSACTIONS

Beginning January 1, 2003, the Nevada Association of Counties (NACO) entered a lease agreement with POOL to lease office space at 201 S. Roop St in Carson City, Nevada through January 1, 2008. Amounts received for rent totaled $42,444 for the period July 1, 2005 through June 30, 2006.

NACO is a member of both POOL and PACT. Robert Hadfield and Andrew List, Executive Directors of NACO, were authorized to be the second signature on checks disbursed from the Pool's accounts. They and the association were not reimbursed for these services. PARMS provides accounting services to NACO and Wayne Carlson is authorized to be the second signature on checks disbursed from NACO's accounts.

A significant vendor, Larry Beller & Associates, provided human resources consultation services to POOL and PACT members in an effort to reduce liability and costs arising out of employment practices. Larry Beller & Associates was also a tenant in the building owned by the POOL and has signed a lease agreement with similar terms as those offered by NACO and PACT. The rental amount received was $70,644 for the period July 1, 2005 through June 30, 2006. The contract with Larry Beller & Associates was not renewed and expired June 30, 2006.

Public Agency Risk Management Services, Inc. (PARMS) is presently contracting with the POOL and PACT to provide management services. PARMS serves both the POOL and the PACT as the Executive Director/Administrator. PARMS is a service corporation wholly owned by Mr. Wayne Carlson. Contract fees paid for year ended June 30, 2006 was $396,756 and for year ended June 30, 2005 was $382,700.

NOTE I – INTEREST IN PUBLIC RISK MUTUAL COMPANY

In May of 2005, POOL's board of directors authorized the start up of a member-owned nonprofit captive mutual insurance company and capitalized the company with $1,000,000. The new company, named Public Risk Mutual, is domiciled in Nevada and as of September 1, 2005, became the excess property insurer for POOL. Some of the Public Risk Mutual's board members also serve as board members of POOL.

Public Risk Mutual was formed by members of POOL to reduce the costs of insurance, to obtain direct access to reinsurance, to provide broader coverage for policyholders, to broaden investment opportunities and to build equity to enable providing coverage not obtainable elsewhere.

As a condition of capitalization, but without any expectation that the funds will be returned, POOL required that prior to any distributions such as dividends, the capitalization must be repaid to POOL. Management considers the capitalization costs an intangible asset that can provide lower operating costs in the future and estimates that the savings in excess insurance costs to POOL will recoup the start up capital. Therefore, the POOL's interest in PRM will be amortized over 10 years.

NOTE J – SUBSEQUENT EVENT

Effective July 1, 2006, POOL jointly with PACT issued a two-year grant to Pooling Resources, Inc. (PRI), a nonprofit organization formed by the executive director of POOL, Wayne Carlson, and whose directors and officers consist solely of Wayne Carlson, to provide human resources management services to POOL and PACT Members. PRI pays PARMS a management fee to provide operational and financial oversight of PRI.

PRI is required to provide status reports and quarterly financial statements to the POOL and PACT Executive Committees according to the grant document. An initial grant payment in the amount of $87,000 plus monthly installments at the end of each month in the amount of $95,000 comprise the first grant year total of $1,227,000. Then, $95,000 per month for each month in the second grant year comprises the second grant year total of $1,140,000. Pooling Resources, Inc. budgeted to pay POOL $74,160 for use of POOL space for PRI services as part of the grant expenditures for the first grant year.

NEVADA PUBLIC AGENCY INSURANCE POOL
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT (UNAUDITED)
EARNED ASSESSMENTS AND ALLOCATED EXPENSES FOR TEN-YEAR PERIOD - Year ended June 30,

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Required Contributions & Investment Income:										
Earned	$4,736,561	$5,107,648	$5,211,626	$5,499,309	$6,518,276	$8,006,148	$10,688,528	$11,131,225	$11,568,331	$11,786,124
Ceded	(2,019,091)	(1,823,332)	(1,983,539)	(2,218,600)	(1,996,347)	(2,624,815)	(3,677,614)	(4,057,661)	(3,718,455)	(3,358,462)
Net Earned	2,717,470	3,283,316	3,228,087	3,280,709	4,521,929	5,381,333	7,010,914	7,073,564	7,849,876	8,427,662
Unallocated Expenses	992,771	1,182,777	1,274,637	1,291,993	1,382,654	1,694,114	2,429,581	2,762,681	2,846,143	3,031,993
Estimated Incurred Claims & Expenses End of Policy Year:										
Incurred	1,566,593	1,549,000	1,633,000	1,933,000	1,901,000	2,714,000	3,324,422	3,753,413	3,626,034	1,473,894
Ceded		-	-	(320,000)			-	-	-	-
Net Incurred	1,566,593	1,549,000	1,633,000	1,613,000	1,901,000	2,714,000	3,324,422	3,753,413	3,626,034	1,473,894
Paid (cumulative) as of:										
End of Policy Year	366,871	279,778	195,383	360,294	391,563	400,285	637,074	287,229	862,908	434,000
One year	579,994	679,169	647,554	1,002,675	734,699	1,364,292	1,140,140	637,081	1,421,000	
Two Years Later	856,932	1,149,902	732,303	1,449,529	1,033,237	1,904,876	1,724,894	861,000		
Three Years Later	1,095,994	1,347,751	991,833	1,608,000	1,691,933	2,242,586	2,134,000			
Four Years Later	1,105,752	1,105,752	1,504,210	1,004,341	1,896,000	2,429,000				
Five Years Later	1,125,538	1,648,824	999,909	1,613,000	2,160,000					
Six Years Later	1,251,132	1,469,000	1,001,404	1,613,000						
Seven Years Later	1,241,386	1,493,211	996,000							
Eight Years Later	1,263,375	1,369,000								
Nine Years Later	1,259,000									
Re-estimated ceded claims & expenses	784,254	107,823	71,111	2,525,352	177,607	1,298,977	100,872	-	320,136	-
Re-estimated Claims & Expenses										
End of Policy Year	1,566,593	1,549,000	1,633,000	1,613,000	1,901,000	2,714,000	3,174,000	3,676,000	5,687,000	3,797,000
One Year Later	1,614,000	1,608,000	1,614,000	1,613,000	2,102,000	3,042,000	3,774,000	3,019,000	3,482,000	
Two Years Later	1,261,000	1,460,000	1,497,000	1,613,000	1,971,000	3,189,000	2,877,000	2,010,000		
Three Years Later	1,270,000	1,408,000	1,363,000	1,613,000	2,265,000	2,936,000	2,815,000			
Four Years Later	1,235,000	1,454,000	1,029,000	1,613,000	2,157,000	2,689,000				
Five Years Later	1,208,000	1,494,000	998,000	1,613,000	2,161,000					
Six Years Later	1,262,000	1,504,000	999,000	1,613,000						
Seven Years Later	1,229,000	1,501,000	996,000							
Eight Years Later	1,259,000	1,373,000								
Nine Years Later	1,259,000									
Increase (Decrease) in Estimated Claims & Expense from										
End of Policy Year	(307,593)	(176,000)	(637,000)	-	260,000	(25,000)	(509,422)	(1,743,413)	(144,034)	-