PUBLIC AGENCY COMPENSATION TRUST

FINANCIAL STATEMENTS

June 30, 2008 and 2007

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Agency Compensation Trust

I have audited the accompanying statement of net assets of the Public Agency Compensation Trust as of June 30, 2008 and 2007, and the related statements of revenues, expenses, changes in net assets, and the statements of cash flows for the years then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 disclosed 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Public Agency Compensation Trust as of June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the supplemental section, which includes the 10 Year Claims Development schedule, are not a required part of the basic financial statement, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedure, which consisted principally of inquires of management regarding the methods of measurements and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The supplemental schedule on unpaid loss liabilities for the Worker's compensation and Heart & Lung funds, the statutory schedule P requirements and investment schedules prepared in NAIC format is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I express no opinion those schedules.

September 17, 2008
Carson City, Nevada

Management's Discussion and Analysis

Purpose:

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

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*, PACT's financial information must be accompanied by enhanced analysis, both short and long term, and explanations of significant financial statement elements. Since Public Agency Compensation Trust 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 PACT using accounting methods similar to those used by private sector organizations, these statements offer short and long term financial information about PACT's activity. The financial statements show a comparison of two audited years ending June 30, 2008 and June 30, 2007 to facilitate understanding of changes in the financial position over time.

The Statement of Net Assets includes all of PACT'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 PACT.

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 PACT's operations for the fiscal year compared to the previous year and can be used as a measure of PACT's credit worthiness and whether PACT successfully recovers its costs through its sources of revenue.

The Statement of Cash Flows serves to provide information about PACT'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 PACT 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:

Statutory requirements and board policy require PACT to be audited each year by an independent auditor. Since its inception on April 1, 1996 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.

Net assets of PACT increased from $32,236,857 as of fiscal year ended June 30, 2007 to $41,198,184 as of fiscal year ended June 30, 2008, an increase of $8,961,327 or 27.8%.

PACT's primary revenue source comes from Member contributions to the PACT's Loss Fund, administrative budget and reinsurance and excess insurance costs. Interest income on investments constitutes the secondary revenue source.

Total assessments revenues increased from $15,594,155 for fiscal year ended June 30, 2007 to $15,746,515, an increase of $152,360or 0.98%.

Total expenses increased from $3,875,160 as of fiscal year ended June 30, 2007 to $10,252,875, an increase of $3,377,715 or 49.1%. The single most significant factor in the expense increase is attributable to increased claims and adjustment expenses, including heart and lung loss expenses, which increased by $2,432,303 or 68.4%. Prior years' claims reserve adjustments were the primary driving forces behind the results. The development schedule included in the financial statement provides the history of the reserve changes each year over 10 years.

Operating net assets decreased from $8,718,995 as of fiscal year ended June 30, 2007 to $5,493,640, a decrease of $3,235,355 largely as the result of increases in claims and adjustment expenses. As a percentage of assessments revenues, operating net assets decreased from 55.9% to 34.9% respectively. Improved operating net assets demonstrates the effectiveness of operational systems and practices in containing costs including effective claims management, loss control, managed care, wellness programs and other factors. In addition, when potentially significant claims are managed to enable employees to return to work promptly, large indemnity reserves may be reduced.

Net investment income increased by $1,532,943 over the prior year as a result of investment market conditions that resulted in a net gain on investments of $3,467,687 as of fiscal year ended June 30, 2008 compared with a net gain of $1,934,744 as of fiscal year ended June 30, 2007. Investments are marked to market value at the time of the financial statements, which may result in a negative or positive overall result. The investment portfolio consists of governmental type investments which, if held to maturity, will yield the respective coupon rates although interim performance may lag. Most of PACT's investments are anticipated to be held to maturity.

Financial Analysis:

In order to enhance analysis, comparative information is provided for assets, liabilities, net equity, revenues and expenses as shown in the chart at the end of 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 in the chart 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:

In fiscal year ended June 30, 2008, net assets grew by 27.8% or $8,961,327. An explanation about how these results were achieved was provided in the financial highlights. Continuing to grow the asset base is critical to the long term viability and stability of PACT due to the volatility of workers compensation claims and the level of retention taken by PACT. A strong base enables PACT to withstand a substantial reversal in incurred claims costs due to catastrophes or substantially increased high cost claims frequency. Management is aware of organizations similar to PACT that had significant unusual claims activity in one year that wiped out a large portion of their assets in a single year, some of which were driven into deficit situations from which it may take up to ten years to recover. PACT's Board policies require a strong, sustainable and durable financial condition to avoid just such adversity.

Revenues, Expenses and Changes in Assets:

Gross revenues (assessments plus net investment income) grew by only 0.98% for fiscal year ended June 30, 2008 as a result of stable rates and small payroll changes.

Actuarial

The actuarial analysis for the current fiscal year revealed a modest reduction in prior years' estimated incurred losses. Prior year actuarial projections appear to have been overstated in response to a substantial increase in payroll basis that typically results in an increase in the costs of claims. This expected loss development increase did not materialize as subsequent actuarial analyses have demonstrated in the most recent fiscal years. As claims experience has matured in these prior years at lower than anticipated level, reserve reductions flow through to the net asset increases of the most recent two years. While the loss development patterns continue to trend positively, the amount of change dropped off for the current fiscal year compared to the prior year thus indicating a stabilization of reserves over time. Refer to Note 11 for the details of Unpaid Loss Liabilities.

Other factors also apply: 1) ASC's (PACT's claims administrator) experienced adjusters have been able to manage claims efficiently and effectively, thus reducing reserves or closing claims more quickly and cost effectively and while there was turnover during the current fiscal year, replacement staff and supervisory staff have maintained quality, 2) SpecialtyHealth, the managed care organization and bill reviewer for PACT has greatly helped the adjusters manage claims effectively and 3) loss control efforts have proven effective, including the continued roll-out of the Cardiac Wellness Program that should help reduce potential heart claims. It is important to continue to strengthen these approaches to assure continued success for PACT.

Workers compensation self-funded programs experience significant volatility particularly when the retention levels per loss are high. Because PACT retains a substantial portion of the risk in all classifications, it is important to the long term viability of PACT and to assure its ability to meet its obligations to injured workers that PACT grow its net assets. We continue to face pressure to increase our retentions in light of medical and wage inflation trends as well as market pressures, which suggests that volatility will further increase and will need to be cushioned strongly. By growing net assets strongly, PACT is better positioned to respond to these demands while maintaining financial stability. PACT management, consistent with board policy, selected a 75% actuarial confidence level as a prudent level to develop a strong financial position in keeping with the PACT Board's goals of creating and sustaining a durable financial position.

Capital Assets and Debt Administration:

PACT has no physical assets and no debt. It does have a letter of credit with Wells Fargo Bank in favor of the Insurance Commissioner to secure its solvency as required by regulation.

Economic Factors:

For fiscal year ending June 30, 2008, economic conditions were very unsettled. Medical inflation moderated nationally but still exceeds the general inflation rate and this affects the underlying costs of claims payable by PACT. While Nevada retains a fee schedule to limit cost increases, recent reviews of the fee schedule components resulted in increases in the last few years. Wage inflation generally is modest in the public sector, which keeps disability costs down. A legislative change in 2003 resulted in adoption of the 5th Edition of the AMA guide to rating impairments, which increased costs overall. Controversy over the application of a factor called Activities of Daily Living (ADL), has seen disputes over this additional loading in ratings for impairment, and has caused additional costs.

The Nevada Supreme Court reached a decision in 1998 interpreting the special provisions for heart and lung coverage for qualifying police officers and firefighters that concluded that once these persons meet the five years of continuous service eligibility for benefits, those benefits are available for life regardless of any connection to actual work at the time the claims is made. Staff immediately implemented a judgment loading in the rates for this new interpretation of the statute, pending legislative action. PACT unsuccessfully attempted to have the Legislature modify this court interpretation to require that the claim must manifest within a reasonable time frame from leaving the workplace. As a result of that failed effort, PACT undertook an actuarial study to estimate the lifetime cost of risk associated with this decision. That study was concluded and the results indicated that the present value of the future benefits for former employees was estimated to range from $5,668,000 to $22,258,000, depending upon the interpretation as to which legal theory may be applicable.

These figures were presented to a task force who recommended to the board that they eliminate the judgment loading and implement a funding plan based on the actuarial study effective with the subsequent fiscal year. The board adopted the funding plan for implementation effective July 1, 2002. By taking this action, the board began its mitigation plan for the long-term adverse financial impact of the risk of former police officers and firefighters filing workers compensation claims long after employment. The assessments collected for fiscal year ended June 30, 2008 came to $1,101,143 compared to June 30, 2007 at $1,031,281.

PACT sought relief before the United States Supreme Court to address the question of the constitutionality of the post employment conclusive presumption of eligibility for workers compensation for police officers and firefighters, but was denied review. The rate set in 2002 remains unchanged as a result of the PACT board decision to maintain it for five years, then review the claims results and reconsider the rate level. A rate study is being conducted in anticipation of possible adjustments for the next fiscal year.

The Nevada Supreme Court ruled on cases presented by non-members that clarify that retired employees are not eligible for temporary total disability, although they remain eligible under current law for medical benefits. Also, the court clarified that Nevada's statutory scheme does not rely on the positional risk doctrine for determining eligibility for workers compensation benefits, but that the injury must have been caused by the employer, a decision that could reduce overall claims and costs.

On the other hand, we continue to experience adverse rulings at hearing and appeal levels regarding heart-lung cases. Political actions to increase benefits continues each legislative session, particularly by law enforcement and firefighter lobbyists, and that could cause potential pressure by excess insurers to increase PACT's retention or cause increased costs or both, which would require rate increases or weaken the financial position. Demographically, there is an emerging and accelerating likelihood of additional heart-lung claims from both current and post-employment eligible law enforcement officers and firefighters.

Subsequent Events:

There were no subsequent events that affected the financial statements.

Requests for Information:

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

Wayne Carlson
Executive Director, Public Agency Compensation Trust

Financial Ratios	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Total Revenue	9,325,877	11,798,970	12,011,574	14,076,675	15,594,000	15,746,515
Revenue over (under) Expenses	1,958,848	2,043,840	4,788,551	9,751,599	10,653,739	8,961,327
Net Operating Income	1,178,549	2,058,109	4,161,695	9,677,503	8,718,995	5,496,340
Net Investment Income	780,299	(14,269)	626,856	74,096	1,934,744	3,467,687
Total Assets	16,521,957	22,646,620	29,517,516	37,726,830	49,199,714	60,092,890
Total Liabilities	11,522,829	15,603,652	17,685,997	16,143,712	16,962,857	18,894,706
Net Assets	4,999,128	7,042,968	11,831,519	21,583,118	32,236,857	41,198,184
Net Assets to SIR (Board Target 12:1); Benchmark >5:1	14.28	17.07	26.29	47.96	63.21	82.40
SIR to Net Assets (Benchmark: captives <.10; group captives <.25)	0.08	0.06	0.04	0.02	0.02	0.01
% Assets attributable to Net Assets	30.3%	31.1%	40.1%	57.2%	65.5%	68.6%
Total assets/total liabilities	1.43	1.45	1.67	2.34	2.90	3.18
Revenues to Net Assets (Benchmark: <2.5:1 and >0	1.87	1.68	1.02	0.65	0.48	0.38
Loss Reserves to Net Assets (discounted): Benchmark <3:1 and >0	0.99	0.97	0.46	0.06	0.11	0.31
Total liabilities to liquid assets: Benchmark <100%	84%	81%	71%	49%	43%	40%
Change in members' Net Assets: >-10%	64.4%	40.9%	68.0%	82.4%	99.7%	142.9%
Return on Net Assets: Net Operating Income/Net Assets	23.6%	29.2%	35.2%	44.8%	27.0%	13.3%
Return on Net Assets: Total Income/Net Assets	39.2%	29.0%	40.5%	45.2%	33.0%	21.8%

PUBLIC AGENCY COMPENSATION TRUST
Statements of Net Assets
June 30, 2008 and 2007

ASSETS	**2008**	**2007**
Current assets:		
Cash & equivalents – Note 2	$ 4,437,779	$ 4,798,711
Investment securities – Note 2	42,856,785	35,027,397
Member assessments receivable – Note 3	4,299,380	4,279,374
Prepaid expenses	65,613	94,232
Investment in Public Compensation Mutual – Note 12	9,000,000	5,000,000
Less amortization in Public Compensation Mutual	(566,667)	-
Total Assets	**$ 60,092,890**	**$ 49,199,714**
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LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 126,007	$ 88,914
Specific recoverables	26,818	54,960
Payables to members – Note 4	-	389,245
Current portion of reserve for losses and loss adjustment expenses	4,532,306	4,763,000
	4,685,131	5,296,119
Non-current liabilities:		
Reserve for losses and loss adjustment expenses – Note 11	8,526,693	7,085,000
Heart & Lung expense reserve – Note 9	5,682,882	4,581,738
	14,209,575	11,666,738
Net assets - unrestricted	41,198,184	32,236,857
Total Liabilities and Net Assets	**$ 60,092,890**	**$ 49,199,714**
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See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
Statement of Revenues, Expenses, and Changes in Net assets
Years ended June 30, 2008 and 2007

	2008	2007
Revenues:		
Assessments	$ 14,641,887	$ 14,562,874
Assessments for Heart & Lung	1,101,143	1,031,281
Other revenues	3,485	-
Total revenues	15,746,515	15,594,155
Loss fund and program expenses:		
Claims and adjustment expenses	4,888,020	2,525,599
Heart and Lung loss expenses	1,101,143	1,031,261
Excess insurance premium	711,236	673,485
Re-insurance premium	289,000	-
Underwriting and claims processing	816,045	673,308
Total loss fund and program expenses	7,805,444	4,903,653
Administration expenses:		
Management fees	408,778	396,756
Professional services	88,927	86,340
Rent	26,712	23,856
Administrative and overhead	152,743	75,128
Member education and services	625,996	760,978
Insurance Division fees	160,490	215,210
Insolvency fund & related expenses	41,118	53,239
Loss control expenses	376,000	360,000
Amortization expense	566,667	-
Total administrative expenses	2,447,431	1,971,507
Increase in operating net assets	5,493,640	8,718,995
Increase in non-operating net investment income	3,467,687	1,934,744
Increase in net assets	**$ 8,961,327**	**$ 10,653,739**
Net assets, beginning of year	32,236,857	21,583,118
Net assets, end of year	**$ 41,198,184**	**$ 32,236,857**

See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
Statements of Cash Flows
For Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments and other revenues	$ 15,746,515	$ 15,594,155
Payment for claims	(3,677,020)	(2,776,599)
Payment to vendors	(4,635,393)	(2,946,354)
Net Cash Provided from Operating Activities	7,434,102	9,871,202
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and net gains from investments	3,467,687	1,805,434
Purchases of investments	(7,829,388)	(3,552,286)
Investment in Public Compensation Mutual	(4,000,000)	(5,000,000)
Amortization of investment in Public Compensation Mutual	566,667	-
Net Cash Used for Investing Activities	(7,795,034)	(6,746,852)
(Decrease) Increase in Cash and Cash Equivalents	(360,932)	3,124,350
Cash and Cash Equivalents, beginning of fiscal year	4,798,711	1,674,361
Cash and Cash Equivalents, year ended June 30	**$ 4,437,779**	**$ 4,798,711**
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RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2008	2007
Operating net income	$ 5,493,640	$ 8,718,995
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Member assessments receivable	(20,006)	125,848
Prepaid expenses	28,619	207,214
Accounts payable	37,094	36,886
Specific recoverables	(28,142)	41,077
Accrued liabilities	-	(237,191)
Payables to members	(389,245)	198,112
Loss reserves	2,312,142	780,261
Net cash provided by operating activities	**$ 7,434,102**	**$ 9,871,202**
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See accompanying notes

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of program

Public Agency Compensation Trust (PACT), also referred to as the "Trust", was formed by local governments for the purpose of organizing an association of self-insured workers compensation. The Trust began operations April 1, 1996. The trust's objective is to provide members with a lower cost alternative achieved through enhanced claims management, program administration, and member services that will reduce the cost of claims.

PACT provides workers compensation coverage to member governmental entities and hospitals pursuant to state statutes. The program is fully funded by member entities and is governed by a Board of Trustees comprised of representatives of each member. Any member may withdraw from the program by giving 120 days notice. PACT's independent actuary, who is an approved Rate Service Organization, develops PACT rates.

Principles of presentation

PACT has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. PACT has implemented Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 37, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments and GASB Statement 38, Certain Financial Statement Note Disclosures.*

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.

Certain amounts were reclassified to conform to current accounting standards.

Statutory requirements for separate accounts

PACT operates with two accounts. The operating account is used to process income and expenses to administer the PACT. The claims account processes the payment of claims and claims expenditures in accordance with the Nevada revised statutes and regulations.

The statutes require that a restriction of 75% of assessments collected from members be placed in a separate account and that disbursements from this account is limited to paying claims, claims related expenses, excess insurance costs, assessments, payments and penalties related to the subsequent injury fund and the uninsured employer's claim fund. All funds collected in member assessments and prepayments of assessments and deposits are deposited into the operating account. Periodically, 75% of the assessments are transferred to a separate claims bank account or claims investment account to comply with this requirement.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the fiscal years ended June 30, 2008 and 2007, assessments were collected for heart and lung claims. The Board directed that 100% of these assessments be placed in the claims account to pay future losses relating to these types of claims and not transferring 25% to the operating account.

Interest income transfer to Operating Fund

Interest earned in the claims account can be transferred to the Operating Fund at the direction of the board.

Cash and cash equivalents

The Operating Fund has a checking account, money market investment account, and an investment account for long-term investments. For the purposes of the Statement of Cash Flows, the PACT considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

The Claims Fund has two checking accounts, one for payment of claims and the other for claims related expenses.

Investments and investment income

Investments consist of government and government backed securities and are reported at their fair value in the statement of position. Fair value is determined utilizing the market value of the investments as reflected on the applicable brokerage statements. Net increases and decreases in the fair value are included in the statement of activities and changes in fund balances.

PACT is authorized to make investments in bonds and debentures of the United States, bills and notes of the U.S. Treasury, and in high-grade equity securities. PACT also is authorized to purchase negotiable certificates of deposit issued by commercial banks or insured savings and loan associations. PACT’s investments have been restricted by policy of the Board to those allowable for local governments.

Losses and loss adjustment expense

Reserves for losses and allocated loss adjustment expenses are provided based on case basis estimates for losses reported and PACT’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 by an 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 best estimates of the expected values, the actual results may vary from these values.

The liability represents the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors. The liability also includes unallocated costs which are estimated by management. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined. The loss reserve estimates are discounted at 3.5% and 4.0% in 2008 and 2007 respectively, the expected investment rate, to show the present value of those reserves. The rate used to discount the loss reserve estimates was to reflect changes in market conditions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments

Member assessments and reports are due 20 days after the end of the quarter. Assessment rates are based on independent actuarial estimates that are reviewed and approved by the Insurance Commissioner.

Income Taxes

PACT is considered a governmental agency as described in the Internal Revenue Service code section 115 and is therefore not required to file a federal income tax return or pay federal taxes.

Insurance Division Annual Fees

The Insurance Division annually assesses fees to the Trust based on prior year's claims expenditures. It is the policy of management to record the invoice received in each year as the expense for that year as these invoices cannot be reasonably estimated and therefore accrued.

Supplementary development schedule - Unaudited

The statements and development schedule reports claims paid on a reported year basis. Loss reserves shown on the financial statements are discounted; however, the development schedule reflects undiscounted loss reserves.

NOTE 2 - CASH AND INVESTMENTS

The carrying amount of deposits and cash equivalents on the books of PACT at June 30 are as follows:

	2008	2007
	$ 4,437,779	$ 4,798,711

A summary of investments as of June 30, 2008 and 2007 is as follows:

	Fair value	
	2008	**2007**
U.S. Government securities	$8,035,304	$ 12,500,056
Mortgaged backed securities	9,413,992	11,893,719
Miscellaneous government securities	2,436,588	2,696,828
Federal National Mortgage Assoc.	7,226,083	669,097
Federal Farm Bank	-	1,614,938
Federal Home Loan Bank	5,675,715	4,828,116
Federal Home Loan Mortgage	9,353,329	-
Accrued Income	515,774	374,643
Certificates of deposits maturing after 90 days	200,000	450,000
	$42,856,785	$ 35,027,397
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NOTE 2 - CASH AND INVESTMENTS (continued)

Contractual maturities at June 30, 2008 and 2007 are as follows:

	2008	**2007**
Due 1 year or less	$ 718, 556	$ 1,464,411
Due 1-5 years	24,814,853	19,131,102
Due 5-10 years	14,405,900	10,288,268
Due 10-20 years	1,925,016	2,436,905
Due after 20 years	992,460	1,706,711
Total investments	$ 42,856,785	$ 35,027,397

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay with or without call or prepayment penalties.

Financial institution balance is $4,798,133 and $4,911,697, respectively.

	2008	**2007**
Amounts insured by FDIC	$ 100,000	$ 100,000
Amounts held by the pledging financial institution's trust department in the bank's name	1,883,715	3,056,330
Cash and equivalents held in trust by brokerage firm	2,814,418	1,755,367
Total deposits at financial institutions	$ 4,798,133	$ 4,911,697
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PACT maintains its cash, cash equivalents and investments in a commercial bank and a brokerage institution. Amounts in the commercial bank are insured by the FDIC, for $100,000. Excess amounts are invested in repurchase agreements and are held by the bank in the bank's name. Amounts at the brokerage firm are insured through SIPC and additional amounts are insured by the broker through an insurance company.

NOTE 3 - MEMBER ASSESSMENTS RECEIVABLE

Member assessments receivable were $4,299,380 and $ 4,279,374 for 2008 and 2007. Amounts receivable at both years' end are primarily assessments for the last quarter of the fiscal year and are determined based on the annual payroll audits.

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NOTE 4 – PAYABLES TO MEMBERS

There were no payables to members in 2008 and the amount was $389,245 for 2007. The 2007 balance is primarily the result of the payroll audit performed annually and represents overpayments received by members.

NOTE 5 - LIABILITY OF MEMBERSHIP

Members of PACT are jointly and severally liable to pay benefits to injured workers as required by law. Workers compensation pools can be subject to assessments by the Insurance Commissioner should other self-insured workers compensation pools encounter financial difficulties.

NOTE 6 - REINSURANCE

In the ordinary course of business, PACT maintains an excess insurance contract with an insurance carrier through their broker company, Willis Pooling (WP). This excess insurance provides both a specific and an aggregate limit of liability to protect PACT against potentially large losses or an accumulation of losses. This provides coverage in excess of PACT's self-insured retention. The limits provided by this excess insurance contract, including PACT's self-insurance retention, are as follows:

1) The specific limit of liability per accident is statutory excess of a self-insured retention per accident of $2,500,000.

2) A limit of liability of $3,000,000 excess of an aggregate retention of 2.6824% of payroll, subject to a minimum aggregate retention of $9,810,811 for year ended June 30, 2008.

PACT reinsures a portion of PACT's limit of indemnity of $2,500,000 through Public Compensation Mutual, which bears 25% of $2,000,000 excess of PACT's $500,000 retention, and through County Reinsurance, LTD., which bears 75% of $2,000,000 excess of PACT's $500,000 retention. Both reinsurances are captive insurance companies in which PACT has a financial interest.

NOTE 7 - RELATED PARTY TRANSACTIONS

Public Agency Risk Management Services, Inc. (PARMS) is presently contracted with PACT to provide management services. PARMS serves both PACT and the Nevada Public Agency Insurance Pool (POOL) as the Executive Director/Administrator. PARMS is a service corporation wholly owned by Mr. Wayne Carlson. Management fees paid under this contract for years ended June 30, 2008 and 2007 was $408,778 and $396,756, respectively.

A new agreement was entered into with PARMS commencing July 1, 2008 and terminating on July 1, 2011, with an option to extend with the same terms and conditions for an additional two years. Management fees should be $448,500 annually with a 3% increase effective July 1, 2009.

Many of the board members of the Nevada Public Agency Insurance Pool (POOL) are also members of PACT as they share a common membership. The board of Public Compensation Mutual comprises of several PACT board members.

NOTE 7 - RELATED PARTY TRANSACTIONS (continued)

Nevada Association of Counties (NACO) is a member of PACT and NACO's executive directors are authorized signers on the cash accounts of PACT.

PACT had entered into a lease agreement with Nevada Public Agency Insurance Pool to lease office space at 201 S. Roop Street in Carson City, Nevada, until June 30, 2008. Subsequent to June 30, 2008, no new lease was entered and future occupancy costs will be included in the management fees paid to PARMS.

NOTE 8 – UNUSED LETTER OF CREDIT

PACT has obtained a letter of credit from Wells Fargo Bank in the amount of $2,963,000 and $3,702,000 for years ended 2008 and 2007, respectively, with the named beneficiary being the State of Nevada Division of Insurance. In the event that PACT becomes delinquent in its payment of workers compensation benefits, the proceeds will be used to satisfy losses, costs or expenses incurred by the Insurance Division.

NOTE 9 – HEART AND LUNG LOSS FUND

The Heart and Lung Loss Fund reflects special reserves set aside for the purpose of covering post-employment heart or lung disease claims that may be the responsibility of PACT members pursuant to the Last Injurious Exposure Rule interpretation of the law and court cases that determined that coverage for such claims applies to former employees who meet the statutory eligibility requirements for the heart and lung disease benefit

Post-employment claims historically have not been reflected in rate classifications for the appropriate police officer and firefighter classifications. The actuarial projections of loss and loss adjustment expense are intended to be fully funded, thus assessments for this fund are offset 100% by claims reserves. Management followed this conservative approach because of the uncertainty and volatility inherent in this specific risk. The reserve for 2008 and 2007 is $5,682,882 and $4,581,738 respectively.

NOTE 10 – RESTRICTED FUND EQUITY

The Nevada Revised statutes require that 75% of the assessments revenues collected be reserved and used to pay claims and claims related expenses. Restricted net assets are calculated by reducing the 75% of cash collected by the loss reserves, loss adjustment expense and the combined costs charged by the Nevada Insolvency Fund, letter of credit and loss control expenses. There were no net asset restrictions as of June 30, 2008 and 2007.

NOTE 11- UNPAID LOSS LIABILITIES

PACT establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses. The following represents changes in those aggregate liabilities during the years ended June 30, 2008 and 2007:

	2008	2007
Unpaid losses and loss adjustment expenses at beginning of year or period	$ 16,429,738	$ 15,649,477
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	6,740,163	6,932,261
Increase (decrease) in provision for insured events of prior fiscal years	(751,000)	(3,375,401)
Total incurred losses and loss adjustment	5,989,163	3,556,860
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year/period	(1,395,000)	(956,000)
Claims and claims adjustment expenses attributable to insured events of prior period	(2,282,020)	(1,820,599)
Total Payments	(3,677,020)	(2,776,599)
Unpaid claims and claims adjustment expenses At end of fiscal year	**$ 18,741,881**	**$ 16,429,738**

The current portion of the long term loss reserve for 2008 and 2007 is $4,532,306 and $4,763,000 with the long term portion for 2008 and 2007 being $14,209,575 and $11,666,739.

Incurred losses and loss adjustment expenses are comprised of two significant factors. Provisions for events of the current year decreased from $6,932,262 for 2007 to $6,740,163 for 2008. The decrease in the provision for insured events of prior fiscal years for 2008 reflects changes in case reserves and actuarial reserve calculations for all prior years cumulatively.

Individual case reserves may increase or decrease as the case develops over time for various reasons. This may affect actuarial projections for past and future years since the various actuarial methodologies are based both on individual case reserve changes and long term trends in reserves. The effect of both the individual case reserve changes over time and the actuarial projections combined may result in a significant increase or decrease that is reflected in the current year's audited net assets. In other words, a decrease in reserves results in an increase in net assets, while an increase in reserves reduces net assets.

NOTE 12 –INTEREST IN PUBLIC COMPENSATION MUTUAL COMPANY

In May of 2007, PACT's board of directors authorized the start up of a member-owned nonprofit captive mutual insurance company and capitalized the company with $5,000,000 and a subsequent additional investment of $4,000,000. The new company, named Public Compensation Mutual, ("PCM") is domiciled in Nevada and as of July 1, 2008, became one of the excess workers compensation insurers for PACT. Some of the Public Compensation Mutual's board members also serve as board members of PACT.

Public Compensation Mutual was formed by members of PACT 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, PACT required that prior to any distributions such as dividends, the capitalization must be repaid to PACT.

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 PACT will recoup the start up capital. Therefore, the PACT's interest in PCM will be amortized over 10 years.

NOTE 13 – POOLING RESOURCES INC.

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 of Wayne Carlson, Alan Kalt and Michael Rebaleati. The purpose of PRI is 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. POOL and PACT's 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. The second grant year beginning July 1, 2007 requires funding of $95,000 per month for each month for a total annual cost of $1,140,000.

A renewal of this contract was made for one year beginning July 1, 2008 for $1,100,000. PACT's share of the cost is $550,000.

NOTE 14 – UNUSED LETTER OF CREDIT

According to NRS 616B.353.1 (d) and (e) and related regulations, an association of self-insured employers must deposit with the Commissioner a bond or other authorized security, payable to reasonably secure payment of workers compensation benefits to employees. The irrevocable letter of credit provided to PACT by Wells Fargo Bank fulfills that statutory requirement.

PUBLIC AGENCY COMPENSATION TRUST
Supplemental Schedule on Unpaid Loss Liabilities for Workers Compensation and Heart and Lung

PACT establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses. The following represents changes in those aggregate liabilities for the workers compensation and heart and lung converges during the years ended June 30, 2008 and 2007:

	2008			**2007**		
	Workers Comp	Heart & Lung	Total	Workers Comp	Heart & Lung	Total
Unpaid losses and loss adjustment expenses at beginning of year or period	$ 11,848,000	$ 4,581,738	$ 16,429,738	$ 12,099,000	$ 3,550,477	$ 15,649,477
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	5,639,020	1,101,143	6,740,163	5,901,000	1,031,261	6,932,261
Increase (decrease) in provision for insured events of prior fiscal years	(751,000)	-	(751,000)	(3,375,401)	-	(3,375,401)
Total incurred losses and loss adjustment	4,888,020	1,101,143	5,989,163	2,525,599	1,031,261	3,556,860
Payments:						
Claims and claim adjustment expenses attributable to insured events of current fiscal year/period	(1,395,000)	-	(1,395,000)	(956,000)	-	(956,000)
Claims and claims adjustment expenses attributable to insured events of prior period	(2,282,020)	-	(2,282,020)	(1,820,599)	-	(1,820,599)
Total Payments	(3,677,020)	-	(3,677,020)	(2,776,599)	-	(2,776,599)
Unpaid claims and claims adjustment expenses at end of fiscal year	**$ 13,059,000**	**$ 5,682,881**	**$ 18,741,881**	**$ 11,848,000**	**$ 4,581,738**	**$ 16,429,738**
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PUBLIC AGENCY COMPENSATION TRUST
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT FOR WORKERS COMP AND HEART & LUNG – UNDISCOUNTED - (UNAUDITED)
EARNED ASSESSMENTS AND ALLOCATED EXPENSES FOR TEN-YEAR PERIOD
For years ended June 30,

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Required Contributions & Investment Revenue:										
Earned	$4,838,617	$5,496,834	$ 6,576,497	$7,710,499	$9,290,486	$11,609,553	$12,638,430	$ 14,150,771	$17,528,899	$13,214,203
Ceded	(216,450)	(274,373)	(460,093)	(498,469)	(481,095)	(551,944)	(789,791)	(626,266)	(673,485)	(711,236)
Net Earned	4,622,167	5,222,461	6,116,404	7,212,030	8,809,391	11,057,609	11,848,963	13,502,520	16,855,414	12,502,967
Unallocated Expenses	1,108,655	1,069,418	1,208,714	1,302,793	2,378,840	2,753,420	2,280,908	2,401,410	2,644,815	3,263,475
Estimated incurred Claims & Expenses End of Policy Year:										
Incurred	3,809,000	4,300,000	4,900,000	5,400,000	6,620,604	7,665,041	7,532,000	7,221,184	6,932,261	6,211,000
Ceded	(285,000)	-	-	(86,000)	-	-	-	-	-	-
Net Incurred	3,524,000	4,300,000	4,900,000	5,314,000	5,721,353	7,611,959	7,964,786	7,221,184	6,932,261	6,211,000
Paid (cumulative) as of:										
End of policy year	718,899	762,638	1,028,738	1,121,886	1,059,764	815,018	1,153,042	903,024	955,534	1,396,400
One year later	2,102,838	1,626,935	2,472,940	2,775,572	2,242,826	1,833,437	2,466,279	1,863,166	2,333,923	-
Two years later	2,621,852	1,915,518	3,108,000	3,315,137	2,581,248	2,286,157	2,774,180	2,317,418	-	-
Three years later	2,915,263	2,061,843	3,153,319	3,424,176	2,780,197	2,624,047	3,033,660	-	-	-
Four years later	3,089,332	2,132,672	3,378,957	3,391,046	2,898,113	2,864,122	-	-	-	-
Five years later	3,081,647	2,161,318	3,393,199	3,393,215	2,892,851	-	-	-	-	-
Six years later	3,163,874	2,138,350	3,512,696	3,429,442	-	-	-	-	-	-
Seven years later	3,199,000	2,148,866	3,700,536	-	-	-	-	-	-	-
Eight years later	3,162,000	2,159,787	-	-	-	-	-	-	-	-
Nine years later	3,060,798	-	-	-	-	-	-	-	-	-
Re-estimated ceded claims & expenses	(77,000)	-	-	-	-	-	-	-	-	-
Re-estimated Incurred Claims & Expenses										
End of policy year	3,524,000	4,300,000	4,900,000	5,314,000	5,721,353	7,611,959	7,964,786	7,221,184	6,932,261	6,211,000
One year later	3,524,000	3,700,000	5,000,000	5,100,000	5,823,353	6,558,041	5,783,000	5,100,000	5,123,000	
Two years later	3,524,000	3,700,000	4,900,000	4,950,000	5,006,353	4,952,041	5,147,000	3,142,000		
Three years later	3,524,000	3,000,000	4,500,000	4,050,000	4,285,353	4,645,041	4,293,000			
Four years later	3,524,000	2,850,000	4,234,000	3,951,000	4,114,353	4,026,000				
Five years later	3,524,000	2,444,000	4,136,000	3,719,000	3,370,000					
Six years later	3,524,000	2,397,000	4,189,000	3,617,000						
Seven years later	3,524,000	2,406,000	4,333,000							
Eight years later	3,354,000	2,395,000								
Nine years later	3,296,000									
Increase (Decrease) in Estimated Incurred Claims & Expenses from End of Policy Year:	**(228,000)**	**(1,905,000)**	**(567,000)**	**(1,697,000)**	**(2,351,353)**	**(3,585,959)**	**(3,671,786)**	**(4,079,184)**	**(1,809,261)**	**-**