NEVADA PUBLIC AGENCY INSURANCE POOL

FINANCIAL STATEMENTS

June 30, 2010 and 2009

CONTENTS

BERTRAND & ASSOCIATE LLC
CERTIFIED PUBLIC ACCOUNTANTS
Member American Institute of Certified Public Accountants

591 S. Saliman Rd Suite 2
Carson City, NV 89701
Tel 775.882.8892
Fax 775.562.2667
E-mail michael@bertrandcpa.com

Independent Auditor's Report

To the Board of Directors
Nevada Public Agency Insurance Pool

We have audited the accompanying statement of net assets of the Nevada Public Agency Insurance Pool ("NPAIP") for the years ended June 30, 2010 and 2009, and the related statements of revenues, expenses, and 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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. We believe that my audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Nevada Public Agency Insurance Pool for years ended June 30, 2010 and 2009 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 is not required part of the basic financial statement, but is supplementary information required by accounting principles generally accepted in the United States of America. We 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, we did not audit the information and express no opinion on it.

The supplemental section includes the 10 Year Claims Development schedule and 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, we express no opinion on it.

Bertrand & Associates LLC.

November 15, 2010
Carson City, Nevada

Management's Discussion and Analysis

Purpose:

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

Background:

The Governmental Accounting Standards Board (GASB) require that financial statements *for* State and Local Government include a presentation of Management's Discussion and Analysis. The NPAIP's financial information must be accompanied by this 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 NPAIP using accounting methods similar to those used by private sector organizations, these statements offer short and long term financial information about the NPAIP's activity. The Statement of Net Assets includes all of the NPAIP'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 NPAIP.

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

The Statement of Cash Flows serves to provide information about the NPAIP'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 NPAIP 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 NPAIP 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 NPAIP increased from $32,066,624 as of fiscal year end June 30, 2009 to $36,644,300 as of fiscal year end June 30, 2010. 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, $1,915,221 of the total assets for fiscal year end June 30, 2010 consists of capital assets.

Included in the total assets is the NPAIP's capitalization to start its own non-profit captive mutual insurance company, Public Risk Mutual. Initially, in 2004, NPAIP contributed $1,000,000 in capitalization, an amount to be amortized over 10 years. At June 30, 2010, NPAIP had increased its contribution in Public Risk Mutual to $7,708,416. Public Risk Mutual provided reinsurance to the NPAIP for certain property and liability coverage during this year. Although it operates independently, it is owned by NPAIP members and its board of directors consists of key leaders from the NPAIP board.

Total unpaid claims and claims adjustment expenses decreased from $12,823,000 for fiscal year end June 30, 2009 to $12,785,000 for fiscal year end June 30, 2010, a decrease of $38,000.

The NPAIP's primary revenue source comes from Member contributions to the NPAIP'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 slightly from $13,429,504 as of fiscal year end June 30, 2009 to $14,186,965 as of fiscal year end June 30, 2010. Operating expenses decreased from $12,652,215 as of fiscal year end June 30, 2009 to $11,168,514 as of fiscal year end June 30, 2010, a decrease of $1,483,701 or 11.7%. Overall operating net assets increased from a gain of $777,289 for fiscal year ended June 30, 2009, to a gain of $3,018,451 for fiscal year ended June 30, 2010, a swing of $2,241,162 in one year, primarily as a result of decreases in current year incurred claims and claims adjustment expenses.

Non-operating assets net of investment expenses for fiscal year ended June 30, 2010 gained $1,534,767, a decrease of $219,791 compared to June 30, 2009 on a portfolio of about $26 million invested when marked to market value. NPAIP 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. Management adjusted the mix of investments as market conditions evidenced opportunities to enhance results.

Financial Analysis:

In order to enhance analysis, comparative information is provided for assets, liabilities, net assets, 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:

Total assets continued to grow steadily over the years to $36,644,300 for fiscal year ended June 30, 2010. The increase in total assets between fiscal years ending June 30, 2009 and June 30, 2010 was $4,577,676, a 14.3% increase. This strong asset base enables the NPAIP to absorb adverse fluctuations in claims reserve development and investment income declines (both of which occurred in previous 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 enabled the NPAIP to retain additional risk and to continue to capitalize Public Risk Mutual, thus lowering the costs of excess insurance or reinsurance.

Creation by the NPAIP of Public Risk Mutual, its own non-profit captive mutual insurance company, by supplying capital in the amount of $1,000,000 initially and growing its capital base to $7,708,416 during this fiscal year ending June 30, 2010 created an additional capital asset that comprises 15.6% (net of amortization) of NPAIP's total assets.

Revenues, Expenses and Changes in Assets:

Operating revenues increased from $13,429,504 as of fiscal year end June 30, 2009 to $14,186,965 as of fiscal year end June 30, 2010, an increase of $757,461 or 5.6% due largely to a modest increase in ratable exposure base and increased rates.

Non-operating net investment income for fiscal year ended June 30, 2010 decreased by $219,791 compared to June 30, 2009 when marked to market value on a $26 million portfolio. In light of the economic conditions of the past two years, this is a stable portfolio that performed well gaining $1,534,767 for fiscal year ended June 30, 2010. Since NPAIP normally holds its investments to maturity, it is likely to achieve the coupon rates over time.

Operating expenses decreased from $12,652,215 as of fiscal year end June 30, 2009 to $11,168,514 as of fiscal year end June 30, 2010, a decrease of $1,483,701 or 13.3%. Loss and loss adjustment expenses decreased by $2,731,840 or 51.2%. Excess insurance premiums increased by $469,301 or 12%. NPAIP administration expenses increased by $300,563 of which $757,368 came from increased amortization of its capitalization of Public Risk Mutual. In addition, agent compensation increased by $173,849 or 35.6% as a result of a change in board policy.

Actuarial

The actuarial analysis for the current fiscal year revealed a reduction in unpaid claims and claims reserve of $38,000. From $12,823,000 as of fiscal year ended June 30, 2009 to $12,785,000 for fiscal year ended June 30, 2010.

Both property and casualty coverages can experience significant volatility particularly when the retention levels per loss are high. Because the NPAIP retains a substantial portion of the property and casualty risk, it is important to the long term viability of the NPAIP to be able to meet its financial obligations to its Members by growing its net assets. Insurance market conditions periodically make it important to be able to increase our retentions, which results in increased volatility that must be cushioned strongly. NPAIP board policy requires a 70% actuarial confidence level as a prudent level to develop a strong financial position in keeping with the NPAIP Board's goals of creating and sustaining a durable financial position.

Capital Assets and Debt Administration:

With the NPAIP's purchase of land and completion of construction of its headquarters building, the NPAIP's capital assets comprise 5.2% of its total assets. The building generates rental income and also diversifies the NPAIP's investments. The NPAIP remains debt free.

Economic Factors:

For fiscal year ending June 30, 2010, economic conditions continued to be volatile in most sectors of the economy. The economy continued to deteriorate during this fiscal year resulting in continuing federal support to the economy in order to stabilize it and reestablish confidence. NPAIP's investments have performed fairly well during this upheaval in light of the statutory requirements to invest in governmental securities. As in the past, NPAIP's investments produced stable gains on a marked to market basis.

Medical inflation continues to be 3.4 times higher than the overall consumer price index nationally, which affects the underlying costs of liability claims payable by NPAIP. Based upon claims activity and the tendency of plaintiffs to appeal judgments more often, litigation costs continue to rise. The NPAIP'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.

Fiscal year ending June 30, 2010 evidenced changing insurance market conditions for property and liability reinsurance. Rates in property coverage decreased. Liability rates increased substantially due to recent large liability claims. NPAIP also continued its membership in County Reinsurance, Ltd., a captive mutual insurer in which NPAIP has a financial interest, and with United Educators, a captive risk retention group in which NPAIP has a financial interest, for liability coverage reinsurance. In addition, NPAIP contributed additional capital to Public Risk Mutual, its member-owned captive.

Requests for Information:

While the purpose of this discussion and financial report is to provide a general overview of the NPAIP'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

Financial Ratios	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total Revenue	$ 11,719,575	$ 12,600,972	$ 12,489,052	$ 13,429,504	$ 14,186,965
Total Income	$ 3,921,775	$ 2,905,838	$ 1,616,832	$ 2,531,847	$ 4,553,218
Net Operating Income	$ 3,855,226	$ 1,720,917	$ (511,229)	$ 777,289	$ 3,018,451
Net Investment Income	$ 66,549	$ 1,184,921	$ 2,128,061	$ 1,754,558	$ 1,534,767
Total Assets	$ 21,000,513	$ 25,807,506	$ 29,738,524	$ 32,066,624	$ 36,644,300
Total Liabilities	$ 8,822,088	$ 10,723,243	$ 13,037,429	$ 12,833,682	$ 12,858,140
Net Assets	$ 12,178,425	$ 15,084,263	$ 16,701,095	$ 19,232,942	$ 23,786,160
Net Assets to SIR (Board target: 12:1)	24.4	30.2	33.4	38.5	47.6
SIR to Net Assets (Benchmark: captives <.10; group capitves <.25)	0.04	0.03	0.03	0.03	0.02
% Assets attributable to Net Assets	58.0%	58.4%	56.2%	60.0%	64.9%
Total assets/total liabilities	2.38	2.41	2.28	2.50	2.85
Revenues to Net Assets (Benchmark: <2.5:1 and >0	0.96	0.84	0.75	0.70	0.60
Loss Reserves to Net Assets (discounted): Benchmark <3:1 and >0	0.12	0.10	0.09	0.08	0.06
Total liabilities to liquid assets: Benchmark <100%	49%	49%	50%	45%	39%
Change in Net Assets: >-10%	11.7%	23.9%	10.7%	15.2%	23.7%

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Net Assets
June 30, 2010 and 2009

ASSETS	**2010**	**2009**
Current assets:		
Cash and equivalents – Note C	$ 1,272,660	$ 1,138,642
Investments – Note C	26,924,947	22,042,644
Deductibles receivable	53,776	32,644
Prepaid expenses	18,691	44,692
Specific and aggregate recoverables	343,465	1,152,055
Member landfill premium receivable – Note J	399,446	-
Other receivables	879	9,600
Total current assets	29,013,864	24,420,277
Capital assets:		
Land, building and equipment – Note D	2,345,225	2,345,225
Less accumulated depreciation	(430,004)	(363,045)
	1,915,221	1,982,180
Other assets:		
Capitalization of Public Risk Mutual – Note I	7,708,416	6,900,000
Less amortization	(1,993,201)	(1,235,833)
Total non-current assets	5,715,215	5,664,167
Total Assets	**$ 36,644,300**	**$ 32,066,624**
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	$ 64,710	$ 10,682
Member payable	8,430	-
Current portion of reserve for claims and adjustment expenses - Note G	4,127,504	4,899,573
Total current liabilities	4,200,644	4,910,255
Non-current liabilities:		
Reserve for claims and claims adjustment expenses – Note G	8,657,496	7,923,427
Total non-current liabilities	8,657,496	7,923,427
Net assets, unrestricted	21,870,939	17,250,762
Net assets, invested in capital assets	1,915,221	1,982,180
Total net assets	23,786,160	19,232,942
Total Liabilities & Net Assets	**$ 36,644,300**	**$ 32,066,624**

See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Revenues, Expenses and Changes in Net Assets
For Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Premiums written	$ 13,909,905	$ 13,128,816
Rental income	268,318	273,990
Other income	8,742	26,698
Total revenues	14,186,965	13,429,504
Operating expenses:		
Losses and loss adjustment expenses – Note G	2,258,064	4,629,904
Excess insurance premiums	4,388,536	3,919,235
Pooling and loss control fees	505,000	530,000
Third party administrator fees	565,641	596,763
Agent commissions	661,931	488,082
Taxes written	6,741	6,193
Total program expenses	8,385,913	10,170,177
Management fees	461,955	448,500
Building maintenance and utilities	41,252	45,717
Depreciation	66,959	66,958
Amortization	757,368	644,167
Travel	36,494	28,966
Casualty insurance	37,378	37,381
Operating expenses	342,955	264,424
Legal expenses	20,465	24,342
Loss control awards & grants	158,651	51,892
Consultant appraisals	111,108	81,200
Environmental consultation	46,933	-
Member education & training	701,083	788,491
Total pool administration expenses	2,782,601	2,482,038
Total operating expenses	11,168,514	12,652,215
Increase in operating net assets	**$ 3,018,451**	**$ 777,289**
Increase in non-operating net investment income	1,534,767	1,754,558
Increase in net assets	**$ 4,553,218**	**$ 2,531,847**
Net assets, beginning of year	19,232,942	16,701,095
Net assets, end of year	**$ 23,786,160**	**$ 19,232,942**
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See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Cash Flows
For Years Ended June 30, 2010 and 2009

Cash Flows from Operating Activities:	**2010**	**2009**
Premiums written	$13,909,905	$ 13,122,623
Rental income	268,318	273,990
Other revenues	8,742	26,698
Payment for claims	(2,296,064)	(4,677,904)
Payment to vendors	(7,201,485)	(8,360,484)
Net Cash Provided from Operating Activities	4,689,416	384,923
Cash Flows from Investing Activities:		
Interest, dividends and realized net gains on investments	1,175,350	1,754,558
Purchases of investments	(6,875,350)	(1,612,498)
Proceeds from sales of investments	2,352,483	1,600,000
Net Cash Used for Investing Activities	(3,347,517)	1,742,060
Cash Flows from Capital Purchases		
Increase in purchases of equipment	-	(4,981)
Net Cash Used for Capital Activities	-	(4,981)
Cash Flows from Other Financing Activities		
Increase in capitalization of PRM	(808,416)	(3,800,000)
Prepayment of landfill premiums for members	(399,465)	398,049
Net Cash Used for Capital Activities	(1,207,881)	(3,401,951)
Increase (decrease) in Cash and Cash Equivalents	134,018	(1,279,949)
Cash and Cash Equivalents, beginning of fiscal year	1,138,642	2,418,591
Cash and Cash Equivalents, years ended June 30	**$1,272,660**	**$ 1,138,642**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating net income (loss)	$3,018,451	$777,289
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	66,959	66,958
Deductibles receivable	(21,132)	(25,953)
Prepaid expense	26,001	25,889
Specific excess recoverable	808,590	(921,003)
Other receivables	8,721	21,324
Amortization	757,368	644,166
Accounts payable	54,028	(127,403)
Deferred revenue	8,430	(28,344)
Claims and loss adjustment expenses	(38,000)	(48,000)
Net Cash Provided by Operating Activities	**$4,689,416**	**$ 384,923**

See accompanying notes

NOTE A - NATURE OF ORGANIZATION
The Nevada Public Agency Insurance Pool (NPAIP) 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 NPAIP is fully funded by member participants. Members file claims with ASC, which has been contracted to perform claims adjustments for the NPAIP.

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. NPAIP 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 NPAIP 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 NPAIP 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 NPAIP 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.

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 NPAIP in excess of the NPAIP'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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Losses and Loss Adjustment Expenses:

Reserves for losses and allocated loss adjustment expenses are provided based on case basis estimates for losses reported and NPAIP'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 NPAIP'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 NPAIP'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 NPAIP has received a determination letter from the Internal Revenue Service Stating the NPAIP's income is excludable from gross income for federal income tax purposes. The NPAIP is considered an exempt governmental agency in accordance with Internal Revenue Service Code Section 115.

NOTE C – CASH AND INVESTMENTS

The carrying amount of NPAIP's deposits with financial institutions at June 30, 2010 and 2009 was $1,272,660 and $1,138,642.

The financial institution balance at June 30, 2010 and 2009 was $1,549,719 and $1,482,989 respectively. The difference between the carrying amount and bank balance results from outstanding checks and deposits not yet reflected in the bank's records.

	2010	2009
Amounts insured by FDIC	$250,000	$250,000
Amounts collateralized	734,155	704,449
Cash equivalents at brokerage firm	565,564	528,540
Total deposits at financial institutions	$1,549,719	$1,482,989
	=======	=======

NPAIP 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 SPIC and additional amounts above SPIC coverage limits are insured by the broker through an insurance policy.

A summary of investments as of June 30, 2010 is as follows:

		Investment Maturities in Year				
		1 year or less				Moody's
	Fair value	**Less**	**1 – 5**	**5-10**	**Over 10**	**Rating**
U.S. Treasuries	$5,801,031	-	-	$ 5,801,031	-	
U.S Government & Agencies	14,587,067	14,098	11,081,956	3,491,013	-	
U.S. Mortgage-backed Securities	2,111,953	-	195,842	338,270	1,577,841	
Corporate Bonds	4,424,896	-	4,424,896	-	-	Aaa
Total cash and investments	$26,924,947	$14,098	$15,702,694	$9,630,314	$1,577,841	
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NOTE C – CASH AND INVESTMENTS (continued)

A summary of investments as of June 30, 2009 is as follows:

		Investment Maturities in Years				
	Fair value	**1 year or less Less**	**1 – 5**	**5-10**	**Over 10**	**Moody's Rating**
U.S. Treasuries	$4,877,928	-	-	$ 4,877,928	-	
U.S Government & Agencies	10,246,976	1,032,453	7,680,026	1,534,497	-	
U.S. Mortgage-backed Securities	3,829,342	-	898,709	929,343	2,001,290	
Corporate Bonds	3,088,398	-	3,088,398	-	-	Aaa
Total cash and investments	$22,042,644	$1,032,453	$11,667,133	$7,341,768	$2,001,290	

Actual maturities may differ from contractual maturities as some borrows have the right to call or prepay with or without call or prepayment penalties. Investments are reported at fair value by the investment broker as determined by an outside pricing firm.

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. NPAIP capitalizes equipment and building related expenditures that are greater than $5,000. 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, 2010 was as follows:

	Estimated Useful life (years)	**June 30, 2009**	**Additions**	**Dispositions**	**June 30, 2010**
Land	-	$ 466,652	-	-	$ 466,652
Building and improvements	40	1,783,716	-	-	1,783,716
Furniture and equipment	5 - 7	94,857	-	-	94,857
		2,345,225	-	-	2,345,225
Accumulated depreciation		(363,045)	(66,959)	-	(430,004)
		$ 1,982,180	(66,959)	-	$ 1,915,221

Property and Equipment activity for the year ended June 30, 2009 was as follows:

	Estimated useful life (years)	**June 30, 2008**	**Acquisitions**	**Dispositions**	**June 30, 2009**
Land	-	$ 466,652	-	-	$ 466,652
Building & improvements	40	1,783,716	-	-	1,783,716
Furniture and equipment	5 - 7	89,875	4,982	-	94,857
		2,340,243	4,982	-	2,345,225
Accumulated depreciation		(296,086)	(66,959)	-	(363,045)
		$ 2,044,157	(61,977)	-	$ 1,982,180

NOTE E – RETENTION

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

NPAIP Limits:	2009-2010	2008-2009
Property blanket limit (1)	$200,000	$200,000
Liability per Event	$500,000	$500,000
Monies & Securities per loss	$250,000	$250,000
Equipment breakdown	$ 50,000	$ 50,000

(1) Plus a $250,000 corridor deductible for both years.

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

NOTE F – EXCESS INSURANCE OR REINSURANCE

Nevada Public Agency Insurance Pool offers limits as shown in the policy form. Highlights of some of the limits and sub-limits are shown on the table below. However, NPAIP obtains various excess or reinsurance policies from several excess or reinsurance companies to bear a portion of the risks not retained by the NPAIP under its retention.

	2010	2009
Property limits :		
Blanket limit per loss:	$300,000,000	$300,000,000
Earthquake Aggregate sub limit:	100,000,000	100,000,000
Flood Aggregate Sub limit:	100,000,000	100,000,000
Equipment Breakdown Sub limit:	60,000,000	60,000,000
Money & Securities (including Employee Dishonesty) Sub limit:	500,000	500,000
Liability Limits:		
Each and Every Event Limit:	10,000,000	10,000,000
Emergency Response to Pollution Sub limit	1,000,000	1,000,000
Sexual Abuse Sub-limit	2,500,000	2,500,000
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 Sub limit:	1,000,000	1,0000,00

NPAIP reinsurance is as follows:

Property: The property limits shown above excess of NPAIP's retentions as follows:

Retention 1: $200,000 per event
Retention 2: $250,000 aggregate excess of $250,000 all members
Retention 3: $250,000 per event monies and securities extension

Liability: The liability limits shown above excess of NPAIP's retention with of $500,000 with:

a) Public Risk Mutual 20% of $1,500,000, excluding school district
b) County Reinsurance, LTD. 80% of $1,500,000, excluding school districts
c) United Educators $1,500,000 for school districts only
d) Munich Reinsurance America, Inc. $8,000,000 excess of a, b and c above except $500,000 excess of a, b and c above on sexual abuse

NOTE G – UNPAID CLAIMS LIABILITIES

NPAIP 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 NPAIP'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 NPAIP 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 NPAIP in the last two years:

	2010	**2009**
Incurred claims and claim adjustment expenses At the beginning of the fiscal year	$ 12,823,000	$ 12,871,000
Incurred claims and claim adjustment expenses:		
Provisions for insured events of current year	6,037,000	5,840,904
(Decreases) increase in provision for insured events of prior years	(3,778,936)	(1,211,000)
Total Incurred claim adjustment expenses	2,258,064	4,629,904
Payments:		
Claims and Claim Adjustment Expenses attributable to Insured Events of Current year	(417,000)	(397,000)
Claims and Claim Adjustment Expenses attributable to insured events of prior years	(1,879,064)	(4,280,904)
Total payments	(2,296,064)	(4,677,904)
Total unpaid claims and claims adjustment expenses at fiscal year end June 30	**$ 12,785,000**	**$ 12,823,000**

Current portion of the reserve, cash expected to be paid within 12 months, is $ 4,127,504 and the long-term portion is $8,657,496.

At June 30, 2010 and 2009, NPAIP 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, 2010 and 2009.

NOTE H - RELATED PARTY TRANSACTIONS
Beginning January 1, 2003, the Nevada Association of Counties (NACO) entered into a lease agreement with NPAIP to lease office space at 201 S. Roop St in Carson City, Nevada through January 1, 2010. Amounts received for rent totaled $47,928 and $47,232 for the years ending 2010 and 2009.

NACO is a member of NPAIP. The Executive Director of NACO was authorized to be the second signature on checks disbursed from the NPAIP's accounts for a portion of the time being audited. Neither the association nor those individuals were 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.

Public Agency Risk Management Services, Inc. (PARMS) is presently contracting with the NPAIP and PACT to provide management services. PARMS serves both the NPAIP 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, 2010 and 2009 was $461,955 and $448,500. Beginning July 1, 2009, PARMS began leasing office space at 201 S. Roop St in Carson City, Nevada and terminating on June 30, 2013. Amounts received for rent in 2010 and 2009 were $60,192 and $59,316 respectively.

Effective July 1, 2006, NPAIP jointly with PACT contracted with Pooling Resources, Inc. (PRI), a nonprofit organization formed by the executive director of NPAIP, Wayne Carlson, and whose directors are Wayne Carlson, Alan Kalt and Michael Rebaleati. PRI provides human resources management services to NPAIP and Public Compensation Trust members. PRI pays PARMS a management fee to provide operational and financial oversight of PRI.

A renewal of this contract was made for three years beginning July 1, 2009. NPAIP's share of the cost for the first year is $550,000, $566,000 for the second year and $583,500 for the third. Amounts paid by NPAIP under the grant were included in the member education and training expenses in the amounts of $549,996 and $549,996 for the years ending June 30, 2010 and 2009.

NOTE I –CAPITALIZAITON OF PUBLIC RISK MUTUAL
In May of 2004, NPAIP's board of directors authorized the start up of a member-owned nonprofit captive mutual insurance company and capitalized the company with an initial $1,000,000 capital contribution. The company, named Public Risk Mutual, is domiciled in Nevada and as of September 1, 2004, became the excess property insurer for NPAIP. Subsequent capital contributions were made by NPAIP. The cumulative contributions were $7,708,416 as of June 30, 2010 and $6,900,000 as of June 30, 2009. Some of the Public Risk Mutual's board members also serve as board members of NPAIP.

Public Risk Mutual was formed by members of NPAIP 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, NPAIP required that prior to any distributions such as dividends, the capitalization must be repaid to NPAIP. 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 NPAIP will recoup the capital. Therefore, the NPAIP's interest in PRM will be amortized over 10 years. Amortization expense was $757,368 and $644,167 for fiscal years ended 2010 and 2009.

NOTE J – MEMBER LANDFILL PREMIUM RECEIVABLE
NPAIP serves as the facilitator for the Nevada Public Agencies Landfill Financial Assurance Program for which coverage is provided by American International Specialty Lines Insurance Company (ASLIC) for several NPAIP members. NPAIP invoices members for the annual premiums for this program, but due to the timing of premium due dates to ASLIC and the payments being received from members, NPAIP advances the premiums to ASLIC. Participating members then reimburse NPAIP. Receivables from members at June 30, 2010 were $399,446 and there was no receivable as of June 30, 2009.

NOTE K – RECLASSIFICATIONS ON PRIOR YEAR STATEMENT OF CASH FLOWS

Certain reclassifications to the prior year Statement of Cash Flows were made for comparability with the current year presentation. Payments for premiums on a landfill policy to be reimbursed by members were reclassified as use of cash from other financing activities. It had been presented on the prior year statement as a cash use from operating activities.

NOTE L - COPIER LEASE

In April of 2010 NPAIP entered into a lease agreement with Xerox Corporation for a high-speed copy machine. The lease is classified as an operating lease with minimum monthly payments of $364.56. Future minimum lease payments are as follows:

Fiscal year ended:	Amount
2011	$ 4,375
2012	4,375
2013	4,375
2014	4,375
2015	4,010
	$ 21,510

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Required Contributions & Investment Income:										
Earned	$6,518,276	$8,006,148	$10,688,528	$11,131,225	$11,568,331	$11,786,124	$13,785,893	$14,643,824	$15,184,061	$15,721,731
Ceded	(1,996,347)	(2,624,815)	(3,677,614)	(4.057.661)	(3,718,455)	(3,358,462)	(3,758,623)	(3,681,857)	(3,919,235)	(4,388,536)
Net Earned	4,521,929	5,381,333	7,010,914	7,073,564	7,849,876	8,427,662	11,212,193	10,961,967	11,264,826	11,333,195
Unallocated Expenses	1,382,654	1,694,114	2,429,581	2,762,681	2,846,143	3,031,993	3,255,602	3,715,519	4,103,075	4,521,913
Estimated Incurred Claims & Expenses End of Policy Year:										
Incurred	1,901,000	2,714,000	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	1,901,000	2,714,000	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000
Paid (cumulative) as of:										
End of Policy Year	391,563	400,285	637,074	287,229	862,908	434,000	845,000	1,020,000	397,000	417,000
One year later	734,699	1,364,292	1,140,140	637,081	1,421,000	936,000	1,764,000	3,301,000	1,078,000	
Two Years Later	1,033,237	1,904,876	1,724,894	861,000	1,717,000	1,380,000	3,209,000	4,041,000		
Three Years Later	1,691,933	2,242,586	2,134,000	942,000	1,935,000	1,973,000	3,832,000			
Four Years Later	1,896,000	2,429,000	2,505,000	1,151,000	2,043,000	2,169,000				
Five Years Later	2,160,000	2,427,000	2,705,000	1,196,000	2,150,000					
Six Years Later	2,161,000	2,330,000	2,789,000	1,198,000						
Seven Years Later	2,161,000	2,331,000	2,803,000							
Eight Years Later	2,161,000	2,325,000								
Nine Years Later	2,161,000									
Re-estimated ceded claims & expenses	595,885	6,001,859	223,220	-	757,715	442,343	1,004,900	10,077,577	15,000	-
Re-estimated Claims & Expenses										
End of Policy Year	1,901,000	2,714,000	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000
One Year Later	2,102,000	3,042,000	3,774,000	3,019,000	3,482,000	3,676,000	3,676,000	6,844,000	4,793,000	
Two Years Later	1,971,000	3,189,000	2,877,000	2,010,000	3,431,000	3,054,000	5,344,000	5,972,000		
Three Years Later	2,265,000	2,936,000	2,815,000	1,547,000	2,755,000	2,838,000	4,714,000			
Four Years Later	2,157,000	2,689,000	2,903,000	1,453,000	2,459,000	2,599,000				
Five Years Later	2,161,000	2,562,000	2,894,000	1,256,000	2,315,000					
Six Years Later	2,161,000	2,383,000	2,863,000	1,218,000						
Seven Years Later	2,161,000	2,341,000	2,820,000							
Eight Years Later	2,161,000	2,329,000								
Nine Years Later	2,161,000									
Increase (Decrease) in Estimated Claims & Expense from End of Policy Year										
	260,000	(385,000)	(504,422)	(2,535,413)	(1,311,034)	(1,756,000)	(784,000)	(1,260,000)	(1,325,000)	-