NEVADA PUBLIC AGENCY INSURANCE POOL

FINANCIAL STATEMENTS

June 30, 2012 and 2011

CONTENTS

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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, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and the statement 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, 2012 and 2011 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.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis on pages 4 through 7 and the 10 Year Claims Development schedule on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Bertrand & Associates, LLC

November 26, 2012
Carson City, Nevada

Management's Discussion and Analysis

Purpose:

To further understanding of significant financial issues, this Nevada Public Agency Insurance Pool (NPAIP) management 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 NPAIP.

Background:

NPAIP implemented 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.* NPAIP'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 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, investments and financing activity. It also discloses from where cash comes, for what it was used and the change in cash balance during the reporting period. Since 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, 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.

<u>Changes in net assets:</u>
Fiscal year ended June 30, 2012: $29,769,405
Fiscal year ended June 30, 2011: $26,261,322
Net increase: $3,508,083 or 13.4%.

Net asset changes reflect both operating and non-operating net investment income. Both were higher than fiscal year ended June 30, 2011. Operating expense changes largely were attributable to decreased losses, increased reinsurance costs and increased amortization expenses. Non-operating investment income reflects current economic conditions causing declining slightly improving investment performance. Net assets are retained to assure financial stability and strength of NPAIP based upon the board's long term strategy.

Both property and casualty coverages can experience significant volatility particularly when the retention levels per loss are high. Because NPAIP retains a substantial portion of the property and casualty risk, it is important to the long term viability of 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.

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, $1,823,470 of the total assets for fiscal year end June 30, 2012 consists of capital assets (after depreciation).

<u>Total revenues:</u>
Fiscal year ended June 30, 2012: $14,902,485
Fiscal year ended June 30, 2011: $14,191,328
Net increase: $711,157.

NPAIP's primary revenue source comes from Member contributions to the NPAIP's Loss Fund, administrative budget and reinsurance costs. Rental income constitutes the secondary revenue source and it was down due to the vacancy of a tenant and real estate market conditions not conducive to finding a replacement tenant.

<u>Total expenses:</u>
Fiscal year ended June 30, 2012: $12,823,901
Fiscal year ended June 30, 2011: $12,488,992
Net increase: $334,909 or 2.7%.

The most significant factors in this change were attributable to decreased losses, increased reinsurance costs and increased amortization expenses. The development schedule included in the financial statement provides the history of the claims reserve changes each year over 10 years.

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 invested $1,000,000, an amount to be amortized over 10 years. At June 30, 2012, NPAIP had increased its contribution to surplus in Public Risk Mutual to $15,250,959. Amortization expense as of June 30, 2012 rose to $1,506,032 based upon NPAIP's policy to continue to amortize these contributions over a ten year period. Public Risk Mutual provided reinsurance to the NPAIP for certain property and liability coverage during this year.

<u>Operating net assets:</u>
Fiscal year ended June 30, 2012: $2,078,584
Fiscal year ended June 30, 2011: $1,702,336
Net increase: $376,248 or 22.1%

Decreased losses and loss expenses comprised $733,209 or 25.1% of the increase in operating net assets. Increases in amortization expenses in the amount of $487,727 combined with an increase of $377,296 in reinsurance costs offset some of the gains in operating net assets. Increased amortization expense reflects the board's decision to increase contributions to surplus to PRM consistent with its long-term strategy.

<u>Net investment income:</u>
Fiscal year ended June 30, 2012: $1,429,499
Fiscal year ended June 30, 2011: $772,826
Net increase: $656,673

The net increase of $656,673 or 85% reflects current investment market conditions. Investments are marked to market value at the time of the financial statements, which may result in a negative or positive overall result. Maintaining positive returns under the difficult economic conditions during this fiscal year speaks to the conservative investment strategies employed by NPAIP. The investment portfolio of $27,128,610 is comprised of governmental type investments which, if held to maturity, will yield the respective coupon rates although interim performance may lag. Most of NPAIP's investments are anticipated to be held to maturity. NPAIP is restricted by Nevada statutes to invest in governmental securities in the same manner as other political subdivisions. 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 equity, revenues and expenses in the chart following this narrative.

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.

Capital Assets and Debt Administration:

With NPAIP's purchase of land and completion of construction of its headquarters building, the NPAIP's capital assets comprise 4.4% of its total assets. The building generates rental income and also diversifies NPAIP's investments. NPAIP remains debt free.

Economic Factors:

For fiscal year ending June 30, 2012, economic conditions showed signs of continued uncertainty with tepid growth beginning to appear for the nation and for Nevada. The economy stabilized somewhat during this fiscal year as a result of continuing federal support to the economy and some spotty growth in certain sectors of the economy. 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 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, 2012 evidenced changing insurance market conditions for property and liability reinsurance. Rates in property coverage increased. Liability rates decreased due to replacement of one reinsurer with another at a better price. NPAIP also continued its membership in County Reinsurance, Ltd., a captive mutual insurer in which NPAIP has a financial interest for all members other than schools for liability coverage, and with United Educators, a captive risk retention group in which NPAIP has a financial interest, for schools liability coverage reinsurance. NPAIP added Government Entities Mutual (GEM) as an additional liability reinsurer in which NPAIP contributed surplus, thus has a financial interest, at the end of FY 2011. In addition, NPAIP contributed additional capital to Public Risk Mutual, its member-owned captive that provides reinsurance for property and liability coverage.

Subsequent Events:

There were no subsequent events that would affect the financial statements for the current fiscal year.

Financial Ratios	POOL 2007/2008	POOL 2008/2009	POOL 2009/2010	POOL 2010/2011	POOL 2011/2012
Total Revenue	$12,489,052	$13,429,504	$14,186,965	$14,191,328	$14,902,485
Total Income (excludes special reserve adjustments 96 & 98)	$ 1,616,832	$ 2,531,847	$ 4,553,218	$ 2,475,162	$ 3,508,083
Net Operating Income	$ (511,229)	$ 777,289	$ 3,018,451	$ 1,702,336	$ 2,078,584
Net Investment Income	$ 2,128,061	$ 1,754,558	$ 1,534,767	$ 772,826	$ 1,429,499
Total Assets	$29,738,524	$32,066,624	$36,644,309	$38,796,007	$41,349,269
Total Liabilities	$13,037,429	$12,833,682	$12,858,140	$12,424,000	$11,579,864
Net Assets	$16,701,095	$19,232,942	$23,786,160	$26,261,322	$29,769,405
Net Assets to SIR (Board target: 12:1)	33.4	38.5	47.6	52.5	59.5
SIR to Net Assets (Benchmark: captives <.10; group captives <.25)	0.03	0.03	0.02	0.02	0.02
% Assets attributable to Net Assets	56.2%	60.0%	64.9%	67.7%	72.0%
Total assets/total liabilities	2.28	2.50	2.85	3.12	3.57
Revenues to Net Assets (Benchmark: <2.5:1 and >0	0.75	0.70	0.60	0.54	0.50
Loss Reserves to Net Assets (discounted): Benchmark <3:1 and >0	0.77	0.67	0.54	0.47	0.39
Total liabilities to liquid assets: Benchmark <100%	52%	45%	39%	46%	40%
Change in Net Assets: >-10%	10.7%	15.2%	23.7%	10.4%	13.4%
Return on Net Assets: Net Operating Income/Net Assets	-3.1%	4.0%	12.7%	6.5%	7.0%
Return on Net Assets: Total Income/Net Assets	9.7%	13.2%	19.1%	9.4%	11.8%

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

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Net Assets
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents - Note 3	$ 814,553	$ 254,890
Investments - Note 3	27,128,610	25,527,671
Deductibles receivable	501,241	439,717
Prepaid expenses	44,436	71,450
Specific and aggregate recoverables	300,032	152,499
Prepaid surplus contribution to GEM - Note 11	-	500,000
Other Receivables	3,507	18,539
Total current assets	28,792,379	26,964,766
Capital assets:		
Land, building & equipment, net - Note 4	1,823,470	1,868,407
Other assets:		
Contributed Surplus Public Risk Mutual, net - Note 9	10,733,420	9,962,834
TOTAL ASSETS	**41,349,269**	**38,796,007**
LIABILITIES		
Other current liabilities:		
Accounts payable	56,864	110,685
Payable to Public Risk Mutual	50,000	-
Current portion of reserve for claims and adjustment expense - Note 7	4,586,498	4,967,150
Total current liabilities	4,693,362	5,077,835
Noncurrent liabilities:		
Reserve for claims and claims adjustment expenses - Note 7	6,886,502	7,456,850
Total non-current liabilities:	6,886,502	7,456,850
NET ASSETS		
Net Assets, unrestricted	27,945,935	24,392,915
Net Assets, invested in capital assets	1,823,470	1,868,407
Total net assets	29,769,405	26,261,322
TOTAL LIABILITIES & NET ASSETS	**$ 41,349,269**	**$ 38,796,007**

See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Revenues, Expenses and Changes in Net Assets
For Years Ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Premiums written	$ 14,676,635	$14,567,597
Assessments discounts	-	(617,757)
Rental income	218,145	236,854
Other Income	7,705	4,634
Total revenues	14,902,485	14,191,328
Operating expenses:		
Losses and loss adjustment expenses-Note 7	2,144,280	2,877,489
Excess insurance premiums	5,019,808	4,642,512
Pooling and loss control fees	505,000	445,777
Third party administrator fees	624,571	610,665
Agent commissions	959,167	907,075
Taxes written	6,862	6,674
Total program expenses:	9,259,688	9,490,192
Administration expenses:		
Management fees	462,000	471,955
Building maintenance and utilities	50,414	48,824
Depreciation	44,937	46,814
Amortization	1,506,033	1,018,305
Travel	33,347	35,618
casualty insurance	38,649	34,845
Operating expenses	262,494	237,827
Legal expenses	27,862	4,490
Loss control awards & grants	253,625	221,323
Consultant appraisals	83,560	95,560
Environmental consultation	21,851	18,305
Member education & training	779,441	764,934
Total pool administration expenses	3,564,213	2,998,800
Total program and administration expenses	12,823,901	12,488,992
Increase in operating net assets	**2,078,584**	**1,702,336**
Increase in non-operating net investment income	1,429,499	772,826
Increase in net assets	**3,508,083**	**2,475,162**
Net assets, beginning of year	26,261,322	23,786,160
Net assets, end of year	**$ 29,769,405**	**$ 26,261,322**

See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Cash Flows
For Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Premiums written	$ 14,676,635	$ 13,451,411
Rental income	218,145	236,854
Other revenues	7,706	4,634
Payment for claims	(3,423,691)	(3,238,489)
Payment to vendors	(8,521,072)	(8,275,804)
Net Cash Provided from Operating Activities:	2,957,723	2,178,606
Cash flows from investing activities:		
Interest,dividends and realized net gains on investments	825,708	1,207,917
Purchases of investments	(1,501,607)	(1,637,815)
Proceeds from sales of investments	554,458 `	2,600,000
Net cash Used in Investing Activities	(121,441)	2,170,102
Cash flows from financing activities:		
Increase in capitalization of PRM	(2,276,619)	(5,265,924)
Member landfill premium receivable	-	399,446
Prepaid surplus contribution to GEM	-	(500,000)
Net Cash Used for Capital Activities	(2,276,619)	(5,366,478)
Increase(decrease) in Cash and Cash Equivalents	559,663	(1,017,770)
Cash and Cash Equivalents, beginning of fiscal year	254,890	1,272,660
Cash and Cash Equivalents, year ended June 30	**814,553**	**254,890**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating net income (loss)	2,078,585	1,702,336
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	44,937	46,814
Deductibles receivable	(61,524)	(385,941)
Prepaid expense	527,013	(52,759)
Specific excess recoverable	(147,533)	190,966
Other receivables	15,034	(17,660)
Amortization	1,506,033	1,018,305
Accounts payable	(53,822)	45,975
Deferred revenue	-	(8,430)
Claims and loss adjustment expenses	(951,000)	(361,000)
Net Cash Provided by Operating Activities	**$ 2,957,723**	**$ 2,178,606**

See accompanying notes

NOTE 1 - 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 Alternative Service Concepts, LLC (ASC), which has been contracted to perform claims adjustments for the NPAIP.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Principles of Presentation</u>
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.

<u>Measurement Focus, Basis of Accounting</u>
The financial statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Expenditures are recorded when the related fund liability is incurred.

<u>Cash Equivalents:</u>
For purposes of the statement of cash flows, the NPAIP considers investments with original maturity dates less than 90 days to be cash equivalents.

<u>Investment and Interest Income:</u>
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.

<u>Credit Risk:</u>
Credit risk is the risk that the issuer of a security will default on principal and interest of the security. NPAIP's policy is to invest in corporate debt issues with a minimum of an "AA" rating from Moody's or Standard and Poor's rating services or U.S. Government and government backed securities. In addition, NPAIP's policy is to diversify the investment portfolio so that the impact of potential losses from any one type of security or from any one issuer will be minimized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk:
NPAIP limits investments in fixed income securities to 10% of the total fixed income portfolio to any one issuer. No more than 15% of the total investment pool will be invested in any one class of security, industry or company. NPAIP will not directly invest in securities maturing more than ten (10) years from the date of purchase, except as permitted by law. The policy does not place a limit on the purchase of U.S. Government and government backed securities.

Interest Rate Risk:
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. NPAIP will, to the extent possible, minimize this risk by matching investment maturities to liability due dates. This allows NPAIP to hold investments to maturity thus mitigating losses from the sale of investments prior to their maturity date. Additionally, exposure to fair value losses arising from decreasing interest rates is minimized by investing predominantly in investments with short to mid-term maturities that perform in line with the return of a managed fund comprised of 1 – 3 year Treasury Bonds.

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.

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
In accordance with Internal Revenue Service code Section 115, organizations formed, operated and funded by political subdivisions may exclude income from those activities that qualify for exclusion. Accordingly, no provision for income taxes has been provided in the accompanying financial statements.

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.

Assessments Discounts
At its annual meeting, the board voted to utilize a portion of its net assets to subsidize cost increases for the liability reinsurance in order to avoid passing the additional costs onto the members for the current fiscal year.

Budget
A budget is prepared by management but there is no legal budgetary requirement.

NOTE 3 – CASH AND INVESTMENTS

The carrying amount of NPAIP's deposits with financial institutions at June 30, 2012 and 2011 was $814,553 and $254,890.

The financial institution balance at June 30, 2012 and 2011 was $1,080,934 and $993,584 respectively. The difference between the carrying amount and bank balance results from outstanding checks and/or deposits not yet reflected in the bank's records.

	2012	2011
Amounts insured by FDIC	$250,000	$250,000
Amounts collateralized	191,222	658,330
Cash equivalents at brokerage firm	639,712	85,254
Total deposits at financial institutions	$1,080,934	$993,584

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

A summary of investments as of June 30, 2012 is as follows:

		Investment Maturities in Years			
	Fair Value	**1 year of less**	**1-5**	**5-10**	**Over 10**
U.S. Treasuries	$ 6,810,434	$ 72,617	$ 2,602,906	$ 4,134,911	$ -
U.S. Government & Agencies	4,529,320	32,372	3,042,795	1,398,423	55,730
U.S. Mortgage-backed securities	9,479,007	20,012	-	46,953	9,412,042
U.S. Government backed securities	6,309,849	681,316	3,102,174	1,867,040	659,319
Total cash and investments	$ 27,128,610	$ 806,317	$ 8,747,875	$ 7,447,327	$ 10,127,091

A summary of investments as of June 30, 2011 is as follows:

		Investment Maturities in Years			
	Fair Value	**1 year of less**	**1-5**	**5-10**	**Over 10**
U.S. Treasuries	$ 6,655,523	$ 66,680	$ 1,023,440	$ 5,565,403	$ -
U.S. Government & Agencies	3,391,913	31,997	1,952,840	1,343,384	63,692
U.S. Mortgage-backed securities	1,788,291	7,305	157,468	68,753	1,554,765
U.S. Government backed securities	13,691,944	5,376,759	6,218,090	1,755,850	341,245
Total cash and investments	$ 25,527,671	$ 5,482,741	$ 9,351,838	$ 8,733,390	$ 1,959,702

Actual maturities may differ from contractual maturities as some borrowers 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 4 – 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, 2012 and 2011 was as follows:

	Estimated Useful Life	June 30, 2011	Additions	Dispositions	June 30, 2012
Land	0	$ 466,652	$ -	$ -	$ 466,652
Building	40	1,783,716	-	-	1,783,716
Equipment, furniture, fixtures & vehicles	5-7	94,857	-	-	94,857
		2,345,225	-	-	2,345,225
Less accumulated depreciation		(476,818)	(44,937)	-	(521,755)
Capital assets net accumulated depreciation		$ 1,868,407	$ (44,937)	$ -	$ 1,823,470

Property and equipment activity for the year ended June 30, 2011 was as follows:

	Estimated Useful Life	June 30, 2010	Additions	Dispositions	June 30, 2011
Land	0	$ 466,652	$ -	$ -	$ 466,652
Building	40	1,783,716	-	-	1,783,716
Equipment, furniture, fixtures & vehicles	5-7	94,857	-	-	94,857
		2,345,225	-	-	2,345,225
Less accumulated depreciation		(430,004)	(46,814)	-	(476,818)
Capital assets net accumulated depreciation		$ 1,915,221	$ (46,814)	$ -	$ 1,868,407

NOTE 5 – 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:	2011-2012	2010-2011
Property blanket limit (1)	$200,000	$200,000
Liability per event	$500,000	$500,000
Monies & securities per loss	$500,000	$500,000
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 6 – 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.

Property limits:	**2011 -2012**	**2010- 2011**
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)	10,000,000	10,000,000
Products/Completed Operations Aggregate (per member)	Included	Included
Wrongful Acts Aggregate (per member)	Included	Included
Law Enforcement Aggregate (per member	Included	Included
Emergency Response to Pollution Aggregate Sub-limit:	1,000,000	1,0000,00

NPAIP reinsurance is as follows:

Property 2010-2011: 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 excess of $250,000 per event monies and securities extension

Public Risk Mutual: $50,000 limit per loss subject to $200,000 NPAIP retention all coverages
Travelers Boiler Re: $50,000 NPAIP retention for Equipment Breakdown
Lloyds of London various syndicates: NPAIP retentions $250,000 per occurrence plus $250,000 aggregate all coverages except no reinsurance for Equipment breakdown or money and securities

Property 2011-2012 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 excess of $250,000 per event monies and securities extension

Public Risk Mutual: $50,000 limit per loss subject to $200,000 NPAIP retention all coverages
Travelers Boiler Re: $50,000 NPAIP retention for Equipment Breakdown

Lloyds of London various syndicates: NPAIP retentions $250,000 per occurrence plus $250,000 aggregate all coverages except no reinsurance for Equipment breakdown or money and securities

Liability 2010-2011: 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 districts plus $250,000 excess of $2,000,000
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 $2,000,000

Liability 2011-2012: The liability limits shown above excess of NPAIP's retention with of $500,000 with:

a) Public Risk Mutual 20% of $2,500,000, excluding school districts
b) County Reinsurance, LTD. 80% of $2,500,000, excluding school districts
c) United Educators $2,500,000 for school districts only
d) Government Entities Mutual, Inc. $2,000,000 excess of $3,000,000
e) Lloyds of London Brit Syndicates, Ltd. $5,000,000 excess of $5,000,000

NOTE 7 – 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:

	2012	2011
Incurred claims and claim adjustment expenses At the beginning of the fiscal year	$12,424,000	$12,785,000
Incurred claims and claim adjustment expenses:		
Provisions for insured events of current year	5,471,000	5,938,000
(Decreases) increase in provision for insured events of prior years	(3,326,720)	(3,060,511)
Total Incurred claim adjustment expenses	2,144,280	2,877,489
Payments:		
Claims and Claim Adjustment Expenses attributable to Insured Events of Current year	(722,000)	(833,000)
Claims and Claim Adjustment Expenses attributable to insured events of prior years	(2,373,280)	(2,405,489)
Total payments	(3,095,280)	(3,238,489)
Total unpaid claims and claims adjustment expenses at fiscal year end June 30	**$11,473,000**	**$ 12,424,000**

In 2012 the current portion of the reserve, cash expected to be paid within 12 months, is $4,586,498 and the long-term portion is $6,886,502. At the end of 2011 the current portion was $4,967,150 and the long term portion was $7,456,850.

At June 30, 2012 and 2011, 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, 2012 and 2011.

NOTE 8 - 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 that terminated January 1, 2011. Amounts received for rent totaled $23,964 for the year ending 2011. NACO is a member of NPAIP. 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, 2012 and 2011 was $462,000 and $471,955. Beginning July 1, 2011, 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 2012 and 2011 were $63,864 and $62,004 respectively.

Effective July 1, 2006, NPAIP jointly with PACT entered into a grant 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. Cost for this grant was $583,500 and $566,000 for years 2012 and 2011 respectively. The grant was renewed for three years beginning July 1, 2012 with future costs being $525,000, $535,500 and $546,500 for years ended June 30, 2013, 2014 and 2015 respectively. PRI provides human resources management services to NPAIP and Public Agency Compensation Trust members. PRI pays PARMS a management fee to provide operational and financial oversight of PRI.

NOTE 9 –CONTRIBUTED SURPLUS TO PUBLIC RISK MUTUAL

In May 2004, NPAIP's board of directors authorized the start up of a member-owned nonprofit captive mutual insurance company and contributed to the surplus of the company with an initial $1,000,000 surplus 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 contributions to surplus were made by NPAIP. The cumulative contributions were $15,250,959 as of June 30, 2012 and $12,974,340 as of June 30, 2011. 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 providing surplus contributions, but without any expectation that the funds will be returned, NPAIP will recoup the contributions to surplus. Therefore, management considers the surplus contributions a development cost asset that can provide lower operating costs in the future and estimates that the savings in excess insurance costs to NPAIP will recoup the contributions to surplus. Therefore, the NPAIP's interest in PRM is being amortized over 10 years. Amortization expense was $1,506,033 and $1,018,305 for fiscal years ended 2012 and 2011.

	June 30, 2011	Additions	June 30, 2012
Contributed surplus to Public Risk Mutual	$ 12,974,340	$ 2,276,619	$ 15,250,959
Accumulated amortization	(3,011,506)	(1,506,033)	(4,517,539)
Contributed Surplus net of accumulated amortization	$ 9,962,834	$ 770,586	$ 10,733,420

	June 30, 2010	Additions	June 30, 2011
Contributed surplus to Public Risk Mutual	$ 7,708,416	$ 5,265,924	$ 12,974,340
Accumulated amortization	(1,993,201)	(1,018,305)	(3,011,506)
Contributed Surplus net of accumulated amortization	$ 5,715,215	$ 4,247,619	$ 9,962,834

NOTE 10 - COPIER LEASE

In April of 2011 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
2013	$ 4,375
2014	4,375
2015	4,010
	$ 12,760

NOTE 11 –PREPAID CONTRIBUTED SURPLUS TO GEM

Effective July 1, 2012 NPAIP entered into a reinsurance agreement with GEM (Government Entities Mutual) Inc. to provide reinsurance of a portion of the liability program. In order to participate in the program, NPAIP had to provide a surplus contribution of $500,000 in addition to the annual premium. The contribution establishes an account, which can fluctuate over time. If NPAIP terminates the agreement or if a dividend is declared by GEM, NPAIP could receive the entire amount. Amounts paid were fully expensed in the fiscal year ending June 30, 2012.

NOTE 12 –SUBSEQUENT EVENTS

Management has evaluated the activities and transactions subsequent to June 30, 2012 to determine the need for any adjustments to, and disclosure within the financial statements for the year ended June 30, 2012. Management has evaluated subsequent events through November 26, 2012 which is the date the financial statements were available for issue.

NEVADA PUBLIC AGENCY INSURANCE POOL
COMPARATIVE SCHEDULE OF CLAIMS DEVELOPMENT (UNAUDITED)
EARNED ASSESSMENTS AND ALLOCATED EXPENSES FOR TEN-YEAR PERIOD - YEAR ENDED JUNE 30,

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Required Contributions & Investment Income:										
Earned	$10,688,528	$11,131,225	$11,568,331	$11,786,124	$13,785,893	$14,643,824	$15,184,061	$15,721,731	$14,964,155	$16,331,984
Ceded	(3,677,614)	(4,057,661)	(3,718,455)	(3,358,462)	(3,758,623)	(3,681,857)	(3,919,235)	(4,388,536)	(4,642,512)	(5,019,808)
Net earned	7,010,914	7,073,564	7,849,876	8,427,662	10,027,270	10,961,967	11,264,826	11,333,195	10,321,643	11,312,176
Unallocated Expenses	2,429,581	2,762,681	2,846,143	3,031,993	3,255,602	3,715,519	4,103,075	4,521,913	4,968,874	5,659,813
Estimated Incurred Claims & Expense End of Policy Year:										
Incurred	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000	5,938,000	5,471,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000	5,938,000	5,471,000
Paid (cumulative) as of:										
End of policy year	637,074	287,229	862,908	434,000	845,000	1,020,000	397,000	417,000	833,000	722,000
One Year Later	1,140,140	637,081	1,421,000	936,000	1,764,000	3,301,000	1,078,000	1,546,000	1,736,000	
Two Years Later	1,724,894	861,000	1,717,000	1,380,000	3,209,000	4,041,000	1,767,000	2,386,000		
Three Years Later	2,134,000	942,000	1,935,000	1,973,000	3,832,000	4,403,000	2,443,000			
Four Years Later	2,505,000	1,151,000	2,045,000	2,169,000	3,836,000	4,505,000				
Five Years Later	2,705,000	1,196,000	2,150,000	2,212,000	3,797,000					
Six Years Later	2,789,000	1,198,000	2,269,000	2,236,000						
Seven Years Later	2,803,000	1,140,000	2,295,000							
Eight Years Later	2,808,000	1,140,000								
Nine Years Later	2,813,000									
Re-estimated ceded claims & Expenses	13,643	-	757,715	442,343	322,736	5,058,047	-	-	611,065	-
Re-estimated Claims & Expense										
End of policy year	3,324,422	3,753,413	3,626,034	4,355,000	5,498,000	7,232,000	6,118,000	6,036,000	5,938,000	5,471,000
One Year Later	3,774,000	3,019,000	3,482,000	3,676,000	3,676,000	6,844,000	4,793,000	4,953,000	4,973,000	
Two Years Later	2,877,000	2,010,000	3,431,000	3,054,000	5,344,000	5,972,000	3,921,000	4,185,000		
Three Years Later	2,815,000	1,547,000	2,755,000	2,838,000	4,714,000	5,353,000	3,272,000			
Four Years Later	2,903,000	1,453,000	2,599,000	2,599,000	4,260,000	4,874,000				
Five Years Later	2,894,000	1,256,000	2,315,000	2,493,000	4,056,000					
Six Years Later	2,863,000	1,218,000	2,352,000	2,411,000						
Seven Years Later	2,820,000	1,145,000	2,350,000							
Eight Years Later	2,818,000	1,140,000								
Nine Years Later	2,813,000									
Increase (Decrease) in Estimated Incurred Claims & Expenses from End of Policy Year	($511,422)	($2,613,413)	($1,276,034)	($1,944,000)	($1,442,000)	($2,358,000)	($2,846,000)	($1,851,000)	($965,000)	$0