PUBLIC AGENCY COMPENSATION TRUST

FINANCIAL STATEMENTS

June 30, 2010 and 2009

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Public Agency Compensation Trust

We have audited the accompanying statement of net assets of the Public Agency Compensation Trust as of June 30, 2010 and 2009, 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. 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 our 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 Public Agency Compensation Trust as of 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 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. 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 schedule on unpaid loss liabilities for the Worker's compensation and Heart & Lung funds, Comparative Schedule of Claim Development for Workers Comp and Heart & Lung, 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, we express no opinion those schedules.

Bertrand & Associates LLC.

October 15, 2010
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, 2010 and June 30, 2009 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 $45,671,608 as of fiscal year ended June 30, 2009 to $47,888,678 as of fiscal year ended June 30, 2010, an increase of $2,217,070 or 4.85%.

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 decreased from $14,978,027 for fiscal year ended June 30, 2009 to $14,043,571 for fiscal year ended June 30, 2010, a decrease of $934,456 or 6.65%. The decrease resulted from reduced payrolls and decreases in rates.

Total expenses increased from $13,908,793 as of fiscal year ended June 30, 2009 to $14,639,429 as of fiscal year ended June 30, 2010, an increase of $730,636 or 5.25%. The most significant factors in the expense increase is attributable to increased amortization expense and increased heart and lung loss expenses. The amortization expense is attributable to PACT's further capitalization of Public Compensation Mutual (PCM), its captive insurance company. 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 $1,069,234 as of fiscal year ended June 30, 2009 to ($595,858) as of fiscal year ended June 30, 2010, a decrease of $1,665,092 largely as the result of increases in amortization expenses and heart and lung loss expenses. As a percentage of assessments revenues, operating net assets decreased from 7.1% to (4.2)% 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. This year adverse heart and lung claims reserves reduced operating net assets substantially. Increased amortization expense reflects the board's decision to increase capitalization to PCM consistent with its long-term strategy.

Net investment income decreased by $591,262 compared to the prior year as a result of investment market conditions that resulted in a net gain on investments of $2,812,928 as of fiscal year ended June 30, 2010 compared with a net gain of $3,404,190 as of fiscal year ended June 30, 2009. Investments are marked to market value at the time of the financial statements, which may result in a negative or positive overall result. Maintaining a strong return under the difficult economic conditions during this fiscal year speaks to the conservative investment strategies employed by PACT. 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. 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, 2010, net assets grew by 4.85% or $2,217,070. While this result is less than the gains of the previous fiscal year, it evidences the successful underwriting and investment strategies utilized. 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) declined by 9.1% for fiscal year ended June 30, 2010 as a result of declining payrolls, rates and investment income.

Actuarial

The actuarial analysis for the current fiscal year revealed an increase in case reserves and IBNR reserves over prior years' estimated incurred losses. Prior year actuarial projections through fiscal years ended June 30, 2005 appear to have been in line with actual results. Since 2005, increases in the projected costs of claims have occurred and consequently reduce net asset gains compared to the prior fiscal year. Refer to Note 13 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 and have maintained quality as evidenced by external claims audits, 2) SpecialtyHealth, the managed care organization and bill reviewer for PACT has greatly helped the adjusters manage claims effectively, 3) loss control efforts have proven effective, and 4) the continuing roll-out of the Cardiac Wellness Program that should help reduce potential heart claims, although implementation impediments have slowed down the program. 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 70% 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 did have a letter of credit with Wells Fargo Bank in favor of the Insurance Commissioner to secure its solvency as required by regulation, but replaced the LOC in May 2010 with pledged investments to satisfy that security requirement at lower cost.

Economic Factors:

For fiscal year ending June 30, 2010, economic conditions remained unstable, but with some progress toward recovery, for the nation and Nevada. 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 low 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. The 2009 Legislature fixed the 5th Edition into statute rather than having the most current edition be implemented by regulation. The 6th edition would have reduced costs in several key ratings of impairments due to recognition of improved medical outcomes.

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, 2010 were $1,532,836 compared to June 30, 2009 at $1,133,340.

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 was increased by 10% as a result of an actuarial rate study that confirmed the range of potential losses from prior studies and demonstrated the need to accelerate needed assessments in future fiscal years as demographic factors begin to influence the post-employment risks.

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:

While PACT had one large member withdraw effective July 1, 2010 to become individually self-insured, this subsequent event would not affect the financial statements for the current fiscal year.

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	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Total Revenue	14,076,675	15,594,000	15,746,515	14,978,027	14,043,571
Revenue over (under) Expenses	9,751,599	10,653,739	8,961,327	4,473,424	2,217,070
Net Operating Income	9,677,503	8,718,995	5,496,340	1,069,234	(595,508)
Net Investment Income	74,096	1,934,744	3,467,687	3,404,190	2,812,928
Total Assets	37,726,830	49,199,714	60,092,890	67,664,744	73,829,771
Total Liabilities	16,143,712	16,962,857	18,894,706	21,993,136	25,941,093
Net Assets	21,583,118	32,236,857	41,198,184	45,671,608	47,888,678
Net Assets to SIR (Board Target 12:1); Benchmark >5:1	47.96	63.21	82.40	91.34	95.78
SIR to Net Assets (Benchmark: captives <.10; group capitves <.25)	0.02	0.02	0.01	0.01	0.01
% Assets attributable to Net Assets	57.2%	65.5%	68.6%	67.5%	64.9%
Total assets/total liabilities	2.34	2.90	3.18	3.08	2.85
Revenues to Net Assets (Benchmark: <2.5:1 and >0	0.65	0.48	0.38	0.33	0.29
Loss Reserves to Net Assets (discounted): Benchmark <3:1 and >0	0.06	0.11	0.31	0.33	0.35
Total liabilities to liquid assets: Benchmark <100%	49%	43%	40%	43%	47%
Change in members' Net Assets: >-10%	82.4%	49.4%	27.8%	10.9%	4.9%
Return on Net Assets: Net Operating Income/Net Assets	44.8%	27.0%	13.3%	2.3%	-1.2%
Return on Net Assets: Total Income/Net Assets	45.2%	33.0%	21.8%	9.8%	4.6%

PUBLIC AGENCY COMPENSATION TRUST

STATEMENTS OF NET ASSETS

June 30, 2010 and 2009

ASSETS	**2010**	**2009**
Current assets:		
Cash & equivalents – Note 2	$ 4,445,265	$ 3,824,674
Investment securities – Note 3	46,631,550	47,901,030
Member assessments receivable – Note 4	3,552,337	3,835,700
Specific recoverable	65,418	56,915
Prepaid expenses	24,274	37,250
Other assets:		
Pledged investments	4,132,452	-
Public Compensation Mutual – Note 14	18,100,000	13,600,000
Less amortization	(3,121,525)	(1,590,825)
Total Assets	**$73,829,771**	**$67,664,744**
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LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 303,550	$ -
Specific recoverables	65,418	56,915
Current portion of reserve for losses and loss adjustment expenses	5,016,821	5,288,973
	5,385,789	5,345,888
Non-current liabilities:		
Reserve for losses and loss adjustment expenses – Note 13	12,206,179	9,831,027
Heart & Lung expense reserve – Note 9	8,349,125	6,816,221
	20,555,304	16,647,248
Net assets - unrestricted	47,888,678	45,671,608
	47,888,678	45,671,608
Total Liabilities and Net Assets	**$73,829,771**	**$ 67,664,744**
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See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2010 and 2009

	2010	2009
Revenues:		
Assessments for workers compensation	$12,510,735	$13,844,687
Assessments for heart & lung	1,532,836	1,133,340
Total revenues	14,043,571	14,978,027
Loss fund and program expenses:		
Claims and adjustment expenses	7,714,414	7,887,150
Heart and Lung loss expenses	1,532,904	1,133,340
Excess insurance premium	800,745	719,595
Re-insurance premium	219,000	280,000
Underwriting and claims processing	628,858	723,065
Total loss fund and program expenses	10,895,921	10,743,150
Administration expenses:		
Management fees	461,666	448,789
Professional services	102,516	75,766
Administrative and overhead	257,147	218,915
Member education and services	674,402	658,738
Insurance Division fees	289,159	329,999
Insolvency fund & related expenses	26,918	33,278
Loss control expenses	401,000	376,000
Amortization expense	1,530,700	1,024,158
Total administrative expenses	3,743,508	3,165,643
Increase (decrease) in operating net assets	(595,858)	1,069,234
Increase in non-operating net investment income	2,812,928	3,404,190
Increase in net assets	**$2,217,070**	**$4,473,424**
Net assets, beginning of year	45,671,608	41,198,184
Net assets, end of year	**$47,888,678**	**$45,671,608**
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See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
STATEMENTS OF CASH FLOWS
For Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments and other revenues	$ 14,326,934	$ 15,441,708
Payment for claims	(5,611,414)	(5,826,150)
Payment to vendors	(3,544,884)	(3,988,608)
Purchase of pledged assets	(3,961,500)	-
Net Cash Provided from Operating Activities	1,209,136	5,626,950
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalization of Public Compensation Mutual	(4,500,000)	(4,600,000)
Net Cash Used for Capital and Related Financing Activities	(4,500,000)	(4,600,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and net realized investment income	2,252,104	2,540,467
Purchases of investments	(2,455,749)	(6,418,567)
Sale of investments	4,115,100	2,238,045
Net Cash Provided (Used) for Investing Activities	3,911,455	(1,640,055)
Increase (Decrease) in Cash and Cash Equivalents	620,591	(613,105)
Cash and Cash Equivalents, beginning of fiscal year	3,824,674	4,437,779
Cash and Cash Equivalents, year ended June 30	**$ 4,445,265**	**$ 3,824,674**
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RECONCILIATION OF OPERATING INCOME
TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	2010	2009
Operating net income	$ (595,858)	$1,069,234
Adjustments to reconcile operating income		
to net cash provided (used) by operating activities:		
Member assessments receivable	283,364	463,680
Specific recoverable	(8,503)	(56,915)
Prepaid expenses	12,976	28,363
Accounts payable	303,550	(126,007)
Specific recoverable	8,503	30,097
Amortization of capitalization of Public Compensation Mutual	1,530,700	1,024,158
Loss reserves	3,635,904	3,194,340
Purchase of pledged assets	(3,961,500)	-
Net cash provided by operating activities	**$ 1,209,136**	**$ 5,626,950**
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See accompanying notes

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of program

Public Agency Compensation Trust (PACT) was formed by local governments for the purpose of organizing a self-insured workers' compensation group. 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.

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 as required by Nevada Revised Statute 616B.368.

Investments and investment income

Investments consist predominately 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.

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.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Losses and loss adjustment expense

Reserves for losses and allocated loss adjustment expenses are provided based on case-based 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 based on an evaluation prepared 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% in 2010 and 3.5% 2009, 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.

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 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 & EQUIVALENTS

The carrying amount of PACT's deposits with financial institutions at June 30, 2010 and 2009 are $4,445,265 and $3,824,674 respectively. The financial institution balances were $4,565,568 and $4,077,428 respectively. The difference between the carrying amounts and financial institution balances 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	2,597,197	2,055,421
Cash equivalents at brokerage firm	1,718,371	1,772,007
Total deposits at financial institutions	$4,565,568	$4,077,428

PACT 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 up to the SPIC insurance limit are insured through SPIC and additional amounts are insured by the broker through an insurance policy.

Credit Risk:

Credit risk is the risk that the issuer of a security will default on principal and interest of the security. PACT'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, PACT'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 – CASH & EQUIVALENTS (continued)

Concentration of Credit Risk: PACT 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. PACT 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. PACT will, to the extent possible, minimize this risk by matching investment maturities to liability due dates. This allows PACT 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.

NOTE 3 – INVESTMENT SECURITIES

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

		Investment Maturities in Years				
	Fair value	**1 year or Less**	**1 – 5**	**5-10**	**Over 10**	**Moody's Rating**
U.S. Treasuries	$9,478,972	-	-	$9,478,972	-	
U.S Government backed & agency	25,945,945	-	19,901,191	6,044,754	-	
Mortgaged backed corporate bonds	3,815,493	-	758,181	699,064	2,358,248	
Corporate bonds	7,291,140	-	7,291,140	-	-	Aaa
Certificates of deposit	100,000	100,000	-	-	-	
Total cash and investments	$46,631,550	$100,000	$27,950,512	$16,222,790	$2,358,248	

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

		Investment Maturities in Years				
	Fair value	**1 year or Less**	**1 – 5**	**5-10**	**Over 10**	**Moody's Rating**
U.S. Treasuries	$9,686,626	-	-	$7,175,902	2,510,724	
U.S Government backed & agency	23,131,645	1,858,319	18,805,843	2,467,483		
Mortgaged backed corporate bonds	7,586,472		6,175,685	608,340	802,447	
Corporate bonds	7,496,287	-	3,692,468	1,904,710	1,899,109	Aaa
Total cash and investments	$47,901,030	$1,858,319	$28,673,996	$12,156,435	$5,212,280	

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 4 – MEMBER ASSESSMENTS RECEIVABLE

Member assessments receivable were $3,552,337 and $ 3,835,700 for the years ended June 30, 2010 and 2009. 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.

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 & EXCESS INSURANCE

In the ordinary course of business, PACT maintains an excess insurance contract with an insurance carrier through their broker company, Willis Pooling. 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 2.7412% of payroll, subject to a minimum aggregate retention of $8,397,190 for year ended June 30, 2010.

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, 2010 and 2009 was $461,666 and $408,778 respectively.

A new agreement was entered into with PARMS commencing July 1, 2009 and terminating on July 1, 2011 with an option to extend with the same terms and conditions for an additional two years. A 3% annual increase for management fees is included in the contract.

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.

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

NOTE 8 – PLEDGED INVESTMENTS & 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 the workers compensation benefits to employees

PACT has obtained a letter of credit from Wells Fargo Bank in the amount of $3,160,000 and $2,651,000 for the years ended 2010 and 2009, respectively, with the named beneficiary being the State of Nevada Division of Insurance. In April of 2010, PACT decided to not renew the letter of credit and instead pledged certain investments to secure payment. The amounts pledged at June 30, 2010 was $4,132,452. 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 2010 and 2009 is $8,349,125 and $6,816,221 respectively.

NOTE 10 – ALLOCATION OF ASSESSMENTS REVENUES
The Nevada Revised Statute 616B.368 requires that 75% of assessment revenues collected be placed in a separate account and that disbursements from this account be 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 for member assessments and prepayments of assessments and deposits are deposited into the operating account. Periodically, 75% of the assessments are transferred to a separate bank account or investment account to comply with this requirement.

NOTE 11 – RECLASSIFICATIONS ON PRIOR YEAR STATEMENT OF CASH FLOWS
Certain reclassifications to the prior year Statement of Cash Flows were made for correction and comparability with the current year presentation. A correction was made to the assessments revenues and several reclassifications were made. The Capitalization of Public Compensation Mutual was transferred from “cash flows from investing activities” to “cash flows from capital activities”. The related amortization of that capitalization was transferred from “cash flows from investing activities” to “reconciliation of operating income to net cash provided by operating activities”. Theses changes did not affect account balances on the Balance Sheet, Income Statement or the ending cash flow reported on the prior year Statement of Cash Flows

NOTE 12 – POOLING RESOURCES INC.
Effective July 1, 2006, Public Agency Insurance Pool jointly with PACT contracted with Pooling Resources, Inc. (PRI), a nonprofit organization formed by the executive director of POOL, Wayne Carlson, and whose directors and officers are 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. A renewal of this contract was made for three years beginning July 1, 2010. PACT’s share of the cost is for the first year is $550,000, $566,500 for the second year and $583,500 for the third year.

NOTE 13 – 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, 2010 and 2009:

	2010	2009
Unpaid losses and loss adjustment expenses at beginning of year or period	$ 21,936,221	$ 18,741,881
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	8,009,318	7,453,490
Increase in provision for insured events of prior fiscal years	1,238,000	1,567,000
Total incurred losses and loss adjustment	9,247,318	9,020,490
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year/period	(1,576,000)	(1,813,000)
Claims and claims adjustment expenses attributable to insured events of prior period	(4,035,414)	(4,013,150)
Total Payments	(5,611,414)	(5,826,150)
Unpaid claims and claims adjustment expenses At end of fiscal year	**$ 25,572,125**	**$ 21,936,221**

The current portion of the long term loss reserve for 2010 and 2009 is $5,016,821 and $5,288,973 with the long term portion for 2010 and 2009 being $20,555,304 and $16,647,248.

Incurred losses and loss adjustment expenses are comprised of two significant factors. Provisions for events of the current year increased from $7,453,150 for 2009 to $8,009,318 for 2010. The increase and decrease in the provision for insured events of prior fiscal years for 2010 and 2009 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 14 – 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 investments totaling $13,100,000. The company, named Public Compensation Mutual, ("PCM") is domiciled in Nevada and as of July 1, 2007, 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 capitalization of PCM will be amortized over 10 years.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WTH NEVADA ADMINISTRATIVE CODE 694C.210

To the Board of Directors
Public Agency Compensation Trust

In planning and performing our audit of the GAAP basis financial statements of Public Agency Compensation Trust (PACT) as of and for the year ended June 30, 2010 in accordance with auditing standards generally accepted in the United States of America we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PACT's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely effects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be detected or prevented by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Additionally, this report is being prepared consistent with the guidance in the NAIC/AICPA Working Group letter to regulators on the interpretation of Section 11 of the NAIC Model Audit Rule dated March 9, 2005. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above as of June 30, 2010.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization and state insurance departments to whose jurisdiction PACT is subject and is not intended to be and should not be used by anyone other than these specified parties.

Bertrand & Associates LLC.

October 15, 2010
Carson City, Nevada

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, 2010 and 2009:

	2010			**2009**		
	Workers Comp	Heart & Lung	Total	Workers Comp	Heart & Lung	Total
Unpaid losses and loss adjustment expenses at beginning of year or period	$15,120,000	$6,816,221	$21,936,221	$13,059,000	$5,682,881	$18,741,881
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	6,476,414	1,532,904	8,009,318	6,320,150	1,133,340	7,453,490
Increase (decrease) in provision for insured events of prior fiscal years	1,238,000	-	1,238,000	1,567,000	-	1,567,000
Total incurred losses and loss adjustment	7,714,414	1,532,904	9,247,318	7,887,150	1,133,340	9,020,490
Payments:						
Claims and claim adjustment expenses attributable to insured events of current fiscal year/period	(1,576,000)	-	(1,576,000)	(1,813,000)	-	(1,813,000)
Claims and claims adjustment expenses attributable to insured events of prior period	(4,035,414) -	-	(4,035,414)	(4,013,150)	-	(4,013,150)
Total Payments	(5,611,414) -	-	(5,611,414)	(5,826,150)	-	(5,826,150)
Unpaid claims and claims adjustment expenses at end of fiscal year	**$17,223,000**	**$8,349,125**	**$25,572,125**	**$15,120,000**	**$6,816,221**	**$21,936,221**
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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,

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Required Contributions & Investment Revenue:										
Earned	$6,576,497	$7,710,499	$9,290,486	$11,609,553	$12,638,430	$14,150,771	$ 17,528,899	$19,214,202	$18,382,217	$16,856,499
Ceded	(460,093)	(498,469)	(481,095)	(551,944)	(789,791)	(626,266)	(673,485)	(711,236)	(999,595)	(1,019,746)
Net Earned	6,116,404	7,212,030	8,809,391	11,057,609	11,848,639	13,524,505	16,855,414	18,502,966	17,382,622	15,836,753
Unallocated Expenses	1,208,714	1,302,793	2,378,840	2,753,420	2,280,908	2,401,410	2,644,815	3,467,687	3,888,708	4,372,365
Estimated incurred Claims & Expenses End of Policy Year:										
Incurred	4,900,000	5,400,000	5,721,353	7,611,959	7,694,786	7,221,184	6,932,261	6,211,000	6,699,000	7,604,904
Ceded	-	(86,000)	-	-	-	-	-	-	-	-
Net Incurred	4,900,000	5,314,000	5,721,353	7,611,959	7,694,786	7,221,184	6,932,261	6,211,000	6,699,000	7,604,904
Paid (cumulative) as of:										
End of policy year	1,028,738	1,121,886	1,059,764	815,018	1,153,042	903,024	955,534	1,396,400	1,813,443	1,576,283
One year later	2,472,940	2,775,572	2,242,826	1,833,437	2,466,279	1,863,166	2,333,923	3,334,645	3,630,752	-
Two years later	3,108,000	3,315,137	2,581,248	2,286,157	2,774,180	2,317,418	3,332,247	4,312,797	-	-
Three years later	3,153,319	3,424,176	2,780,197	2,624,047	3,033,660	2,626,506	3,930,487	-	-	-
Four years later	3,378,957	3,391,046	2,898,113	2,864,122	3,323,358	2,872,958	-	-	-	-
Five years later	3,393,199	3,393,215	2,892,851	2,995,578	3,399,607	-	-	-	-	-
Six years later	3,512,696	3,429,442	2,979,779	3,209,246		- -	-	-	-	-
Seven years later	3,700,536	3,503,152	2,966,483	-		- -	-	-	-	-
Eight years later	3,747,149	3,470,101	-	-		- -	-	-	-	-
Nine years later	3,879,815	-	-	-	-	-	-	-	-	-
Re-estimated ceded claims & expenses		-	-	-	-	-	-	-	-	-
Re-estimated Incurred Claims & Expenses										
End of policy year	4,900,000	5,315,000	5,721,353	7,611,959	7,964,786	7,221,184	6,932,261	6,211,000	6,699,000	7,604,904
One year later	5,000,000	5,100,000	5,823,353	6,558,041	5,783,000	5,100,000	6,163,261	7,066,000	7,100,000	
Two years later	4,900,000	4,950,000	5,006,353	4,952,041	5,147,000	4,117,000	7,269,261	7,695,000		
Three years later	4,500,000	4,050,000	4,285,353	4,645,041	5,230,000	4,388,000	7,555,261			
Four years later	4,234,000	3,951,000	4,114,353	4,941,041	5,287,000	4,574,184				
Five years later	4,136,000	3,719,000	4,093,353	4,870,041	5,238,899					
Six years later	4,189,000	3,617,000	4,030,353	5,260,041						
Seven years later	4,333,000	3,648,000	4,061,353							
Eight years later	4,342,000	3,632,000								
Nine years later	4,402,000									
Increase (Decrease) in Estimated Incurred Claims & Expenses from End of Policy Year:	**(498,000)**	**(1,682,000)**	**(1,660,000)**	**(2,351,918)**	**(2,725,887)**	**(2,647,000)**	**623,000**	**1,484,000**	**401,000**	**-**