NEVADA PUBLIC AGENCY INSURANCE POOL

FINANCIAL STATEMENTS

June 30, 2013 and 2012

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Executive Director and the Board of Directors
Nevada Public Agency Insurance Pool

Report on the Financial Statements

We have audited the accompanying statement of net assets of the Nevada Public Agency Insurance Pool as of June 30, 2013 and 2012 and the related statements of revenues and expenses and changes in net position and statement of changes in cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Nevada Public Agency Insurance Pool as of June 30, 2013 and 2012 and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis beginning on page 5 and 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

Carson City, Nevada
November 20, 2013

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 Position 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 NPAIP.

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

The Statement of Cash Flows serves to provide information about the NPAIP's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations and investments. It also discloses from where cash comes, for what it was used and the change in cash balance during the reporting period. Since 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 Position:</u>
Fiscal year ended June 30, 2013: $31,185,669
Fiscal year ended June 30, 2012: $29,769,405

Net change: $1,416,264 or 4.8%.

Net Position changes reflect both operating and non-operating net investment income. Operating expense changes were attributable to increased losses, decreased reinsurance costs and increased amortization expenses. Non-operating investment income reflects current economic conditions causing declining fixed income investment performance. Increases in Net Position 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 Position. 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, $1,778,877 of the total assets for fiscal year end June 30, 2013 consists of capital assets (after depreciation).

<u>Total revenues:</u>
Fiscal year ended June 30, 2013: $14,832,482
Fiscal year ended June 30, 2012: $14,902,485
Net change: ($70,003)

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 up due to finding a replacement tenant.

<u>Total expenses:</u>
Fiscal year ended June 30, 2013: $13,292,093
Fiscal year ended June 30, 2012: $12, 823,901
Net change: $468,192 or 3.7%.

The most significant factors in this change were attributable to increased losses and decreased reinsurance costs. 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 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, 2013, NPAIP had increased its contribution to surplus in Public Risk Mutual to $16,488,540. Amortization expense as of June 30, 2013 rose to $1,628,228 based upon NPAIP's policy to continue to amortize each of 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 Position:</u>
Fiscal year ended June 30, 2013: $1,540,389
Fiscal year ended June 30, 2012: $2,078,584

Net change: ($538,195) or (25.9%)

Increased losses and loss expenses comprised $849,722 or 55.2% of the change in operating Net Position. A decrease of $207,097 in reinsurance costs offset some of the increases in losses and loss expense. 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, 2013: ($ 124,125)
Fiscal year ended June 30, 2012: $1,429,499
Net change: ($1,553,624)

The net change of $1,553,624 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. Negative returns on a marked to market basis are consistent with current negative trends in the fixed income investment markets NPAIP is limited to using. The investment portfolio of $27,905,067 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 changed.

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 4.1% of its total assets. The building generates rental income and also diversifies NPAIP's investments. NPAIP remains debt free.

Comparative Key Performance Indicators:

In order to enhance analysis, comparative information is provided for Assets, Liabilities, Net Position, Revenues and Expenses as shown in the chart below. 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.

Financial Ratios	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013
Total Revenue	$ 13,429,504	$ 14,186,965	$ 14,191,328	$ 14,902,485	$ 14,832,482
Total Income	$ 2,531,847	$ 4,553,218	$ 2,475,162	$ 3,508,083	$ 1,416,264
Net Operating Income	$ 777,289	$ 3,018,451	$ 1,702,336	$ 2,078,584	$ 1,540,389
Net Investment Income	$ 1,754,558	$ 1,534,767	$ 772,826	$ 1,429,499	$ (124,125)
Total Assets	$ 32,066,624	$ 36,644,309	$ 38,796,007	$ 41,349,269	$ 42,911,169
Total Liabilities	$ 12,833,682	$ 12,858,140	$ 12,424,000	$ 11,579,864	$ 11,725,500
Net Position (Assets)	$ 19,232,942	$ 23,786,160	$ 26,261,322	$ 29,769,405	$ 31,185,669
Net Position to SIR (Board target: 12:1)	38.5	47.6	52.5	59.5	62.4
SIR to Net Position (Benchmark: captives <.10; group captives <.25)	0.03	0.02	0.02	0.02	0.02
% Assets attributable to Net Position	60.0%	64.9%	67.7%	72.0%	72.7%
Total assets/total liabilities	2.50	2.85	3.12	3.57	3.66
Revenues to Net Position (Benchmark: <2.5:1 and >0	0.70	0.60	0.54	0.50	0.48
Loss Reserves to Net Position (discounted): Benchmark <3:1 and >0	0.67	0.54	0.47	0.39	0.37
Total liabilities to liquid assets: Benchmark <100%	45%	39%	46%	40%	39%
Change in Net Position: >-10%	15.2%	23.7%	10.4%	13.4%	4.8%
Return on Net Position: Net Operating Income/Net Position	4.0%	12.7%	6.5%	7.0%	4.9%
Return on Net Position: Total Income/Net Position	13.2%	19.1%	9.4%	11.8%	4.5%

Economic Factors:

For fiscal year ending June 30, 2013, economic conditions showed continued uncertainty with tepid growth continuing 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, although showing negative results this year, have performed consistently with fixed income investment markets in light of the statutory requirements to invest in governmental securities.

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, 2013 evidenced changing insurance market conditions for property and liability reinsurance. Rates in property coverage were stable. Liability rates decreased. NPAIP continued its membership in the following reinsurers in which it has a financial interest:

- Public Risk Mutual, its own captive, that provides reinsurance for property and liability coverage
- County Reinsurance, Ltd., a captive mutual reinsurer for all members other than schools for liability coverage
- United Educators, a captive risk retention group for schools liability coverage reinsurance
- Government Entities Mutual (GEM), a captive mutual reinsurer, that provides a layer of liability reinsurance

Subsequent Events:

There were no subsequent events that would 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 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 Position
June 30, 2013 and 2012

ASSETS	**2013**	**2012**
Current assets:		
Cash and cash equivalents	$ 2,163,709	$ 814,553
Investments	27,905,067	27,128,610
Deductibles receivable	233,348	501,241
Assessments receivable	75,855	-
Other Receivables	9,716	3,507
Specific and aggregate recoverables	383,132	300,032
Prepaid expense	18,692	44,436
Total current assets	30,789,519	28,792,379
Capital assets:		
Land, building & equipment, net	1,778,877	1,823,470
Other assets:		
Contributed Surplus Public Risk Mutual, net	10,342,773	10,733,420
Total Assets	**42,911,169**	**41,349,269**
LIABILITIES		
Other current liabilities:		
Accounts payable	64,724	56,864
Payable to Public Risk Mutual	-	50,000
Deferred revenues	21,776	-
Current portion of reserve for claims and adjustment expense	4,811,009	4,586,498
Total current liabilities	4,897,509	4,693,362
Noncurrent liabilities:		
Reserve for claims and claims adjustment expenses	6,827,991	6,886,502
Total non-current liabilities:	6,827,991	6,886,502
Total Liabilities	**11,725,500**	**11,579,864**
NET POSITION		
Net Position, unrestricted	29,406,792	27,945,935
Net Position, invested in capital assets	1,778,877	1,823,470
Total Net Position	**$ 31,185,669**	**$ 29,769,405**

See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Revenues, Expenses and Changes in Net Position
For Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Premiums written	$ 14,551,486	$ 14,676,635
Rental income	232,655	218,145
Other Income	48,341	7,705
Total revenues	14,832,482	14,902,485
Program expenses:		
Losses and loss adjustment expenses	2,994,002	2,144,280
Excess insurance premiums	4,812,711	5,019,808
Pooling and loss control fees	505,000	505,000
Third party administrator fees	644,938	624,571
Agent commissions	951,511	959,167
Taxes written	7,394	6,862
Total program expenses	9,915,556	9,259,688
Administration expenses:		
Management fees	475,860	462,000
Building maintenance and utilities	46,254	50,414
Depreciation	44,593	44,937
Amortization	1,628,228	1,506,033
Travel	35,354	33,347
Casualty insurance	37,381	38,649
Operating expenses	159,223	262,494
Legal expenses	22,422	27,862
Loss control awards & grants	109,584	253,625
Consultant appraisals	75,540	83,560
Environmental consultation	21,757	21,851
Member education & training	720,341	779,441
Total pool administration expenses	3,376,537	3,564,213
Total program and administration expenses	13,292,093	12,823,901
Increase in operating net position	**1,540,389**	**2,078,584**
Increase in non-operating net investment income	(124,125)	1,429,499
Increase in net position	**1,416,264**	**3,508,083**
Net position, beginning of year	29,769,405	26,261,322
Net position, end of year	**$ 31,185,669**	**$ 29,769,405**

See accompanying notes

NEVADA PUBLIC AGENCY INSURANCE POOL
Statements of Cash Flows
For Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Premiums written	$ 14,500,913	$ 14,676,635
Rental income	232,655	218,145
Other revenues	38,625	7,706
Payment for claims	(2,828,001)	(3,423,691)
Payment to vendors	(8,529,223)	(8,521,072)
Net Cash Provided from Operating Activities:	3,414,969	2,957,723
Cash flows from investing activities:		
Interest and dividend income, net of expenses	796,376	825,708
Purchases of investments	(2,351,750)	(1,501,607)
Proceeds from sales of investments	727,142 `	554,458
Net cash Used in Investing Activities	(828,232)	(121,441)
Cash flows from financing activities:		
Increase in capitalization of PRM	(1,237,581)	(2,276,619)
Net Cash Used for Capital Activities	(1,237,581)	(2,276,619)
Increase in Cash and Cash Equivalents	1,349,156	559,663
Cash and Cash Equivalents, beginning of fiscal year	814,553	254,890
Cash and Cash Equivalents, year ended June 30	**2,163,709**	**814,553**
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating net income	1,540,389	2,078,585
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	44,593	44,937
Amortization expense	1,628,228	1,506,033
Decrease (increase) in deductibles receivable	195,544	(61,524)
Decrease in prepaid expense	16,028	527,013
Decrease in specific excess recoverable	(83,100)	(147,533)
(Increase) decrease in other receivables	(72,349)	15,034
Decrease accounts payable	(42,140)	(53,822)
Increase in deferred revenues	21,776	-
Increase (decrease) in claims and loss adjustment expenses	166,000	(951,000)
Net Cash Provided by Operating Activities	**$ 3,414,969**	**$ 2,957,723**

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

Principles of Presentation

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

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

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

Measurement Focus, Basis of Accounting

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.

Cash Equivalents:

For purposes of the statement of cash flows, the NPAIP considers investments with original maturity dates less than 90 days to be cash equivalents.

Investment and Interest Income:

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

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

Credit Risk:

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.

Fixed assets:
Equipment on the books is depreciated over the estimated useful lives of the assets using the straight-line method and the lives assigned to assets range from 5 years to 10 years. The office building cost is depreciated using the straight-line method over a period of 40 years with no salvage value.

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.

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

NOTE 3 – CASH AND INVESTMENTS

The carrying amount of NPAIP's deposits with financial institutions at June 30, 2013 and 2012 was $2,163,709 and $814,553.

The financial institution balance at June 30, 2013 and 2012 was $2,372,322 and $1,080,934 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.

	2013	2012
Amounts insured by FDIC	$250,000	$250,000
Amounts collateralized	7,346	191,222
Cash equivalents at brokerage firm	2,114,976	639,712
Total deposits at financial institutions	$2,372,322	$1,080,934

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, 2013 is as follows:

		Investment Maturities in Years			
	Fair Value	**1 year of less**	**1-5**	**5-10**	**Over 10**
U.S. Treasuries	$ 9,108,518	$ 85,953	$ 2,963,507	$ 6,059,058	$ -
U.S. Government & Agencies	2,807,107	35,201	2,723,723	-	48,183
U.S. Mortgage-backed securities	12,147,137	499,529	1,977,520	37,394	9,632,694
U.S. Government backed securities	3,842,305	32,896	1,772,065	1,436,625	600,719
Total cash and investments	$ 27,905,067	$ 653,579	$ 9,436,815	$ 7,533,077	$ 10,281,596

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

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, 2013 and 2012 was as follows:

Property and equipment activity for the year ended June 30, 2013 was as follows:

	Estimated Useful Life	June 30, 2012	Additions	Dispositions	June 30, 2013
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		(521,755)	(44,593)	-	(566,348)
Capital assets net accumulated depreciation		$ 1,823,470	$ (44,593)	$ -	$ 1,778,877

Property and equipment activity for the year ended June 30, 2012 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

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:	2012-2013	2011-2012
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:	**2012 -2013**	**2011 - 2012**
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 Per 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 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

Property 2012-2013 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 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

Liability 2012-2013: 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:

	2013	2012
Incurred claims and claim adjustment expenses At the beginning of the fiscal year	$11,473,000	$12,424,000
Incurred claims and claim adjustment expenses:		
Provisions for insured events of current year	5,370,000	5,471,000
(Decreases) increase in provision for insured events of prior years	(2,375,998)	(3,326,720)
Total Incurred claim adjustment expenses	2,994,002	2,144,280
Payments:		
Claims and Claim Adjustment Expenses attributable to Insured Events of Current year	(652,000)	(722,000)
Claims and Claim Adjustment Expenses attributable to insured events of prior years	(2,176,002)	(2,373,280)
Total payments	(2,828,002)	(3,095,280)
Total unpaid claims and claims adjustment expenses at fiscal year end June 30	**$11,639,000**	**$11,473,000**

In 2013 the current portion of the reserve, cash expected to be paid within 12 months, is $4,811,009 and the long-term portion is $6,827,991. At the end of 2012 the current portion was $4,586,498 and the long term portion was $6,886,502.

At June 30, 2013 and 2012, 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, 2013 and 2012.

NOTE 8 - RELATED PARTY TRANSACTIONS

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, 2013 and 2012 was $475,000 and $462,000. Beginning July 1, 2012, 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 2013 and 2012 were $65,772 and $63,864 respectively.

PARMS provides accounting services to the Nevada Association of Counties and Wayne Carlson is authorized as the second signer on checks disbursed from that organization's accounts.

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 $525,000 and $583,500 for years 2013 and 2012 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.

POOL is the sole policy holder of Public Risk Mutual Company which was formed as a captive insurance company.

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, 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 $16,488,540 as of June 30, 2013 and $15,250,959 as of June 30, 2012. 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 $1,628,228 and $1,506,033 for fiscal years ended 2013 and 2012.

	June 30, 2012	Additions	June 30, 2013
Contributed surplus to Public Risk Mutual	$ 15,250,959	$ 1,237,581	$ 16,488,540
Accumulated amortization	(4,517,539)	(1,628,228)	(6,145,767)
Contributed Surplus net of accumulated amortization	$ 10,733,420	$ (390,647)	$ 10,342,773

	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

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 $365. Future minimum lease payments are as follows:

Fiscal year ended:	Amount
2014	$ 4,380
2015	4,010
	$ 8,390

NOTE 11 –SUBSEQUENT EVENTS

Management has evaluated the activities and transactions subsequent to June 30, 2013 to determine the need for any adjustments to, and disclosure within the financial statements for the year ended June 30, 2013. Management has evaluated subsequent events through November 20, 2013 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,

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Required Contributions & Investment Income:										
Earned	$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	$14,843,453
Ceded	(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)	(4,812,711)
Net earned	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	10,030,742
Unallocated Expenses	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	5,485,380
Estimated Incurred Claims & Expense End of Policy Year:										
Incurred	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	5,370,000
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	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	5,370,000
Paid (cumulative) as of:										
End of policy year	287,229	862,908	434,000	845,000	1,020,000	397,000	417,000	833,000	722,000	652,000
One Year Later	637,081	1,421,000	936,000	1,764,000	3,301,000	1,078,000	1,546,000	1,736,000	1,538,000	
Two Years Later	861,000	1,717,000	1,380,000	3,209,000	4,041,000	1,767,000	2,386,000	2,083,000		
Three Years Later	942,000	1,935,000	1,973,000	3,832,000	4,403,000	2,443,000	2,827,000			
Four Years Later	1,151,000	2,045,000	2,169,000	3,836,000	4,505,000	2,594,000				
Five Years Later	1,196,000	2,150,000	2,212,000	3,797,000	4,579,000					
Six Years Later	1,198,000	2,269,000	2,236,000	3,887,000						
Seven Years Later	1,140,000	2,295,000	2,225,000							
Eight Years Later	1,140,000	2,308,000								
Nine Years Later	1,140,000									
Re-estimated ceded claims & Expenses	-	757,715	442,343	323,287	12,168,623	-	21,824	604,151	40,455	291,705
Re-estimated Claims & Expense										
End of policy year	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	5,370,000
One Year Later	3,019,000	3,482,000	3,676,000	3,676,000	6,844,000	4,793,000	4,953,000	4,973,000	4,461,000	
Two Years Later	2,010,000	3,431,000	3,054,000	5,344,000	5,972,000	3,921,000	4,185,000	4,287,000		
Three Years Later	1,547,000	2,755,000	2,838,000	4,714,000	5,353,000	3,272,000	3,618,000			
Four Years Later	1,453,000	2,599,000	2,599,000	4,260,000	4,874,000	3,054,000				
Five Years Later	1,256,000	2,315,000	2,493,000	4,056,000	4,848,000					
Six Years Later	1,218,000	2,352,000	2,411,000	4,073,000						
Seven Years Later	1,145,000	2,350,000	2,314,000							
Eight Years Later	1,140,000	2,308,000								
Nine Years Later	1,140,000									
Increase (Decrease) in Estimated Incurred Claims & Expenses from End of Policy Year	(2,613,413)	(1,318,034)	(2,041,000)	(1,425,000)	(2,384,000)	(3,064,000)	(2,418,000)	(1,651,000)	(1,010,000)	-