PUBLIC AGENCY COMPENSATION TRUST
FINANCIAL STATEMENTS
June 30, 2019 and 2018

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Executive Director and the Board of Directors
Public Agency Compensation Trust

Report on the Financial Statements
We have audited the accompanying statements of net position of the Public Agency Compensation Trust, a non-profit corporation, as of June 30, 2019 and 2018 and the related statements of revenues and expenses and changes in net position, and statements 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 controls 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 controls 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 controls. 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 Public Agency Compensation Trust as of June 30, 2019 and 2018 and the respective revenues and expenses and 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 and 10-year claims development schedule 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. A supplemental schedule of unpaid loss liabilities for workers compensation and heart and lung claims, though not required, is also provided. 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

September 30, 2019
Carson City, Nevada

EXECUTIVE DIRECTOR’S LETTER

Members of Public Agency Compensation Trust;

As the Executive Director, I am pleased to present the PACT Annual Audited Financial Statements for the year ended June 30, 2019, the conclusion of our 22nd full year of operations. As noted in part of PACT’s Mission Statement, we excel in financial strength, security, and durability and cost-effective risk sharing and financing. This financial report will demonstrate our commitment to our Mission Statement.

In addition to the preparation of the audited financial statements in accordance with GASB pronouncements and other financial standards, this report includes a required Management Discussion and Analysis of the financial results during the years.

Over the years, the Board adopted fiscally responsible policies to retain net position to achieve long-term, stable financial results for members. In 2016, they adopted a Net Assets policy to target net position at a minimum of twenty times the highest self-insured retention. With a Net Position of $33,454,855, we have significantly exceeded that goal for this year (66.9:1) and for the comparison year (78.8: 1) shown in the audit. Net position decreased during the year because of an increase in claim reserves for both the worker’s compensation and heart lung claims as calculated by our independent actuary by $1,785,836 and $1,502,028 respectively. The increase is due in part to a reduction in the discounting factor from 3% to 1.5% in the reserve calculation.. Additionally, claims adjustment expenses increased from $6,431,493 to $8,822,730 in Fiscal Year 2018/2019. This is an increase of $2,391,237 or 37.2% over the prior year. Since Fiscal Year 2007, PACT has contributed $53,700,939 to the PCM captive to serve as one of the workers compensation reinsurers for PACT. The benefits of the captive are reduced administrative costs, reinsurance opportunities and a broader investment portfolio including risk assets. As PCM grows in financial strength, additional member services and program costs can be directly funded through the captive. See the separate annual audited financial statements of PCM for more details.

Through the oversight of the Audit Committee, Executive Committee and the Board of Trustees, coupled with the Nevada Division of Insurance regulatory review, PACT Members can be assured that PACT will remain financially sound. Members should be proud of the success we have achieved together.

PACT has been serving its membership for over 22 years. We are government risk experts with a passion for risk management services. We provide coverage and risk management solutions that are comprehensive and uncomplicated for our members. As the risk management arm for our members, PACT manages claims and provides a broad array of in-depth loss control services, training, and risk consultation. With services such as POOL/PACT Human Resources, our extensive support system for human resources issues, members receive support services no one else offers. Our interactive loss control programs and resources guide our members’ efforts toward reducing the probability of losses and the effect of losses that do occur.

Other factors that set PACT apart include the following:
1) Alternative Services Concepts’ (ASC -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) Specialty Health, the managed care organization, and MCMC, the bill reviewer, for PACT helped the adjusters manage claims and costs effectively;
3) Loss control efforts of the Willis Re Pooling team and staff risk manager have proven effective and further initiatives are being implemented under the oversight of the Members’ Loss Control Committee;
4) The continuing Cardiac Wellness Program should help reduce potential heart claims.

Workers compensation self-funded programs experience significant volatility particularly when the retention levels per loss are high. PACT management, consistent with board policy, selected a 75% actuarial confidence level as a prudent level in keeping with the PACT Board’s goals of creating and sustaining a durable financial position. As described earlier in the Changes in Net Position discussion, Net Position is affected by amortization of transfers of funds to PCM consistent with the board’s policy on Capitalization. PACT maintains an interest in PCM as its sole policyholder and is entitled to a return of those capital contributions before any other distributions can be made by PCM. The captive continues to enjoy financial success as a reinsurance option for PACT.

The table below shows some key financial ratios tracked by management and the board to benchmark PACT's financial condition and risk retention strategies:

Financial Ratios	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Total Revenue	$ 16,486,613	$ 16,337,985	$ 15,149,782	$ 11,187,905	$ 12,901,393
Revenue over (under) Expenses	$ 2,306,508	$ 2,129,544	$ (3,131,158)	$ (7,414,464)	$ (5,919,265)
Operating Net Position	$ 1,235,291	$ (41,378)	$ (2,556,342)	$ (7,497,396)	$ (8,908,645)
Non-operating Net Investment Income	$ 1,071,217	$ 2,170,922	$ (574,816)	$ 82,932	$ 2,989,380
Total Assets	$ 88,670,007	$ 94,114,671	$ 93,825,979	$ 87,551,333	$ 85,504,173
Total Liabilities	$ 40,759,841	$ 44,194,929	$ 47,037,395	$ 48,177,213	$ 52,049,318
Net Position	$ 47,910,186	$ 49,919,742	$ 46,788,584	$ 39,374,120	$ 33,454,855
Net Position to SIR (Board Target 20:1); Benchmark >5:1	95.82	99.84	93.58	78.75	66.91
SIR to Net Position (Benchmark: captives <.10; group capitves <.25)	0.01	0.01	0.01	0.01	0.01
% Assets attributable to Net Position	54.0%	53.0%	49.9%	45.0%	39.1%
Total assets/total liabilities	2.18	2.13	1.99	1.82	1.64
Revenues to Net Assets (Benchmark: <2.5:1 and >0	0.34	0.33	0.32	0.28	0.39
Loss Reserves to Net Position (discounted): Benchmark <3:1 and >0	0.46	0.47	0.50	0.55	1.33
Total liabilities to liquid assets: Benchmark <100%	60%	59%	74%	86%	90%
Change in members' Net Position: >-10%	5.1%	4.2%	-6.3%	-15.8%	-15.0%
Return on Net Position: Net Operating Income/Net Position	2.6%	-0.1%	-5.5%	-19.0%	-26.6%
Return on Net Position: Total Income/Net Position	4.8%	4.3%	-6.7%	-18.8%	-17.7%

We continue to provide stability in the mist of uncertainty, allowing members to focus on serving their communities. We will continue to provide reliability and stability in a risky workers compensation world.

Economic Factors:

For fiscal year ending June 30, 2019, economic conditions showed signs of some growth continuing for the nation and Nevada. Medical inflation 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 are 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. Because 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. A subsequent actuarial study confirmed a change in the range of values to between twenty and eighty million, again depending upon the assumptions made about claims manifestation.

A legislative change in the 2017 session may increase disability claims costs for heart and lung claims because a bill eliminated the disablement time frame for public safety for such claims. Another element may impact the employer's process for reviewing physical examinations potentially impeding the cardiac wellness program efforts. Another 2017 change in legislation called for regulatory adoption of updated actuarial disability rating schedules. While the regulation change was not adopted until after the close of fiscal year end June 30, 2018, it will have a future affect on disability claims valuations for all types of claims beginning in fiscal year ending June 30, 2019.

In the 2019 Legislative session, several bills will impact PACT's future financial picture. For firefighters, a bill expanding the list of cancers that are reasonably associated with employment also added language to include substances reasonably anticipated to be a human carcinogen. Further it extends coverage for up to lifetime similar to the heart-lung provisions. Another bill expanded vocational rehabilitation programs which will increase costs. Post traumatic stress disability claims coverage was expanded to include all first responders including dispatchers related to mass casualty events directly witnessed or heard. Two bills added an inflationary increase in the PTD benefits for open claims and for new claims after July 1, 2019. PACT is discussing the actuarial rate implications of these bills for funding beginning July 1, 2020. PACT increased the heart lung rate by $1.00 and reduced the rate discount by half in anticipation of earlier impact of these legislative changes.

The heart/lung assessments collected for fiscal year ended June 30, 2019 totaled $1,109,118 compared to June 30, 2018 $1,104,106 based upon a reduction in the manual rate assessment with a relatively flat change in payroll basis because of the accumulation exceeding the target minimum assessments.

Even though PACT faces possible increases due to heart lung claims for law enforcement and firefighters, PACT supports the brave efforts of these professionals serving our communities. It is the mission of PACT to minimize heart lung claims through strong risk management practice so our professionals stay healthy during and after their service.

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff. The staff includes Wayne Carlson, Executive Director, Mike Rebaleati, Chief Operations Officer, Marshall Smith, Chief Risk Officer, Alan Kalt, Chief Financial Officer, Debbie Connally, Controller, Melissia Mack, Administrative Technician, Zaria Hanses, Administrative Assistant and Mike Van Houten, e-learning Manager and Webmaster. Thanks also to the dedicated professional staff from Bertrand & Associates, LLC, our independent auditors, for their contribution and support throughout the audit process. Special thanks to the Executive Committee, Audit Committee and Board of Directors for their keen interest and support in the planning and conducting of the financial operations of PACT in a responsible and progressive manner.

Thank you for your participation in PACT and for having confidence in our ongoing ability to meet the Mission, Vision and Motto you set for our member services consortium. We welcome your comments and suggestions to further strengthen PACT's financial position, to provide you with additional information and to enhance Member services. I am honored to serve as Executive Director. Thank you for your continued active participation as a Member of PACT.

Sincerely,

Wayne Carlson
PACT Executive Director

PUBLIC AGENCY COMPENSATION TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018

Public Agency Compensation Trust's (PACT) discussion and analysis is designed to, (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the entity's financial activities, (c) identify changes in PACT's financial position (its ability to address next and subsequent years challenges), and (d) identify any material deviations from the financial plan.

We encourage readers to read this information in conjunction with the Executive Director's transmittal letter, financial statements and notes to gain a more complete understanding of the information presented.

Organization Overview
Public Agency Compensation Trust was formed by local governments for the purpose of organizing an association of self-insured public agencies providing workers' compensation coverage. The Trust began operations in April 1, 1996. The Trust's objective is to provide 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 to be assessed and collected.

Background:
PACT is subject to 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 PACT 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. PACT also is regulated by the Nevada Division of Insurance as an association of self-insured public agencies and must file certain financial schedules in addition to the GASB required information.

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, 2019 and June 30, 2018 to facilitate understanding of changes in the financial position over time.

The Statement of Net Position 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 solvency, liquidity and financial flexibility of PACT.

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 PACT's operations for the fiscal year compared to the previous fiscal 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, capital and related financing activities and investing activities. 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

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

The auditor's report offers an unmodified opinion on the financial statements, the best opinion that can be attained.

Critical Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the accounting period. Actual results could differ from these estimates.

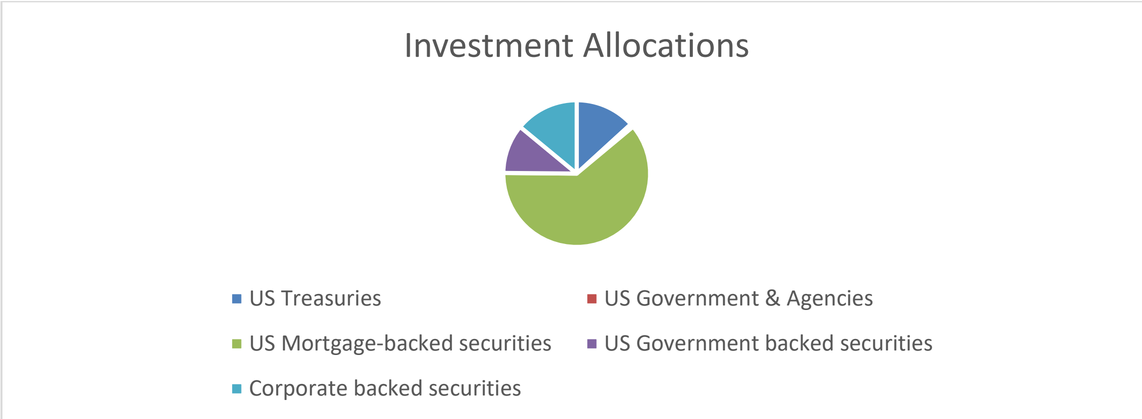
PACT has identified the estimates inherent in the valuation of investments and loss reserves (including reserves for incurred but not reported claims- IBNR) as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability. In developing these estimates, management makes subjective and complex judgements that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate and conservative based upon the facts available as of the date of the financial statements. PACT uses the assistance of an independent outside actuarial firm in relation to the IBNR and overall loss reserve adequacy.

Investments

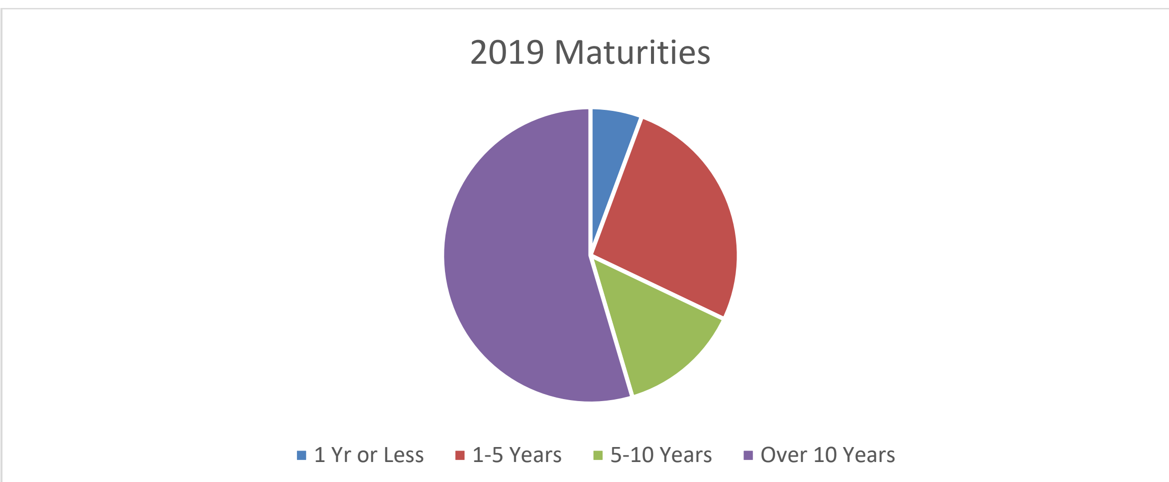
One significant estimate inherent in the valuation of investments is the evaluation of fair value. Investments consist predominantly of government and government backed securities and are reported at their fair value in the statement of position. Fair value is determined utilizing the market value of 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 net position. Nevada Revised Statutes and the Board approved Investment Policy outlines the restrictions on the types of allowed investments. 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-grate corporate backed securities. PACT is authorized to purchase negotiable certificates of deposits issued by commercial banks or insured savings and loan associations.

Cash and investments of $53,287,157 are available to meet current liabilities, including reserves for loss and loss adjustment expenses of $7,393,052. Total current liabilities include accounts payable, risk management grants payable, specific recoverable and current portion of reserves for worker's compensation claims losses. This is a conservative measure of cash and investments available to pay current obligations. PACT's cash ratio is 7.2, meaning that the it has 7.2 times the unrestricted cash and investments on hand to meet its obligations. Last year's cash ratio was 7.6. The reduction in the cash ratio is due primarily to the increase in Accounts Payable in the current year due to the timing of payments.

Investment balances as of June 30, 2019 were $51,640,578 compared to the prior year amount of $49,996,097. This represents an increase of $1,644,481 or 3.3%. The increase is due additional funds available for investments. As noted in Note 3, the following is a summary of the fair value investments as of June 30, 2019:



Investment Descriptions	Fair Value 6-30-2019	Fair Value 6-30-2018
U.S. Treasuries	$ 7,412,268	$ 6,153,373
U.S. Government & Agencies	408,581	751,602
U.S. Mortgage backed securities	34,300,347	33,332,588
U.S. Government backed securities	6,084,246	7,685,066
Corporate backed securities	7,852,655	6,476,829
Less pledged investments	(4,417,519)	(4,403,361)
Total investments	$51,640,578	$49,996,097



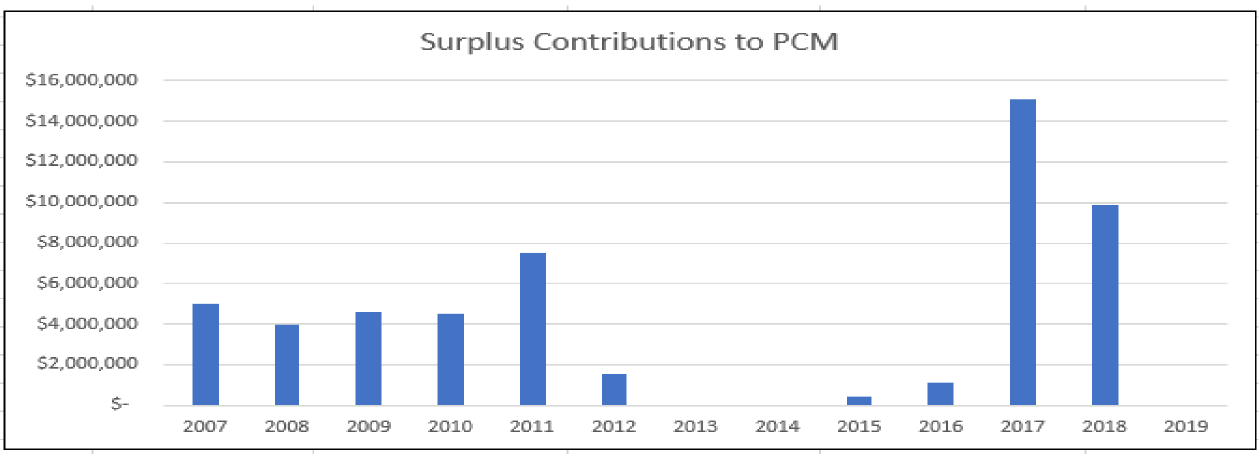
Investment Income Receivable
The investment income receivable at June 30, 2019 is $196,908 compared to $209,396 in 2018. This is a change of $12,488 or 6.0%. This is due primarily to the increase in investment balances at year end off set by lower investment yields as well as the timing of the payment of accrued interest on the investments.

Pledged Investments
Pledged investments at June 30, 2019 is $4,827,144 compared to $4,561,006 in 2018. Restricted investments are those investments pledged to the Insurance Commission for future claims as required by statutes. The amount pledged exceeds the statutory requirement.

Contributed Surplus Public Compensation Mutual

In May of 2007, PACT's board of directors authorized the startup of a member-owned nonprofit captive mutual insurance company and contributed surplus to the company. The company, named Public Compensation Mutual, ("PCM") is domiciled in Nevada. PCM subsequently converted from an association captive to a pure captive form owned by PACT. PCM is one of the workers compensation reinsurers for PACT. The benefits of the captive are reduced administrative costs, reinsurance opportunities and a broader investment portfolio which can include risk assets. Management considers the contribution surplus costs a development cost that can provide lower operating costs in the future and estimates that the savings in reinsurance cost to PACT will recoup the contributed capital. As such, PACT's contributed surplus to PCM will be amortized over ten years. The net contributed surplus to PCM for fiscal year ending June 30, 2019 is $22,733,971 compared to $27,055,732 reflecting a decrease of $4,321,761 or 16.0%. During the current year, there was no capital contributions and amortization expense of $4,321,761. See note 13 for more details. The following chart indicates PACT's surplus contributions and related amortization to PCM since inception:

Fiscal Year	Contributions	Amortization	Net Contributions
2007	$ 5,000,000	$ -	$ 5,000,000
2008	$ 4,000,000	$ 566,667	$ 8,433,333
2009	$ 4,600,000	$1,024,158	$12,009,175
2010	$ 4,500,000	$1,530,700	$14,978,475
2011	$ 7,517,375	$2,235,177	$20,260,673
2012	$ 1,542,062	$2,666,095	$19,136,640
2013	-	$2,715,945	$16,420,695
2014	-	$2,715,944	$13,704,751
2015	$ 448,242	$2,734,620	$11,418,373
2016	$ 1,093,260	$2,769,879	$ 9,741,754
2017	$15,100,000	$3,212,594	$21,629,160
2018	$ 9,900,000	$4,473,428	$27,055,732
2019	-	$4,321,761	$22,733,971



As noted above, PACT has contributed $53,700,939 to PCM in accordance with PACT's Capitalization Strategy Policy which allows PACT's Executive Committee to distribute a portion of the Net Assets to provide additional capitalization of PCM to reduce reliance on other excess or reinsurance providers. PCM has increased its reinsurance capacity and thereby reduced PACT's retention as a result of the additional contributions to surplus.

Reserves for Claim Losses

Loss reserves are estimates of losses and loss development and as such will differ from the ultimate results. Therefore, one of the critical accounting estimates is the proper amount of reserves to be set aside to meet future liabilities of the current in-force business. Changes in or deviations from the assumptions used to develop the loss reserves can significantly affect PACT's reserve levels and related future operations. Assumptions include company methodology for underwriting and claims handling and current estimates of the legal, inflation rate, and social environments. Annually, PACT retains an outside independent actuary to provide a loss reserve opinion and establish a range for PACT's loss reserves. PACT's policy is to book reserves at the 75% confidence level as recommended by the actuary. Management has elected to discount the reserves using a 1.5% interest rate for anticipated investment income compared to prior year rate of 3%. The actuarial analysis for the current fiscal year revealed an overall increase in case reserves and IBNR reserves over prior years estimated incurred losses for Worker's Compensation and Heart Lung. See Note 11 Unpaid Loss Liabilities and the Supplemental Schedule on Unpaid Loss Liabilities for Worker Compensation and Heart Lung in the financial statements for more details.

Reserves for current portion of claim losses decreased from $6,261,137 to $6,125,301in fiscal year ending June 30, 2019. The noncurrent reserve for worker's compensation claims losses increased from $17,315,863 to $19,101,699 in 2019. This is an increase of $1,785,836 or 10.3%. There was an increase in the reserve for heart & lung claims loss from $24,052,539 to $25,554,567. This is an increase of $1,502,028 or 6.2% during the year. These reserves are set at 100% of the heart lung assessments by board policy due to the uncertainty of the claims potential. The development schedule included in the financial statement provides the history of the claims reserve changes each year over 10 years included in the financial statements for more details.

Change in Net Position

PACT's Total Net Position decreased from $39,374,120 to $33,454,855 during the fiscal year ending June 30, 2019 a decrease of $5,919,265 or 15.0%. This decrease is primarily due to the increase is loss reserves and the increase in loss expense during the year.

The following is the comparative Statements of Net Position for PACT as of June 30, 2019 and 2018.

CONDENSED STATEMENTS OF NET POSITION

	2019	2018
Cash and investments	$ 53,287,157	$ 51,956,564
Receivables	4,655,901	3,978,031
Total current assets	57,943,058	55,934,595
Pledged investments	4,827,144	4,561,006
Contributed surplus PCM, net	22,733,971	27,055,732
Total noncurrent assets	27,561,115	31,616,738
Total assets	**85,504,173**	**87,551,333**
Payables	1,267,751	547,674
Current portion of reserve for claims losses	6,125,301	6,261,137
Total current liabilities	7,393,052	6,808,811
Reserve for Worker's Compensation claims	19,101,699	17,315,863
Reserve for Heart & Lung claims	25,554,567	24,052,539
Total noncurrent liabilities	44,656,266	41,368,402
Total liabilities	**52,049,318**	**48,177,213**
Net position -unrestricted	28,627,711	34,813,114
Net position -restricted for pledged securities	4,827,144	4,561,006
Total net position	**$ 33,454,855**	**$ 39,374,120**

Total Assessment Revenues
PACT's primary revenue source comes from Member assessments for workers compensation and assessments for heart lung. The assessments for workers compensation increased from $10,083,799 to $11,792,275 during fiscal year ending June 30, 2019. This is an increase of $1,708,476 or 16.9% due to an increased in members' assessment payroll and increase in manual rates.

During fiscal year 2019, the heart lung assessments increased from $1,104,106 to $1,109,118 during the year. The increase of $5,012 or 0.5% was due to increase in members' assessment payroll as the assessment rate remained the same.

Loss Fund and Program Expenses
Overall Loss and Program expenses increased from $12,239,370 to $14,543,344 in FY 2019 an increase of $2,303,974 or 18.8%. This increase is primarily due to an increase in the claims and adjustment expense of $2,391,237 due to adverse claim development during the year. Heart and Lung loss expenses increased from $1,450,372 to $1,506,637 due to increases in covered member payroll. Per board policy, that reserves assume 100% of the assessment revenues will be spent in the future. The reinsurance premiums decreased $324,416 from $1,931,416 to $1,607,000 because of favorable risk transfers in the PCM and CRL reinsurance layer of coverage. PACT continues to increase the investment in Member education and services as $652,803 was expensed in Fiscal Year 2019 compared to $629,804 in Fiscal Year 2018. Loss control expenses and underwriting and claims processing expenses remained within a relevant range during the two fiscal years.

Administration Expenses
Total administrative expenses were $7,266,694 in Fiscal Year ending June 30, 2019 compared to $6,445,931 in FY 2018. This represents an increase of $820,763 or 12.7%. There was an increase of $308,315 in the management fees. During the fiscal year 2019, there was a complete year of expenses compared to a partial the FY 2018 related to the Chief Financial Officer and the e-Learning Manager as provided for in the approved management contract. Furthermore, there was $250,000 management fee expense to set up Nevada Risk Pooling, Inc. There was an increase of $127,902 in risk management grants provided to the members during the year. There were increases in the Insurance Division fees of $212,747 and Insolvency fund and related expenses increased by $1,000 as there were significant increases in the three-year claims average used to calculate those related expenses. Administrative and overhead expenses increased from $659,562 to $984,475 due to increased volume of services provided by Specialty Health supporting the cardiac wellness program.

Non-operating Net Investment Income
Investments are marked to market value at the time of the financial statements, which may result in a negative or positive overall result. Restrictions imposed by law on the types of investments PACT may utilize are similar to other local governments. 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. Non-operating net investment income was $2,989,380 for Fiscal Year end June 30, 2019 compared to $82,932 in 2018. The investment income was bolstered by book yields exceeding market yields and the impact of the mark to market value adjustment because of decreasing interest rates in fiscal year 2019. See Note 3 Investment Securities for more details.

Revenues, Expenses and Changes in Net Position:

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2019	2018
Assessments revenues	$ 12,901,393	$ 11,187,905
Loss fund provision program expenses	14,543,344	12,239,370
Administration expenses	7,266,694	6,445,931
Total expenses	21,810,038	18,685,301
(Decrease) in operating net position	**(8,908,645)**	**(7,497,396)**
Non-operating net investment income	2,989,380	82,932
(Decrease) in net position	**$ (5,919,265)**	**$ (7,414,464)**

Capital Assets and Debt Administration:
PACT has no physical assets and no borrowed funds. It has pledged certain investments to satisfy a regulatory solvency security requirement and thus, cannot access those funds without approval from the Nevada Division of Insurance.

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 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.

PUBLIC AGENCY COMPENSATION TRUST
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

ASSETS	**2019**	**2018**
Current assets:		
Cash and cash equivalents	$ 1,646,579	$ 1,960,467
Investments	51,640,578	49,996,097
Investment income receivable	196,908	209,396
Member assessments receivable	3,879,593	3,421,951
Specific recoverable	519,192	186,908
Commissions receivable	60,208	56,800
Receivable from State of Nevada	-	102,976
Prepaid expenses	-	-
Total current assets	57,943,058	55,934,595
Noncurrent assets:		
Pledged investments	4,827,144	4,561,006
Contributed surplus PCM, net	22,733,971	27,055,732
Total noncurrent assets	27,561,115	31,616,738
TOTAL ASSETS	**85,504,173**	**87,551,333**
LIABILITIES		
Current liabilities:		
Accounts payable	542,772	149,389
Commissions payable	65,639	56,800
Specific recoverable	519,191	186,908
Risk Management Grants payable	140,149	154,577
Current portion of reserve for claims losses	6,125,301	6,261,137
Total current liabilities	7,393,052	6,808,811
Noncurrent liabilities:		
Reserve for Worker's Compensation claims losses	19,101,699	17,315,863
Reserve for Heart & Lung claims losses	25,554,567	24,052,539
Total noncurrent liabilities	44,656,266	41,368,402
TOTAL LIABILITIES	**52,049,318**	**48,177,213**
NET POSITION - unrestricted		
Net position -unrestricted	28,627,711	34,813,114
Net position -restricted for pledged securities	4,827,144	4,561,006
TOTAL NET POSITION	**$ 33,454,855**	**$ 39,374,120**

See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2019 and 2018

	2019	2018
REVENUES		
Assessments for workers compensation	$ 11,792,275	$ 10,083,799
Assessments for heart and lung	1,109,118	1,104,106
Total Revenues	12,901,393	11,187,905
LOSS FUND AND PROGRAM EXPENSES		
Claims and adjustment expenses	8,822,730	6,431,493
Heart and Lung loss expenses	1,506,637	1,450,372
Excess insurance premium	537,133	526,516
Re-insurance premium	1,607,000	1,931,416
Member education and services	652,803	629,804
Loss control expense	406,000	406,000
Underwriting and claims processing	1,011,041	863,769
Total loss fund and program expenses	14,543,344	12,239,370
ADMINISTRATION EXPENSES		
Management fees	821,488	513,174
Professional services	107,961	110,407
Administrative and overhead	984,475	659,562
Risk management grants	314,076	186,174
Insurance Division fees	696,933	484,186
Nevada insolvency fund and related expenses	20,000	19,000
Amortization expense	4,321,761	4,473,428
Total administration expenses	7,266,694	6,445,931
Decrease in operating net position	**(8,908,645)**	**(7,497,396)**
Non-operating net investment income	2,989,380	82,932
Decrease in net position	**(5,919,265)**	**(7,414,464)**
Net position, beginning of year	39,374,120	46,788,584
Net position, end of year	**$ 33,454,855**	**$ 39,374,120**

See accompanying notes

PUBLIC AGENCY COMPENSATION TRUST
STATEMENTS OF CASH FLOWS
For Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Assessments and other revenues	$ 12,440,343	$ 13,472,244
Payment for claims	(7,177,339)	(6,685,811)
Payment to vendors	(6,771,117)	(6,445,010)
Payment to Douglas County for settlement	-	(1,850,000)
Net cash (used) provided from operating activities	(1,508,113)	(1,508,577)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Contributed surplus to Public Compensation Mutual	-	(9,900,000)
Net cash used for capital and related financing activities	-	(9,900,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and net realized investment income	1,583,310	1,457,200
Sale of investments	8,955,900	76,921,005
Purchases of investments	(9,344,985)	(67,672,759)
Net cash provided for investing activities	1,194,225	10,705,446
(Decrease) in cash and cash equivalents	(313,888)	(703,131)
Cash and cash equivalents, beginning of fiscal year	1,960,467	2,663,598
Cash and cash equivalents, year ended June 30	**1,646,579**	**1,960,467**
RECONCILIATION FOR OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating net loss	(8,908,645)	(7,497,396)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in member assessments receivable	(457,642)	426,758
(Increase) in specific recoverable	(332,284)	(89,413)
Decrease in prepaid expenses	-	30,647
(Increase) decrease in agent compensation receivable	(3,408)	7,581
Increase (decrease) in accounts payable	393,383	(3,872)
Increase (decrease) in agent compensation payable	8,839	(3,190)
Increase in specific recoverable	332,283	89,413
(Decrease) in Risk Management Grants payable	(14,428)	(138,587)
Increase in amortization of contributed surplus	4,321,761	4,473,428
Increase loss reserves	3,152,028	1,196,054
Net cash (used) provided by operating activities	**$ (1,508,113)**	**$ (1,508,577)**

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 prepares its financial statements on the accrual method of accounting recognizing income when earned and expenses when incurred. 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.

Measurement focus and 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 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 predominantly 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 net position. 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 corporate backed 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.

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.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budget
Budgetary to actual results is not presented as there are no legal budgetary requirements.

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.

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 increasing 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.

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.

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 management and an independent consulting actuary using a 75% confidence level. 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 1.5% in 2019 and 3% in 2018, the expected investment rate, to show the present value of those reserves.

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 or credit received each year as the expense or credit to 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, 2019 and 2018 are $1,646,579 and $1,960,467 respectively. The financial institution balances were $1,956,424 and $2,280,356 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.

	June 30, 2019		June 30, 2018	
Amounts insured by FDIC	$	250,000	$	250,000
Amounts collateralized		789,089		753,238
Cash equivalents at brokerage firm		917,335		1,277,118
Total deposits at financial institutions	$	1,956,424	$	2,280,356

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.

NOTE 3 – INVESTMENT SECURITIES

A summary of investments as of June 30, 2019 is as follows:

			Investment Maturities in Years							
		Fair Value		1 year or less		1-5		5-10		Over 10
U.S. Treasuries	$	7,412,268	$	752,227	$	3,517,791	$	3,142,250	$	-
U.S. Government & Agencies		408,581		-		408,581		-		-
U.S. Mortgage-backed securities		34,300,347		2,633		759,388		3,026,124		30,512,202
U.S. Government backed securities		6,084,246		1,400,402		3,444,731		717,661		521,452
Corporate backed securities		7,852,655		1,508,124		6,344,531		-		-
Less pledged investments		(4,417,519)		(752,227)		(815,094)		-		(2,850,198)
Total investments	$	51,640,578	$	2,911,159	$	13,659,928	$	6,886,035	$	28,183,456

A summary of investments as of June 30, 2018 is as follows:

			Investment Maturities in Years							
		Fair Value		1 year or less		1-5		5-10		Over 10
U.S. Treasuries	$	6,153,373	$	601,524	$	3,079,119	$	2,472,730	$	-
U.S. Government & Agencies		751,602		180,177		571,425		-		-
U.S. Mortgage-backed securities		33,332,588		1,033,529		1,466,205		3,889,565		26,943,289
U.S. Government backed securities		7,685,066		1,217,136		4,974,919		894,488		598,523
Corporate backed securities		6,476,829		-		-		6,476,829		-
Less pledged investments		(4,403,361)		(601,524)		(748,065)		-		(3,053,772)
Total investments	$	49,996,097	$	2,430,842	$	9,343,603	$	13,733,612	$	24,488,040

Actual maturities may differ from contractual maturities as some borrowers have the right to call or prepay with or without call or prepayment penalties. Restricted investments are those investments pledged to the Insurance Commission. Corporate securities have bond ratings from A- to AA.

NOTE 3 – INVESTMENT SECURITIES (continued)

PACT categorizes fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

PACT has the following recurring fair value measurements as of June 30:

1. U.S. Treasuries and U.S. Government guaranteed securities of $7,412,267 and of $4,803,784 for years ended June 30, 2019 and 2018 respectively are valued using quoted market prices (Level 1 inputs).
2. U.S. Government Agencies, U.S. back securities and Corporate Bonds of $44,228,311 and $45,192,313 for years ended June 30, 2019 and 2018 respectively are valued using a matrix pricing model (Level 2 inputs).

NOTE 4 – MEMBER ASSESSMENTS RECEIVABLE

Member assessments receivable were $3,879,593 and $3,421,951 for the years ended June 30, 2019 and 2018. 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 both reinsurance and excess insurance contracts with various insurance carriers through their broker company, Willis Re Pooling. These reinsurance and excess insurance contracts provide 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 these reinsurance and excess insurance contracts, including PACT's self-insurance retention, are as follows:

> 1) Safety National Casualty Company provides a statutory specific limit of liability per accident excess of PACT's self-insured retention per accident of $3,000,000. PACT reinsures a portion of PACT's $3,000,000 retention through Public Compensation Mutual, which bears $700,000 excess of PACT's $300,000 specific retention plus 25% of $2,000,000 excess of PACT's $1,000,000 retention and through County Reinsurance, Ltd., which bears 75% of $2,000,000 excess of PACT's $1,000,000 retention.
>
> 2) Safety National Casualty Company provides a limit of liability of $3,000,000 excess of an aggregate retention of $3.68 per $100 of payroll, subject to a minimum aggregate retention of $9,587,731 and $9,366,330 for years ended June 30, 2019 and 2018 respectively. PACT reinsures a portion of PACT's aggregate excess limit of $3,000,000 through Public Compensation Mutual which bears 50% of PACT's annual aggregate excess limit and through Safety National Casualty Company which bears 50% of PACT's annual aggregate excess limit.

Both Public Compensation Mutual and County Reinsurance, Ltd. are nonprofit captive insurance companies in which PACT has a financial interest.

NOTE 7 - RELATED PARTY TRANSACTIONS

Public Agency Risk Management Services, Inc. (PARMS) is presently contracting with PACT to provide management services from July 1, 2014 through June 30, 2019. PARMS serves as the Executive Director/Administrator. PARMS is a service corporation wholly owned by Mr. Wayne Carlson. Contract fees paid for years ended June 30, 2019 and 2018 were $571,488 and $513,174 respectively.

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

PACT jointly with Nevada Public Agency Insurance Pool (NPAIP) provided a grant with Pooling Resources, Inc. (PRI), a nonprofit organization formed by the executive director of PACT, Wayne Carlson. PRI pays PARMS a management fee to provide operational and financial oversight of PRI. The PARMS payment to NPAIP includes the technological needs of PACT as well as PRM and PCM. This arrangement was approved in an effort to simplify the technology usage fees paid to NPAIP.

Effective July 1, 2019, Public Agency Compensation Trust (PACT) jointly with Nevada Public Agency Insurance Pool (NPAIP) provided a five year grant to Nevada Risk Pooling, Inc. (NRP), a nonprofit organization formed by the executive director of NPAIP, Wayne Carlson, and whose directors are Gerry Eick, Josh Foli, Chris Mulkerns, Cash Minor, and Paul Johnson. The cost of this grant is $1,200,000 for the first year and $1,242,000 in Fiscal Year 2020-2021, $1,285,470 in Fiscal Year 2021-2022, $1,330,461 for Fiscal Year 2022-2023 and $1,377,028 in Fiscal Year 2023-2024. NRP will manage all administrative and risk management duties for NPAIP and PACT. The NRP contract allocation is for POOL to pay 43.75% and PACT 56.25%.

NOTE 8 – PLEDGED INVESTMENTS

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. The amounts pledged for years ended June 30, 2019 and 2018 were $4,827,144 and $4,561,006. 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.

The minimum required deposits for years ended June 30, 2019 and 2018 was $4,000,000 for both years. Management does not intend to withdraw available funds; however, a withdrawal of funds in excess of the minimum required deposit is available upon giving notice to and receiving approval from the Nevada Division of Insurance.

	June 30, 2019	June 30, 2018
Cash equivalents	$ 390,764	$ 137,577
Investments	4,417,518	4,403,361
Investment income receivable	18,862	20,068
Total	$ 4,827,144	$ 4,561,006

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 2019 and 2018 is $25,554,567 and $24,052,539 respectively.

NOTE 10 – ALLOCATION AND RETURN 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. Initially, 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 or investment account to comply with this statute.

PACT uncovered an inadvertent error in calculating the experience modification factor for Douglas County entities between fiscal years 2005-2006 and 2015-2016. To correct this error for Douglas County entailed a $1,850,000 return of assessments to Douglas County. This payment was made in fiscal year 2017-2018 based upon a negotiated resolution between Douglas County and PACT and was approved by both parties.

NOTE 11 – UNPAID LOSS LIABILITIES

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

The current portion of the long-term loss reserve for 2019 and 2018 is $6,125,301 and $6,261,137 with the long-term portion for 2019 and 2018 being $44,656,266 and $40,061,537 respectively. Incurred losses and loss adjustment expenses are comprised of two significant factors. Provisions for events of the current year increased from $7,881,865 for 2018 to $10,329,367 for 2019. The increase in the provision for insured events of prior fiscal years for 2018 and 2019 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 position. In other words, a decrease in reserves results in an increase in net position, while an increase in reserves reduces net position. 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:

NOTE 11 – UNPAID LOSS LIABILITIES (continued)

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:

	2019	2018
Unpaid losses and loss adjustment expenses at beginning of year or period	**$ 47,629,539**	**$ 46,433,485**
Incurred losses and loss adjustment expenses:		
Provision for insured events of current year	9,637,367	8,445,372
Increase (decrease) in provision for insured events of prior fiscal years	692,000	(563,507)
Total incurred losses and loss adjustment	10,329,367	7,881,865
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year/period	(2,249,609)	(1,823,734)
Claims and claims adjustment expenses attributable to insured events of prior years	(4,927,730)	(4,862,077)
Total Payments	(7,177,339)	(6,685,811)
Unpaid claims and claims adjustment expenses at end of fiscal year	**$ 50,781,567**	**$ 47,629,539**

NOTE 12 – POOLING RESOURCES, INC. GRANT

Effective July 1, 2006, Nevada Public Agency Insurance Pool (NPAIP) jointly with PACT provided a grant with Pooling Resources, Inc. (PRI), a nonprofit organization formed by the executive director of PACT, Wayne Carlson and whose directors are Cash Minor, Paul Johnson and Curtis Calder. The cost of this grant was $428,050 and 419,650 for June 30, 2019 and 2018 respectively. The grant was renewed for five years beginning July 1, 2015 and amended July 1, 2018 with future costs being $436,800 for the year beginning July 1, 2019.

PRI provides human resources management services to PACT members. PRI pays PARMS a management fee to provide operational and financial oversight of PRI.

NOTE 13 – SURPLUS CONTRIBUTION TO PUBLIC COMPENSATION MUTUAL COMPANY

In May of 2007, PACT's board of directors authorized the startup of a member-owned nonprofit captive mutual insurance company and contributed surplus to the company in the amount of $5,000,000 and subsequent additional surplus contributions have been added. Capitalization at June 30, 2019 was $53,700,939 with accumulated amortization of $30,966,968 for a net amount of $22,733,971. Capitalization at June 30, 2018 was $53,700,939 with accumulated amortization of $26,645,207 for a net amount of $27,055,732. Amortization expense for 2019 and 2018 was $4,321,761 and $4,473,428 respectively.

The company, named Public Compensation Mutual, ("PCM") is domiciled in Nevada and as of July 1, 2007, became one of the workers compensation reinsurers for PACT. Some of the Public Compensation Mutual's board members also serve as board members of PACT. In 2019, PCM converted from an association captive model to a pure captive model, which makes PACT the owner of PCM directly. This reduces certain administrative costs of PCM, which inures to PACT's benefit through reduced reinsurance charges.

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 provision of coverage not obtainable elsewhere.

As a condition of contributed surplus, but without any expectation that the funds will be returned, PACT required that prior to any distributions such as dividends, the contributed surplus must be repaid to PACT.

Management considers the contributed surplus costs a development cost that can provide lower operating costs in the future and estimates that the savings in reinsurance costs to PACT will recoup the startup capital. Therefore, the PACT's contributed surplus to PCM will be amortized over 10 years. The financial statements of PCM are audited annually by an independent auditing firm.

Since the creation of the captive PCM, all transfers from PACT to PCM have been amortized. PACT's investment advisor, Strategic Asset Alliance, and PACT's money manager, New England Asset Management, developed an orderly transfer plan based on the appropriate selling and purchasing points for the designated assets. This helped accomplish the goals of providing PACT with profits of the sales and PCM with the purchase of more suitable investment assets. This enabled PACT and PCM to maintain the appropriate Net Position for their respective risk retention amounts. Contributions to the captive and amortization are as follows:

Fiscal Year	Contribution	Total Capitalization	Amortization	Net Contributions	Accumulated Amortization
2007	$5,000,000	$5,000,000	$0	$5,000,000	$0
2008	4,000,000	9,000,000	566,667	8,433,333	566,667
2009	4,600,000	13,600,000	1,024,158	12,009,175	1,590,825
2010	4,500,000	18,100,000	1,530,700	14,978,475	3,121,525
2011	7,517,375	25,617,375	2,235,177	20,260,673	5,356,702
2012	1,542,062	27,159,437	2,666,095	19,136,640	8,022,797
2013	-	27,159,437	2,715,945	16,420,695	10,738,742
2014	-	27,159,437	2,715,944	13,704,751	13,454,686
2015	448,242	27,607,679	2,734,620	11,418,373	16,189,306
2016	1,093,260	28,700,939	2,769,879	9,741,754	18,959,185
2017	15,100,000	43,800,939	3,212,594	21,629,160	22,171,779
2018	9,900,000	53,700,939	4,473,428	27,055,732	26,645,207
2019	-	53,700,939	4,321,761	22,733,971	30,966,968

NOTE 14 –SUBSEQUENT EVENTS

Management has evaluated the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and disclosure within the financial statements for the year ended June 30, 2019. Management has evaluated subsequent events through September 30, 2019 which is the date the financial statements were available for issue.

PUBLIC AGENCY COMPENSATION TRUST
Supplemental Schedule On Unpaid Loss Liabilities for Workers Compensation and Heart 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 coverages during the years ended June 30, 2019 and 2018:

	2019			2018		
	Workers Compensation	**Heart & Lung**	**Total**	**Workers Compensation**	**Heart & Lung**	**Total**
Unpaid losses and loss adjustment expenses at beginning of the year	$ 23,577,000	$ 24,052,539	$ 47,629,539	$ 23,749,000	$ 22,684,485	$46,433,485
Incurred losses and loss adjustment expenses:						
Provision for insured events of current year	8,130,730	1,506,637	9,637,367	6,995,000	1,450,372	8,445,372
Increase (decrease) in provision for insured events of prior fiscal year	692,000	-	692,000	(563,507)	-	(563,507)
Total incurred losses and loss adjustments	8,822,730	1,506,637	10,329,367	6,431,493	1,450,372	7,881,865
Payments:						
Claims and claim adjustment expense attributable to insured events of current year	(2,245,000)	(4,609)	(2,249,609)	(1,741,000)	(82,318)	(1,823,318)
Claims and claims adjustment expense Attributable to insured events of a prior period	(4,927,730)	-	(4,927,730)	(4,862,493)	-	(4,862,493)
Total payments	(7,172,730)	(4,609)	(7,177,339)	(6,603,493)	(82,318)	(6,685,811)
Unpaid claims and claims adjustments expenses at end of fiscal year	**$25,227,000**	**$25,554,567**	**$50,781,567**	**$23,577,000**	**$24,052,539**	**$47,629,539**

This information is required by the Governmental Accounting Standards Board

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 - YEAR ENDED JUNE 30,

Required Contributions & Investment Income:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Earned	$16,856,499	$14,187,888	$16,229,877	$14,049,941	$16,420,666	$17,557,830	$18,508,907	$14,573,896	$11,270,837	$15,890,773
Ceded	1,019,746	760,706	821,229	1,196,334	1,178,052	1,626,286	1,621,360	1,770,677	2,457,932	2,144,133
Net earned	$15,836,753	$13,427,182	$15,408,648	$12,853,607	$15,242,614	$15,931,544	$16,887,547	$12,803,219	$8,812,905	$13,746,640
Unallocated Expenses	4,372,365	5,196,331	6,075,535	6,580,620	6,167,162	6,114,625	6,114,625	7,370,873	8,345,504	9,336,538
Estimated Incurred Claims & Expense End of Policy Year:										
Incurred	7,604,904	7,226,000	8,393,000	8,503,886	8,561,944	8,324,685	8,809,127	8,905,595	8,020,826	8,054,118
Ceded	-	-	-	-	-	-	-	-	-	-
Net Incurred	7,604,904	7,226,000	8,393,000	8,503,886	8,561,944	8,324,685	8,809,127	8,905,595	8,020,826	8,054,118
Net Paid (cumulative) as of:										
End of policy year	1,576,283	1,627,122	1,875,562	1,861,690	1,564,723	1,512,648	1,581,898	1,788,670	1,734,359	2,245,351
One Year Later	3,121,442	3,604,503	3,460,736	3,221,497	2,848,563	2,901,684	3,378,486	4,153,214	3,738,335	
Two Years Later	4,039,612	4,245,842	4,582,100	3,754,301	3,434,826	3,545,887	4,117,819	5,062,121		
Three Years Later	4,357,378	5,004,699	5,268,006	4,110,874	3,859,081	3,855,565	4,541,756			
Four Years Later	4,448,046	5,153,264	5,447,815	4,169,758	3,989,877	3,929,559				
Five Years Later	4,558,563	5,490,173	5,654,308	4,189,790	4,064,157					
Six Years Later	4,654,519	5,746,369	5,754,247	4,274,071						
Seven Years Later	4,572,533	5,981,875	5,810,088							
Eight Years Later	4,851,262	6,134,733								
Nine Years Later	4,955,929									
Re-estimated ceded claims & Expenses	-	-	-	-	-	-	-	-	-	-
Re-estimated Claims & Expense										
End of policy year	7,604,904	7,226,000	8,393,000	8,503,886	8,561,944	8,324,685	8,809,127	8,905,595	8,020,826	8,054,118
One Year Later	7,767,000	8,156,000	8,599,083	8,064,886	8,461,944	8,035,685	8,841,127	9,105,595	7,561,826	
Two Years Later	8,507,000	8,204,000	8,412,083	7,583,886	8,171,944	7,702,685	8,772,127	9,116,595		
Three Years Later	7,930,000	8,855,000	8,590,083	7,436,886	7,991,944	7,702,685	8,638,127			
Four Years Later	7,826,904	8,367,000	8,416,083	7,138,886	7,754,944	7,570,685				
Five Years Later	7,903,000	8,626,000	8,594,083	6,984,886	7,637,944					
Six Years Later	7,928,904	8,678,000	8,412,083	6,986,886						
Seven Years Later	7,831,904	8,855,000	8,554,083							
Eight Years Later	7,826,904	9,148,000								
Nine Years Later	7,818,904									
Increase(Decrease) in Estimated Incurred Claims & Expenses from End of Policy Year:	**$214,000**	**$1,922,000**	**$161,083**	**($1,517,000)**	**($924,000)**	**($754,000)**	**($171,000)**	**$211,000**	**($459,000)**	**-**

This information is required by the Governmental Accounting Standards Board