



Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
Facsimile (775) 883-7398

**Notice of Joint Meeting and Agenda of
Executive Committees of
Nevada Public Agency Insurance Pool and
Public Agency Compensation Trust**

Date: Monday, April 6, 2020

**9:00 AM or immediately following the Public Compensation Mutual meeting
VIRTUAL ONLY**

Please click the link below to join the meeting:

<https://zoom.us/j/824245388?pwd=Q1pGcmxhSThSMTRLVVNDaGk5eGtqUT09>

Password: 843034

US: +1 669 900 6833 or +1 929 205 6099 or +1 253 215 8782

Webinar ID: 824 245 388

AGENDA

Notices:

1. Items on the agenda may be taken out of order.
2. Two or more items on the agenda may be combined for consideration.
3. Any item on the agenda may be removed or discussion may be delayed at any time.
4. The general Public Comment periods are limited to those items not listed on the agenda. Public Comment periods are devoted to comments by the general public, if any, and may include discussion of those comments; however, no action may be taken upon a matter raised under Public Comments until the matter itself has been included specifically on an agenda as an item upon which action may be taken. Public Comments are limited to three minutes per person.
5. At the discretion of the Chair of the meeting, public comments on specific agenda items may be allowed, but must be limited to the specific agenda item.

1. Roll
2. Public Comment
3. **For Possible Action:** Approval of Minutes of Joint Executive Committee Meeting of March 11, 2020.
4. **Discussion Only:** Report on PRM and PCM 2019 annual audit.
5. **For Possible Action:** Report and discussion on Investments.
 - a. Staff report on investments.
 - b. Revise POOL and PACT Investment Guidelines.

6. **For Possible Action:** Review of Risk Management Programs, Insurance/Reinsurance
 - a. Review of POOL/PACT insurance/reinsurance coverage and risk management programs to determine what coverages and programs to offer for 2020/2021:
 - i. Willis Pooling Report on the State of the Insurance Market.
 - ii. Review of POOL and PACT Renewal Proposals.
 - iii. Review of reinsurance coverage and retention options for NPAIP and PACT renewal reinsurance strategies.
 - iv. Review of ancillary programs including Student Accident, Pollution Legal Liability, and the proposed TULIP Program.
 - b. Review Proposed 2020-2021 budgets for POOL and PACT for recommendation to the POOL and PACT Boards.
7. **For Possible Action:** Approval of proposed POOL and CYBER Form Amendments/Endorsements for Fiscal Year 2020-2021 for adoption by the POOL Board at its Annual Meeting.
8. **For Possible Action:** Review of candidates for Executive Committee and Officers up for election at the Annual Meeting,
9. **For Possible Action:** Review and revise drafts of agendas including Joint Board Agenda, POOL Board Agenda, and PACT Board Agenda for Virtual Annual Meeting on April 17, 2020.
10. Public Comment
11. **For Possible Action:** Adjournment

This Agenda was posted at the following locations and linked to the Official State Website <https://notice.nv.gov>:

N.P.A.I.P.
201 S. Roop
Carson City, NV 89701

Carson City Courthouse
885 E. Musser Street
Carson City, NV 89701

Eureka County Courthouse
10 S. Main Street
Eureka, NV 89316

Churchill County Admin Complex
155 North Taylor Street
Fallon, NV 89406

NOTICE TO PERSONS WITH DISABILITIES

Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to notify the Nevada Public Agency Insurance Pool in writing at 201 S. Roop Street, Suite 102, Carson City, NV 89701-4790, or by calling (775) 885-7475 at least three working days prior to the meeting.



Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
Facsimile (775) 883-7398

**Minutes of Joint Meeting of
Executive Committees of
Nevada Public Agency Insurance Pool and
Public Agency Compensation Trust
Date: Wednesday, March 11, 2020
9:30 AM**

Place: NACO Building / 304 S. Minnesota St. / Carson City, NV

Conference Call 1-800-351-6805 Passcode: 83376

WEBEX Meeting number: 624 926 338

Password: PoolPact!

<https://poolpact.my.webex.com/poolpact.my/j.php?MTID=mc9ff6eb4d35a07e85214ffac9ab50b3c>

1. **Roll**

A quorum being present, Josh Foli acting as Chair called the meeting to order.

2. **Public Comment**

Chair Foli opened public comment and hearing none, closed the comment period.

3. **For Possible Action: Approval of minutes of Joint Executive Committee Meeting of November 4, 2019.**

On motion and second to approve the minutes, the motion carried.

4. **Discussion Only: Report on PRM and PCM 2019 annual audit.**

Alan Kalt briefly commented on the status of the PRM and PCM audits noting that they had not yet been completed and accepted by the captive boards. However, the dollar amounts shown likely would not be changed. No action was taken.

5. **For Possible Action: Report and discussion on Investments.**

- a. **Report from Investment Advisor SAA.**
- b. **Report from NEAM on fixed income markets and results.**

Kelly Sullivan from NEAM spoke first about current volatile market conditions and how NEAM had positioned the fixed income portfolios to take advantage on market volatility both as a defensive measure and to take advantage of opportunities for our longer-term strategies. She discussed the investment policy variances notifications to staff and how the market volatility created the slight exceptions. She indicated that NEAM is tracking the markets closely in order to avoid surprises during this current cycle. She reviewed the current NEAM investment performance reports and responded to questions.

Dan Smereck from SAA review the equity market results for the captives and notice that the combined investment results for captives and the respective pools revealed a negative 1% result. Diversification with fixed income and equities, kept performance relatively stable

overall. The individual captive's equity results were down significantly but fixed income performance was up. He responded to questions.

On motion by Mike Giles and second by Gerry Eick to accept the reports, the motion carried.

6. For Possible Action: Change in accounting policy relating to transfer of capital to the PRM and PCM captives providing for 100% expense in the year of transfer.

Alan Kalt reviewed the highlights of his written explanation of the proposed change in accounting policy. Currently, both pools amortize the capital transferred to the captives over 10 years which results in a negative operating income. The proposed change would write down the remaining amortization effective July 1, 2019 and for all future transfers. This will affect the comparative financial statements for the current audit year by reducing net position substantially, but still leaving the pools meeting their management ratios. He responded to questions.

A motion by Gerry Eick and second by Dan Murphy to approve the change in accounting policy as proposed effective July 1, 2019 was made. Under discussion Gerry Eick noted that the comparative statements would require the effective date to be changed to July 1, 2018. Alan Kalt concurred. Gerry then requested an amendment to the motion to have the change be effective July 1, 2018 and the second concurred. The motion carried effective July 1, 2018.

7. For Possible Action: Review and determine the voting status of the Town of Pahrump.

Mike Rebaleati explained that he had requested Steve Balkenbush as general counsel to prepare an opinion regarding the voting status of the Town of Pahrump, which was included in the packet. Steve added comments that based upon his research, the Town of Pahrump was dissolved by an election and now is an advisory council to the Nye County Commissioners. Given this, the Town of Pahrump no longer is eligible for voting status with POOL or PACT.

On motion by Dan Murphy and second by Geof Stark to the accept the legal opinion and to deny voting status to he Town of Pahrump, the motion carried.

8. For Possible Action: Acceptance of Reports:

- a. Executive Director
- b. Chief Operations Officer.
 - i. NPAIP building roof project.
 - ii. NRP updates.
 - iii. Knowbe4 availability to all members.
- c. Chief Financial Officer.
- d. Risk Manager.
- e. POOL/PACT Human Resources General Manager.
- f. Davies Claims Solutions (Formerly ASC).
- g. E-Learning/Web Master.
 - i. POOL/PACT LMS Programs.
 - ii. Transition from Torch LMS to Absorb LMS.

Each of the reports were included in the board packet, presented and highlighted by the authors. Significant developments and progress were highlighted for each. On motion by Mike Giles and second by Paul Johnson to accept the reports, the motion carried.

9. For Possible Action: Review of Risk Management Programs, Insurance/Reinsurance Coverage, and EAP program:

- a. Review Employee Assistance Program options:
 - i. Continue or terminate Aetna Resources for Living (ARFL) contract.
 - ii. Joinder onto State of Nevada EAP Contract with KEPRO.

iii. Eliminate EAP as a POOL/PACT service and let members select own provider (if any) including ARFL or joining State contract.

Wayne Carlson reviewed his report noting that he and John Bates reviewed the EAP services and options in order to inform the HR Oversight Committee about options. The issues have been discussed over the last two years due to problems with services and low utilization. Stacy Norbeck added comments on the service issues. The options were presented to the HR Oversight Committee at its meeting on March 6, 2020. The Committee voted to recommend nonrenewing the Aetna Resources for Living contract and entering into a contract via joinder provisions of the State of Nevada contract with KEPRO. Wayne noted that the timing of contract terms requires action to notify Aetna not later than April 1, 2020 if nonrenewing.

On motion and second to notify Aetna Resources for Living of contract nonrenewal and the joinder onto the State of Nevada contract with KEPRO, the motion carried.

b. Review of POOL/PACT insurance/reinsurance coverage and risk management programs to determine what coverages and programs to offer for 2020/2021:

- i. Willis Pooling Report on the State of the Insurance Market.**
- ii. Review of POOL and PACT rate indications.**
- iii. Review of reinsurance coverage and retention options for NPAIP and PACT renewal reinsurance strategies.**
- iv. Review of ancillary programs including Student Accident, Pollution Legal Liability, and the proposed TULIP Program.**

Mary Wray of Willis Re Pooling led off with an overview of difficult market conditions for all lines of business. She then noted that a preliminary indication just received on the Lloyds property program revealed a 10% rate increase and some additional term restrictions that she had not yet been able to review in detail. For liability, she indicated that several reinsurers expected increases of at least 15% due to market conditions and liability claims history. She said quotes from the markets were to come in early next week, but with high market activity there could be delays. Stephen Romero reviewed several ancillary programs noting that some of them likely would have no increase or a small increase. A new program for users of event facilities known as Tenant User Liability Insurance Program is being offered at no charge to the POOL, all on-line access for event tenants to obtain liability limits of at least \$1,000,000. This will be proposed for adoption at the annual meeting.

c. Review Proposed 2020-2021 budgets for POOL and PACT for recommendation to the POOL and PACT Boards.

Alan Kalt presented the draft budget summaries for both pools noting that until firm quotes came in, they would not be fully ready for adoption. The goal is to present to the committee at its next meeting prior to the annual meeting. He responded to questions. No action taken.

d. Review Pooling Resources, Inc. proposed grant budget and Scope of Services for recommendation to the POOL and PACT Boards.

Stacy Norbeck commented that the current grant expires this fiscal year so a new five-year grant is proposed. She revised the scope of services with review by the HR Oversight Committee. She and Alan Kalt developed the budget. Alan complimented Stacy for her monitoring and management of her budget, which they worked together to prepare for the new grant.

On motion by Paul Johnson and second by Geof Stark to recommend approval of the grant scope and budget, the motion carried.

10. For Possible Action: Approval of proposed POOL Form Amendments/Endorsements for Fiscal Year 2020-2021 for adoption by the POOL Board at its Annual Meeting.

Wayne Carlson commented that the basic POOL Form had a few changes, but there was a major rewrite of the Data Security coverage. The draft changes in the packet were only for the Data Security coverage to carve it out to a stand-alone coverage form in consultation with our reinsurers. Staff had just received the first draft and had not had time to review it in detail. Wayne invited the members to provide any input about these drafts. No action taken.

11. For Possible Action: Review of candidates for Executive Committee and Officers up for election at the Annual Meeting,

The list of current Executive Committee members was reviewed. For POOL there presently is a vacancy for small cities and counties under 35,000 population. Potential candidates names were floated for consideration. The incumbents for both pools expressed interest in continuing to serve. No action taken.

12. For Possible Action: Review and revise drafts of agendas including Joint Board Agenda, POOL Board Agenda, and PACT Board Agenda for Annual Meeting on April 16-17 (Thursday-Friday), 2020 at the Whitney Peak Hotel, Reno, NV.

Wayne Carlson reviewed the draft agendas to obtain feedback for any changes to them. Proposed changes were noted. No action taken.

13. Public Comment

Chair Johnson opened public comment and hearing none, closed the comment period.

14. For Possible Action: Adjournment

On motion and second to adjourn, the meeting adjourned at 2:16 pm.

The Agenda was posted at the following locations and linked to the Official State Website <https://notice.nv.gov>:

N.P.A.I.P.
201 S. Roop
Carson City, NV 89701

Carson City Courthouse
885 E. Musser Street
Carson City, NV 89701

Eureka County Courthouse
10 S. Main Street
Eureka, NV 89316

Churchill County Courthouse
155 North Taylor Street
Fallon, NV 89406

PUBLIC COMPENSATION MUTUAL

DECEMBER 31, 2019 AND 2018

**PUBLIC COMPENSATION MUTUAL
DECEMBER 31, 2019 AND 2018**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
PRESIDENT'S LETTER	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-8
INDEPENDENT AUDITOR'S REPORT	9-10
FINANCIAL STATEMENTS	
Balance Sheets	11
Statements of Income and Comprehensive Income	12
Statements of Changes in Surplus	13
Statements of Cash Flows	14
Notes to Financial Statements	15-27
COMPLIANCE SECTION	
Report on Internal Control and Compliance over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Nevada Administrative Code 694C.210	28

President's Letter

Public Compensation Mutual (PCM) had a significant year in 2019 that reflects its strengths despite some major claims:

- ❖ PCM is a pure captive of the Public Agency Compensation Trust (PACT). There was no additional surplus contribution in 2019 so PACT's surplus contribution total of \$53,700,939 remains unchanged.
- ❖ PCM continued to provide \$700,000 excess of PACT's \$300,000 retention and 25% quota share of \$2,000,000 excess of the first \$1,000,000 for worker's compensation coverage. In the aggregate for all ceding entity losses, \$1,500,000 part of \$3,000,000 annually, to attach (a) once any other annual aggregate excess/reinsurance coverage obtained by the ceding entity has been exhausted or, (b) at an annual retention of \$10,000,000 in the aggregate, whichever is greater. This coverage helped PACT absorb major claims expenses while maintaining financial stability.
- ❖ With the assistance of New England Asset Management (Fixed Income Manager) and Strategic Asset Alliance (Investment Advisor), investment earnings grew to \$2,218,272 compared to \$2,151,463 in 2018. The investment base in 2019 was \$81,608,028 compared to \$72,834,863 in 2018. This investment income is key to the risk management services and claim coverage for the PACT and PCM. PCM's investment portfolio includes U.S. government obligations, U.S. state and local bonds, U.S. corporate bonds, fixed income mutual funds, bond mutual funds and equity mutual funds.
- ❖ PCM's reserves for loss and loss adjustment expenses increased to \$5,756,600 in 2019 from \$4,549,000 in 2018. These reserves are based on a 75% confidence level. This increase in actual losses and loss adjustment expenses of \$1,467,002 in 2018 to \$1,748,999 in 2019. The increase was primarily due to the occurrence of the favorable development of current year losses which had been experienced in 2019. PCM incurred losses related to 2019, as determined by the independent actuary, that were \$732,000 less than the prior year offset by an increase in prior years losses of \$1,014,000. This type of volatility is expected when dealing with workers compensation claims.
- ❖ PCM's total surplus as of December 31, 2018 was \$68,700,090 compared to \$77,854,824 as of December 31, 2019. This is an increase of \$9,154,734 during the year with \$4,070,504 being income from the net realized and unrealized gains on the investments due to market conditions.

One of PCM's goals is to continue to increase investment earnings while providing PACT added value to workers compensation coverage. This has been instrumental when PCM is seeking reinsurance and excess quotes from its reinsurance partners. Building financial strength and security is a long-held value of PACT and PCM. Under the Board's direction and leadership, we continue to work toward achieving those goals.

I personally want to thank the board of trustees for PACT and the PCM Captive board of trustees for their commitment to the dynamic development of the coverages and risk management products that we support.

Best,



PCM President

PUBLIC COMPENSATION MUTUAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

Public Compensation Mutual's (PCM) 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 the Company'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 President's letter, financial statements and notes to gain a more complete understanding of the information presented.

Company Overview

Public Compensation Mutual ("the Company"), a Nevada nonprofit pure captive mutual insurer formed pursuant to Nevada Revised Statutes 694C, is engaged in the business of providing reinsurance for the Public Agency Compensation Trust (PACT). Effective July 18, 2013, the Company became a pure captive authorized by the State of Nevada Division of Insurance, prior to that date, the Company was an association captive. Currently, the Company issues a single reinsurance policy to PACT each year and the underlying PACT program in turn issues a single certificate of participation to the members with a copy of the PACT Coverage Form to each member.

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.

PCM 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. PCM uses the assistance of an independent outside actuarial firm in relation to the IBNR and overall loss reserve adequacy.

Investments

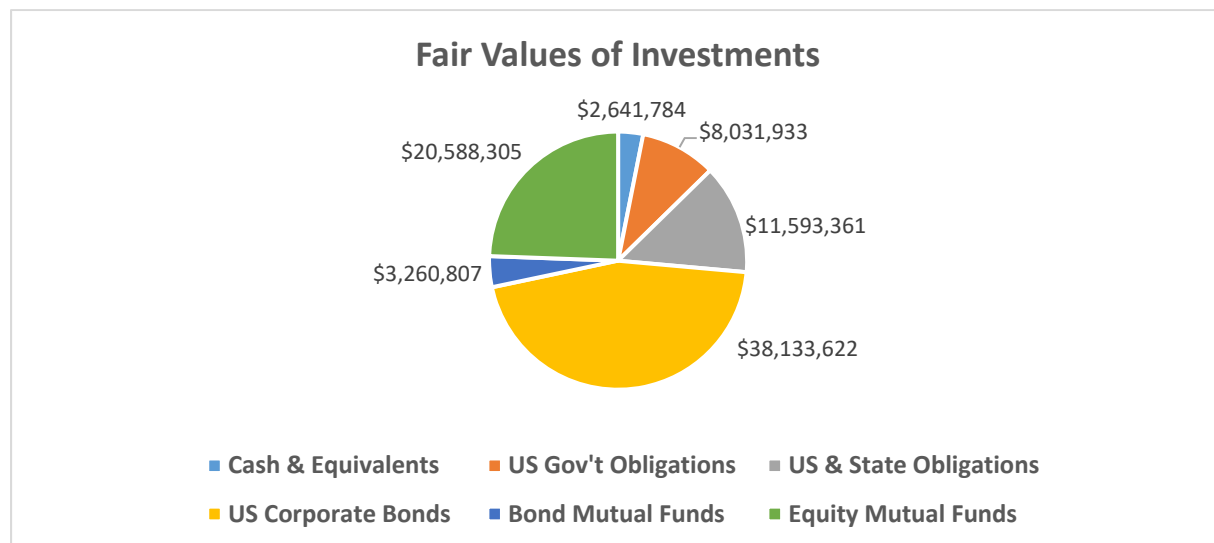
One significant estimate inherent in the valuation of investments is the evaluation of fair value and other than temporary impairment (OTTI). Fair value requires management judgement on the

appropriate classes of assets and liabilities for which disclosures about fair value measurement should be provided. Fair value for investments is primarily a quantitative assessment. For debt and equity securities, class is determined on the basis, nature and risk of the investments. A full disclosure of PCM's fair value methodology can be found in Note 3 Fair Value of Financial Instruments in the Notes to the Audited Financial Statements.

The determination of OTTI is a quantitative and qualitative process, which is subject to judgment in the determination of whether declines in the fair value of investments are other than temporary. The cost basis of fixed maturity investments is adjusted for impairments in value, deemed to be other than temporary, with the associated realized loss reported in net income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) the magnitude of the decline in value; 2) current economic conditions and the financial condition and near-term prospects of the issuer; 3) the amount of time that the fair value has been less than cost; and 4) the estimated period over which the security is expected to recover and whether PCM's cash or working capital requirements and contractual or regulatory requirements may indicate a need to sell the security before its forecasted recovery.

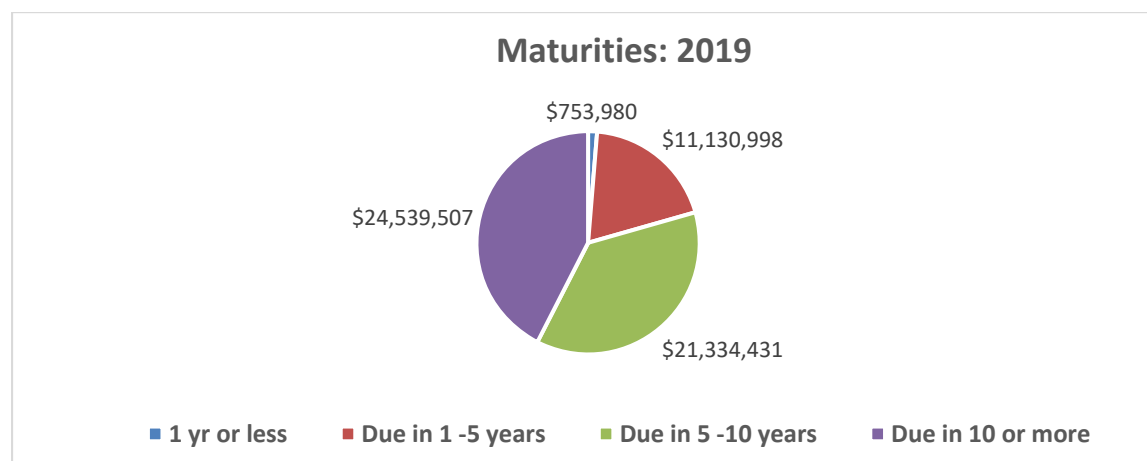
Cash and investments of \$84,249,812 are available to meet current liabilities, including reserves for loss and loss adjustment expenses of \$6,909,200. Total liabilities include accounts payable, reserves for loss and loss adjustment expenses and unearned assessments. This is a conservative measure of cash and investments available to pay current obligations. PCM's cash ratio is 12.2, meaning that the it has 12.2 times the unrestricted cash and investments on hand to meet its obligations. Last year's cash ratio was 13.7.

Investment balances as of December 31, 2019 were \$81,608,028 compared to the prior year amount of \$72,834,863. This represents an increase of \$8,773,165 or 12.0%. The increase is due primarily to the increase in the market value of the investments held as a result of the Federal Reserve Board lowering interest rates during 2019 resulting in unrealized gains on available for sale and equity securities during the period. As noted in Note 3, Level 1 quoted price in active market for identical assets were valued at \$26,490,896 the Level 2 significant other observable inputs at \$57,758,916 and no Level 3 assets. The following is an overview of the fair value investments:



As noted in Note 5- Investments, the contractual maturities of available-for-sale debt securities at December 31st 2019 and 2018 are as follows:

	Estimated Fair Values	
	<u>2019</u>	<u>2018</u>
1 year or less	\$ 753,980	\$ 197,196
Due in 1 – 5 years	11,130,998	15,797,000
Due in 5 -10 years	21,334,431	17,857,716
Due in 10 years or more	<u>24,539,507</u>	<u>19,828,939</u>
Total Investment in debt securities	<u>\$57,758,916</u>	<u>\$53,680,851</u>



Investment Income Receivable

The investment income receivable at December 31, 2019 is \$377,712 compared to \$318,679 in 2018. This is a change of \$59,033 or 18.5%. This is due primarily to the timing of the payment of accrued interest on the investments.

Loss Reserves

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 net future liabilities of the current in-force business. Changes in or deviations from the assumptions used to develop the loss reserves can significantly affect PCM'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, PCM retains an outside independent actuary to provide a loss reserve opinion and establish a range for PCM's loss reserves. PCM's policy is to book reserves at the 75% confidence level as recommended by the actuary. Management has elected not to discount the reserves for anticipated investment income. See Note 6- Reserve for Loss and Loss Adjustment Expense note in the financial statements.

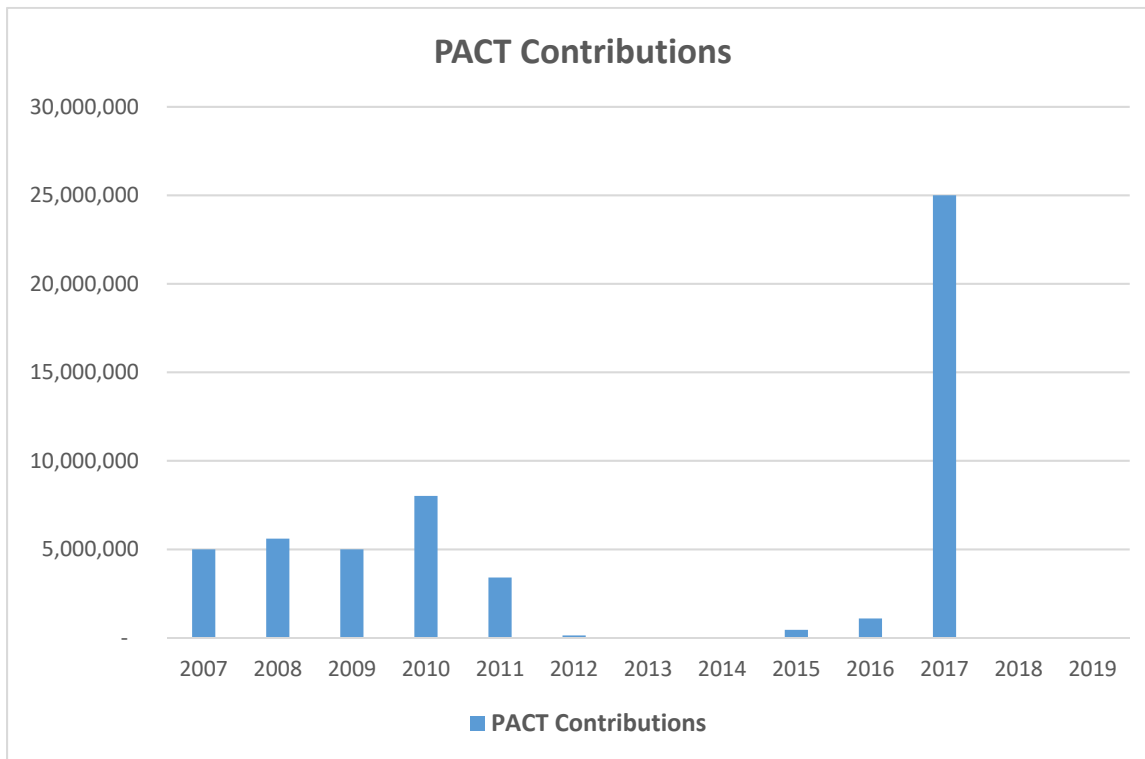
Reserves for loss and loss adjustment expenses increased from \$4,549,000 to \$5,756,600 at December 31, 2019 an increase of \$1,207,600 or 26.5% during the year due to case reserve increases on a couple of severe loss claims incurred during the year.

Unearned Premiums

PCM writes only 12-month insurance policies effective July 1st the year written, so all of the \$1,118,850 unearned premiums carried in 2019 will be fully earned in 2020.

Surplus Contributions

There were no surplus contributions from PACT during 2019. The last surplus contribution was during 2017 in the amount of \$25,000,000 as approved by the Board at their meeting held on March 22, 2017 meeting. This brings the total surplus contribution into PCM at \$53,700,939. See Note 7 for more details. The following chart indicates PACT's surplus contributions to PCM



Surplus

PCM's total surplus at December 31, 2019 was \$77,854,824 an increase of \$9,154,734 from the December 31, 2018 balance of \$68,700,090. The increase results from net income of \$5,912,274 enhanced with accumulated other comprehensive gain of \$3,242,460 during the year which is composed of \$3,221,033 in unrealized holding gains on available-for-sale securities arising during the period due to changes in the investment markets.

The following is the comparative Balance Sheet of Public Compensation Mutual as of December 31, 2019 and 2018.

**Public Compensation Mutual
Balance Sheet**

	2019	2018	\$ Difference	% Difference
Assets				
Cash and cash equivalents	\$ 2,641,784	\$ 855,598	\$ 1,786,186	208.8%
Premiums receivable	\$ 136,500			
Investments	81,608,028	72,834,863	8,773,165	12.0%
Investment income receivable	377,712	318,679	59,033	18.5%
Prepaid expenses	-	74,250	(74,250)	
Total Assets	\$ 84,764,024	\$ 74,083,390	\$ 10,680,634	14.4%
Liabilities and Surplus				
Accounts payable	\$ 33,750	\$ 30,800	\$ 2,950	9.6%
Reserve for loss and loss adjustment expenses	5,756,600	4,549,000	1,207,600	26.5%
Unearned assessments	1,118,850	803,500	315,350	39.2%
Total liabilities	\$ 6,909,200	\$ 5,383,300	\$ 1,525,900	75.4%
Surplus	76,408,184	70,595,348	5,812,836	8.2%
Accumulated other comprehensive income (loss)	1,446,640	(1,895,258)	3,341,898	176.3%
Total Surplus	77,854,824	68,700,090	9,154,734	13.3%
Total Liabilities and Surplus	\$ 84,764,024	\$ 74,083,390	\$ 10,680,634.00	14.4%

Net Income from Operations

PCM reported net income from operations for the year ended December 2019 of \$5,912,274 an increase of \$3,643,968 or 160.6% increase from the prior year end income of \$2,268,306. The increase is primarily driven by an increase in net realized and unrealized investment income of \$4,070,504 compared to a loss of (\$12,534) in the prior year. This increase was offset by increases of \$377,024 in administrative expenses as a result of payment to PACT for risk management services for the members and an increase in the allocation of management cost approved by the Board of Directors. Underwriting gains (premiums less loss expenses) of \$173,351 compared to prior year underwriting gains of \$302,206. The reduction in the underwriting gains is due to the increase in the loss and loss adjustment expenses during the year. See further explanation below.

Net Earned Premiums

Net earned premiums of \$1,922,350 increased by \$153,142 or 8.7% from \$1,769,208 at December 31, 2018. This increase in 2019 is due to higher assessment based on claims experience.

Investment Income Including Realized and Unrealized Gains (Losses)

Investment income of \$2,218,272, plus net realized and unrealized gains and (losses) on investments of \$4,070,504, at December 31, 2019 combined for a total of \$6,288,776 was \$4,149,847 or 194.0% higher than the same period during 2018 as investment income was \$2,151,463 with net realized and unrealized losses of (\$12,534). The increase was primarily due to the implementation of ASU 2016-01 which requires the unrealized gains and losses to be reported on the income statement, as well as the

higher investment balance and higher investment book yields. The unrealized gains from the portfolio are largely a result of market yields decreasing based on actions by the Federal Reserve Board to lower interest rates during 2019. See Note 5 Investments for greater details.

Loss and Loss Adjustment Expenses

Losses and loss adjustment expenses increased by \$281,997 from \$1,467,002 in 2018 to \$1,748,999 in 2019. See Note 6 Reserve for loss and loss adjustment expenses for more details.

Administrative Fees

Administrative fees were \$549,853 and \$172,829 respectively, for the years ended December 31, 2019 and 2018. The increase was attributed primarily to increases in the contract amounts for the PARMS and NRP management as the board approved a greater apportionment of the management contract to PCM from \$72,900 in 2018 to \$157,944 in 2019. PCM paid \$287,500 to PACT for risk management services for the membership in 2019. Furthermore, there was a payment of \$74,250 to Target Solutions to assist our Police and Fire members training program during 2019.

Other Comprehensive Income

Other comprehensive income, which consist of unrealized gains (losses) on available for sale securities arising during the period less reclassification adjustment for (gains) losses recognized in net income. In 2019 the unrealized gain on available for sale securities during the period was \$3,221,033 compared to unrealized losses of (\$3,353,577) in 2018. The unrealized gain is due primarily to the decreases in the interest rates imposed by the Federal Reserve in 2019 compared to them raising the rates in 2018. The reclassification adjustment for (gains) losses recognized in net income were \$21,427 in 2019 compared to \$12,534 in 2018. This results in total Other Comprehensive Income of \$3,242,460 in 2019 and compared to Other Comprehensive Loss (\$3,341,043) in 2018. Additionally, the implementation of ASU 2016-01 required the reclassification of equity securities from available-for-sale to equity securities with unrealized gains and losses reported on the income statement rather than as a component of Other Comprehensive Income (Loss). As noted in board policy, investments are intended to be held for maturity, thus the unrealized gains (losses) are not likely to materialize. The significant unrealized gains will become future net investment income as the payment of the book yield occurs on the portfolio.

The following is the Statement of Income and Comprehensive Income for the years ended December 31, 2019 and 2018.

Public Compensation Mutual
Statement of Income and Comprehensive Income

	2019	2018	\$ Difference	% Difference
INCOME				
Premiums	\$ 1,922,350	\$ 1,769,208	\$ 153,142	8.7%
Net Investment income	2,218,272	2,151,463	\$ 66,809	3.1%
Net realized and unrealized gains (losses) on investments	4,070,504	(12,534)	\$ 4,083,038	32575.7%
Total Income	<u>8,211,126</u>	<u>3,908,137</u>	<u>4,302,989</u>	<u>110.1%</u>
EXPENSES				
Administrative expenses	549,853	172,829	377,024	218.1%
Loss and loss adjustment expenses	1,748,999	1,467,002	281,997	19.2%
Total Expenses	<u>2,298,852</u>	<u>1,639,831</u>	<u>659,021</u>	<u>40.2%</u>
Net Income Before Income Taxes	5,912,274	2,268,306	3,643,968	160.6%
Provision for Income Taxes	-	-	-	
Net Income	<u>\$ 5,912,274</u>	<u>\$ 2,268,306</u>	<u>3,643,968</u>	<u>160.6%</u>
OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on available for sale securities arising during the period	\$ 3,221,033	\$(3,353,577)	\$ 6,574,610	196.0%
Less: Reclassified adjustment for (gains) losses recognized in net income	21,427	12,534	8,893	71.0%
Other Comprehensive Income (Loss)	<u>3,242,460</u>	<u>(3,341,043)</u>	<u>6,583,503</u>	<u>197.0%</u>
Comprehensive Income (Loss)	<u>\$ 9,154,734</u>	<u>\$(1,072,737)</u>	<u>\$ 10,227,471</u>	<u>953.4%</u>

Request for Information

This financial report is designed to provide a general overview of the financial activities and conditions of Public Compensation Mutual. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Public Compensation Mutual, 201 South Roop Street, Suite 102, Carson City, Nevada 89701 or email at akalt@poolpact.com.

Casey Neilson, Inc.
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Compensation Mutual

We have audited the accompanying financial statements of Public Compensation Mutual (a Nevada non-profit pure captive mutual insurer) which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of income and comprehensive income, changes in surplus and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Compensation Mutual as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the expanded disclosures regarding short duration contracts contained in Note 6 to the financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Nevada Administrative Code, we have also issued our report dated March 11, 2020, on our consideration of the Company's internal control and compliance over financial reporting. That report is an integral part of an audit performed in accordance with this code and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink that reads "Casey Nalor". The signature is written in a cursive, flowing style.

Carson City, Nevada
March 11, 2020

**PUBLIC COMPENSATION MUTUAL
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 2,641,784	\$ 855,598
Premiums receivable	136,500	-
Investments	81,608,028	72,834,863
Investment income receivable	377,712	318,679
Prepaid expenses	-	74,250
	<u> </u>	<u> </u>
Total Assets	<u>\$ 84,764,024</u>	<u>\$ 74,083,390</u>
LIABILITIES AND SURPLUS		
Accounts payable	\$ 33,750	\$ 30,800
Reserve for loss and loss adjustment expenses	5,756,600	4,549,000
Unearned premiums	1,118,850	803,500
	<u> </u>	<u> </u>
Total Liabilities	<u>6,909,200</u>	<u>5,383,300</u>
Surplus	76,408,184	70,595,348
Accumulated other comprehensive income (loss)	1,446,640	(1,895,258)
	<u> </u>	<u> </u>
Total Surplus	<u>77,854,824</u>	<u>68,700,090</u>
	<u> </u>	<u> </u>
Total Liabilities and Surplus	<u>\$ 84,764,024</u>	<u>\$ 74,083,390</u>

See accompanying notes

**PUBLIC COMPENSATION MUTUAL
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
INCOME		
Premiums	\$ 1,922,350	\$ 1,769,208
Net investment income	2,218,272	2,151,463
Net realized and unrealized gains (losses) on investments	4,070,504	(12,534)
	<u>8,211,126</u>	<u>3,908,137</u>
EXPENSES		
Administrative fees	549,853	172,829
Loss and loss adjustment expenses	1,748,999	1,467,002
	<u>2,298,852</u>	<u>1,639,831</u>
Net Income Before Income Taxes	5,912,274	2,268,306
Provision for income taxes	-	-
	<u>\$ 5,912,274</u>	<u>\$ 2,268,306</u>
OTHER COMPREHENSIVE INCOME		
Unrealized gains (losses) on available for sale securities arising during the period	\$ 3,221,033	\$ (3,353,577)
Less: Reclassification adjustment for (gains) losses recognized in net income	21,427	12,534
	<u>3,242,460</u>	<u>(3,341,043)</u>
Other Comprehensive Income (Loss)	<u>\$ 9,154,734</u>	<u>\$ (1,072,737)</u>
Comprehensive Income (Loss)	<u>\$ 9,154,734</u>	<u>\$ (1,072,737)</u>

See accompanying notes

**PUBLIC COMPENSATION MUTUAL
STATEMENTS OF CHANGES IN SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Surplus</u>
Balance, December 31, 2017	\$ 68,327,042	\$ 1,445,785	\$ 69,772,827
Net income	2,268,306	-	2,268,306
Unrealized holding losses arising during the period	-	(3,353,577)	(3,353,577)
Add: Reclassification adjustment for losses realized in net income	-	12,534	12,534
Balance, December 31, 2018	<u>\$ 70,595,348</u>	<u>\$ (1,895,258)</u>	<u>\$ 68,700,090</u>
Net income	5,912,274	-	5,912,274
Unrealized holding gains arising during the period	-	3,221,033	3,221,033
Add: Reclassification adjustment for losses realized in net income	-	21,427	21,427
Reclassification adjustment for adoption of ASU No. 2016-01	<u>(99,438)</u>	<u>99,438</u>	<u>-</u>
Balance, December 31, 2019	<u><u>\$ 76,408,184</u></u>	<u><u>\$ 1,446,640</u></u>	<u><u>\$ 77,854,824</u></u>

See accompanying notes

**PUBLIC COMPENSATION MUTUAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING		
ACTIVITIES:		
Net income	\$ 5,912,274	\$ 2,268,306
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gains) losses on sale of securities	12,986	12,534
Amortization of premium or discount	170,914	169,591
Net unrealized gains and losses on marketable securities classified as trading	(4,083,490)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Premiums receivable	(136,500)	-
Investment income receivable	(59,033)	(32,794)
Prepaid expenses	74,250	(74,250)
Increase (decrease) in:		
Reserve for loss and loss adjustment expenses	1,207,600	1,467,000
Accounts payable	2,950	(457)
Unearned premiums	315,350	(162,208)
Net Cash Provided by Operating Activities	3,417,301	3,647,722
CASH FLOWS FROM INVESTING		
ACTIVITIES:		
Purchase of securities	(14,892,990)	(6,027,204)
Sale of securities	13,261,875	2,932,521
Net Cash Used by Investing Activities	(1,631,115)	(3,094,683)
Increase in Cash and Cash Equivalents	1,786,186	553,039
CASH AND CASH EQUIVALENTS, Beginning of Period	855,598	302,559
CASH AND CASH EQUIVALENTS, End of Period	\$ 2,641,784	\$ 855,598

See accompanying notes

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations:

Public Compensation Mutual (“the Company”), a Nevada nonprofit pure captive mutual insurer formed pursuant to Nevada Revised Statute 694C, is engaged in the business of providing reinsurance for the Public Agency Compensation Trust (PACT). Effective July 18, 2013, the Company became a pure captive authorized by the State of Nevada Division of Insurance; prior to this date, the Company was an association captive. PACT is a quasi-governmental entity formed by local governments for the purpose of organizing an association for self-insured workers compensation. The Company’s formation was approved on June 26, 2007 by the State of Nevada Division of Insurance and began operations July 1, 2007.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 period. Actual results could differ from those estimates.

Basis of Presentation:

The accompanying financial statements have been prepared in conformity with reporting practices prescribed or permitted by the State of Nevada, Division of Insurance. These financial statements are also presented in conformity with accounting principles generally accepted in the United States of America because the accounting practices prescribed or permitted under statutory authority, when applied to the Company do not vary materially from generally accepted accounting principles.

Cash Equivalents:

For the purpose of presentation in the Company’s financial statements, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

Method of Accounting:

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

Debt Securities Available for Sale:

Investments in debt securities not classified as either trading or held-to-maturity are reported at fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses excluded from net income and reported as a separate component of surplus. The fair value of securities is determined by quoted market prices and observable information for similar items in active or inactive markets. Realized gains and losses are calculated using the specific identification method.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Equity Securities:

Beginning in 2019, with the adoption of ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10), the Company's investments in equity securities at fair value are no longer classified as available for sale, and changes in fair value are included in net realized and unrealized gains (losses) on investments on the Company's income statement.

The adoption of ASU 2016-01 also removed the impairment assessment for equity securities at fair value beginning in 2019, and changes in fair value are included in net realized and unrealized (losses) gains on investments on the company's statements of income and comprehensive income. Prior to adoption of this standard, when, in the opinion of management, a decline in the fair value of an equity security below its cost was considered to be "other-than-temporary," the equity security's cost was written down to its fair value at the time the other-than-temporary decline is identified.

Valuation of Investments:

The Company has adopted and implemented FASB ASC 820-10, Fair Value Measurements, which provides a framework for measuring fair value under GAAP. This statement defines fair value as the exchange price that would be received for an asset, or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820-10 establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

Reserve for Loss and Loss Adjustment Expenses:

Loss and loss adjustment expenses includes an amount determined from loss reports on individual cases and estimates of the cost of claims incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. It is reasonably possible that the estimate will change within one year of the date of the financial statements. The loss liabilities were developed from a combination of the insurance industry loss payment and reporting patterns. The data was developed and trended, using standard actuarial techniques, to meet the Company's premium rate structure and experience. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Premiums:

Premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Reinsurance:

In the normal course of business, the Company may seek to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by purchasing reinsurance at certain levels of risk in various areas of exposure with other insurance enterprises.

Income Tax Status:

Under Internal Revenue Code Section 115, and pursuant to regulations and rulings issued by the Internal Revenue Service, organizations formed, operated and funded by political subdivisions formed to pool casualty and other risks arising from their obligations concerning public liability, may exclude income derived from such activities from taxable income. Accordingly, no provision for income taxes has been provided in the accompanying financial statements, and no federal tax returns have been filed. As no tax returns have been filed, there is no statute of limitations to toll, and all years remain open to potential adjustment.

Investments and Investment Income:

Captive insurance companies are governed by NRS 694C.340 regarding allowable investments, however, as a pure captive, the Company is not subject to any restrictions on allowable investments. The Board has, by policy, implemented investment guidelines to which the Company adheres such that investments are in accordance with NRS 682A.

Credit Risk:

Credit risk is the risk that the issuer of a security will default on principal and interest in the security. The investment guidelines, do not limit investments based upon the rating of a security, but it is policy to limit those securities with potential default risk such that the Company's annual investment income would exceed a loss on a single issuer's securities.

Concentration of Credit Risk:

The Company limits investments in any single mutual fund, exchange traded fund or similar vehicle to no more than 10% of assets.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company minimizes this risk by maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

Prior Year Reclassifications:

The prior year's financial statements have been reclassified where applicable to conform to the current year's presentation.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – NEW ACCOUNTING STANDARDS:

Recently Adopted Accounting Standards:

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10). This update replaces the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this update eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit price notion. Furthermore, this update clarifies that an evaluation of deferred tax assets related to available-for-sale securities is needed, in combination with an evaluation of other deferred tax assets, to determine if a valuation allowance is required. This update became effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The company adopted this update effective January 1, 2019. Adoption of this accounting standard resulted in a reclassification adjustment to surplus from accumulated other comprehensive income of \$99,438.

In May 2014, the FASB issued ASU Number 2014-09, Revenue from Contracts with Customers (Topic 606). This update clarifies the principles for recognizing revenue and develops revenue standards to improve revenue recognition guidance. This update requires an entity to recognize revenue as performance obligations are met in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. In applying this guidance companies are required to: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract(s); and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim reporting periods within that annual reporting period. Insurance contracts are not within the scope of this updated guidance. The Company has analyzed revenue streams within the current business operation and determined the adoption of this standard did not have an impact on its financial condition and results of operations.

Recently Issued Accounting Standards – Not Yet Adopted:

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU Number 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This update removes the disclosure requirements for the amounts of and the reasons for transfers between Level 1 and Level 2 and disclosure of the policy for timing of transfers between levels. This update also removes disclosure requirements for the valuation processes for Level 3 fair value measurements. Additionally, this update adds disclosure requirements for the changes in unrealized gains and losses for recurring Level 3 fair value measurements and quantitative information for certain unobservable inputs in Level 3 fair value measurements. This update becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has determined that the impact of this new standard will not be material to the Company's financial statements

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value in conformity with FASB ASC 820-10:

Cash and Cash Equivalents: For these short term instruments, the carrying amount is a reasonable estimate of fair value. This fair value estimate represents a level 1 input as described in Note 1.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Investments in Marketable Securities: For investments in marketable securities, fair values are based on quoted market prices or dealer quotes if available. If a quoted market price is not available, fair value is estimated using quoted market price for similar securities. This fair value estimate represents a level 2 input as described in Note 1.

The following table presents the Company’s fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2019 and 2018:

Description	December 31, 2019	Fair Value measurement at reporting date using		
		Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 2,641,784	\$ 2,641,784	\$ -	\$ -
U.S. government obligations	8,031,933	-	8,031,933	-
U.S states and local authorities	11,593,361	-	11,593,361	-
Bonds	38,133,622	-	38,133,622	-
Bond mutual funds	3,260,807	3,260,807	-	-
Equity mutual funds	20,588,305	20,588,305	-	-
Total	\$ 84,249,812	\$ 26,490,896	\$ 57,758,916	\$ -

Description	December 31, 2018	Fair Value measurement at reporting date using		
		Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 855,598	\$ 855,598	\$ -	\$ -
U.S. government obligations	9,096,588	-	9,096,588	-
U.S states and local authorities	10,127,010	-	10,127,010	-
Bonds	34,457,253	-	34,457,253	-
Fixed income mutual funds	1,683	1,683	-	-
Bond mutual funds	1,938,418	1,938,418	-	-
Equity mutual funds	17,213,911	17,213,911	-	-
Total	\$ 73,690,461	\$ 20,009,610	\$ 53,680,851	\$ -

There were no transfers between fair value levels during the year ended December 31, 2019 and 2018.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 – CONCENTRATIONS:

Premiums:

As detailed in Note 1, the Company provides reinsurance insurance coverage to PACT; additionally, PACT provided the surplus contribution to the Company, and is the sole insured.

Credit Risk:

The Company maintains its cash balances in various institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Company has not experienced any losses in such accounts.

Additionally, as of December 31, 2019 and 2018, the company has certain cash equivalent and investment balances insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 (with a limit of \$250,000 for cash) per institution. In addition the Company’s investment policy provides additional coverage above the SIPC limits for any missing securities and cash in client investment accounts up to a firm aggregate limit of \$1 billion (including up to \$1.9 million for cash per client). The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 5 – INVESTMENTS:

Available-for-sale securities at December 31, 2019 and 2018 consist of various investments as indicated below:

	December 31, 2019			
	Cost	Estimated Fair Value	Gross Unrealized	
			Gains	Losses
U.S. government obligations	\$ 8,041,166	\$ 8,031,933	\$ 37,706	\$ (46,939)
U.S states and local authorities	11,367,139	11,593,361	248,104	(21,882)
Bonds	36,903,971	38,133,622	1,276,864	(47,213)
Total debt securities	<u>56,312,276</u>	<u>57,758,916</u>	<u>1,562,674</u>	<u>(116,034)</u>
Total available-for-sale securities	<u>\$ 56,312,276</u>	<u>\$ 57,758,916</u>	<u>\$ 1,562,674</u>	<u>\$ (116,034)</u>

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 – INVESTMENTS (continued):

	December 31, 2018			
	Cost	Estimated Fair Value	Gross Unrealized	
			Gains	Losses
U.S. government obligations	\$ 9,492,495	\$ 9,096,588	\$ -	\$ (395,907)
U.S states and local authorities	10,355,730	10,127,010	9,650	(238,370)
Bonds	35,628,446	34,457,253	53,064	(1,224,257)
Total debt securities	55,476,671	53,680,851	62,714	(1,858,534)
Fixed income mutual funds	1,781	1,683	-	(98)
Bond mutual funds	2,125,361	1,938,418	-	(186,943)
Equity mutual funds	17,126,308	17,213,911	757,737	(670,134)
Total equity securities	19,253,450	19,154,012	757,737	(857,175)
Total available-for-sale securities	\$ 74,730,121	\$ 72,834,863	\$ 820,451	\$ (2,715,709)

Proceeds from the sale of investment securities available for sale were \$8,085,095 in 2019 and \$2,932,521 in 2018.

During 2019 and 2018, net realized gains (losses) on investments and the change in unrealized gains (losses) on the Company's investments recorded at fair value are determined on a specific-identification basis and were as follows:

	December 31, 2019				
	Gross Realized Gains	Gross Realized Losses	Changes in Net Unrealized Gains (Losses)	Change in FV Reflected in Earnings	Change in FV Reflected in AOCI, before tax
Debt securities	\$ 107	\$ (21,534)	\$ 3,242,460	\$ -	\$ 3,221,033
Equity securities	40,403	(31,962)	4,083,490	4,083,490	-
	\$ 40,510	\$ (53,496)	\$ 7,325,950	\$ 4,083,490	\$ 3,221,033

	December 31, 2018				
	Gross Realized Gains	Gross Realized Losses	Changes in Net Unrealized Gains (Losses)	Change in FV Reflected in Earnings	Change in FV Reflected in AOCI, before tax
Debt securities	\$ 200	\$ (12,734)	\$ (1,193,630)	\$ -	\$ (1,206,164)
Equity securities	-	-	(2,147,413)	-	\$ (2,147,413)
	\$ 200	\$ (12,734)	\$ (3,341,043)	\$ -	\$ (3,353,577)

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 5 – INVESTMENTS (continued):

Management evaluates debt securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Group to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold the securities for the foreseeable future, no declines are deemed to be other-than-temporary.

The adoption of ASU 2016-01 removed the impairment assessment for equity securities at fair value, and, beginning in 2019, changes in fair value are included in net realized and unrealized gains and losses on investments in the Company's statement of income and comprehensive income. Prior to adoption of this standard, the Company did not recognize any other-than-temporary impairments on equity securities as management has the intent and ability to hold the securities for the foreseeable future.

All investments have been valued based on quoted prices in active markets for identical assets and liabilities.

Contractual maturities of available-for-sale debt securities at December 31, 2019 and 2018 are as follows:

	Estimated Fair Values	
	2019	2018
1 year or less	\$ 753,980	\$ 197,196
Due in 1 - 5 years	11,130,998	15,797,000
Due in 5 - 10 years	21,334,431	17,857,716
Due in 10 years or more	24,539,507	19,828,939
Total investment in debt securities	\$ 57,758,916	\$ 53,680,851

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 6 – RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES:

The Company provides coverage for members of PACT for worker's compensation losses under a quota-share reinsurance arrangement as illustrated in the following table:

	Quota share	Insurance layer	Quota share	Insurance layer	
7/1/2007-7/1/2012	25%	\$2,000,000 excess of \$500,000			\$500,000
7/1/2012-7/1/2014		\$250,000 excess of \$500,000	25%	\$2,250,000 excess of \$750,000	\$500,000
7/1/2014-7/1/2017		\$500,000 excess of \$500,000	25%	\$2,000,000 excess of \$1,000,000	-
7/1/2017-7/1/2018		\$700,000 excess of \$300,000	25%	\$2,000,000 excess of \$1,000,000	-
7/1/2018-7/1/2019		\$700,000 excess of \$300,000	25%	\$2,000,000 excess of \$1,000,000	-
7/1/2019-7/1/2020		\$700,000 excess of \$300,000	25%	\$2,000,000 excess of \$1,000,000	-

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

Additionally, effective July 1, 2014, the Company also provides \$1,500,000 aggregate excess (50% quota share of the \$3,000,000 layer) above an attachment point of approximately \$10,000,000.

Loss reserve estimates are inherently uncertain because the ultimate amount the Company will pay for many of the claims it has incurred as of the balance sheet date will not be known for many years. The estimate of loss reserves is intended to equal the difference between the expected ultimate losses of all claims that have occurred as of a balance sheet date and amounts already paid. The Company establishes loss reserves based on its own analysis of emerging claims and review of the results of actuarial projections. The Company's aggregate carried reserve for unpaid losses is the sum of its reserves for each accident year and represents its best estimate of outstanding loss reserves.

The amount by which estimated losses in the aggregate differ from those previously estimated for a specific time period is known as reserve "development." Reserve development is unfavorable when losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on open claims, causing the previously estimated loss reserves to be "deficient." Reserve development is favorable when estimates of ultimate losses indicate a decrease in established reserves, causing the previously estimated loss reserves to be "redundant." Development is reflected in the Company's operating results through an adjustment to incurred losses during the period in which it is recognized.

The three main components of reserves for unpaid losses are case reserves, incurred but not reported (IBNR) loss reserves and reserves for loss adjustment expenses (LAE).

When claims are reported, the Company establishes individual estimates of the ultimate cost of each claim (case reserves). These case reserves are continually monitored and revised in response to new information and for amounts paid. IBNR is an actuarial estimate of future payments on claims that have occurred but have not yet been reported. The Company also estimates and makes a provision for the extent to which the case reserves on known claims may develop. IBNR reserves apply to the entire body of claims arising from a specific time period, rather than a specific claim. Most of the Company's IBNR reserves relate to estimated future claim payments on recorded open claims.

For the year ended December 31, 2019, estimated unpaid losses have been determined to range from a recommended low of \$5,205,000 to a recommended high of \$5,843,000 based on actuarial estimates; further the actuary has projected expected losses at \$4,403,000. For the year ended December 31, 2018, estimated paid losses have been determined to range from a recommended low of \$4,549,000 to a recommended high of \$5,172,000 based on actuarial estimates; further the actuary has projected expected losses at \$3,767,000.

Management has estimated reserves to be \$5,756,600 and \$4,549,000 at December 31, 2019 and 2018 respectively. This estimate is based on funding the Company at the 75% confidence level as recommended by the actuary. Management has elected not to discount the reserves for anticipated investment income.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

Activity in the reserve for loss and loss adjustment expenses account is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 4,549,000	\$ 3,082,000
Incurred related to:		
Current year	1,370,000	2,102,000
Prior years	<u>379,000</u>	<u>(635,000)</u>
Total incurred	<u>1,749,000</u>	<u>1,467,000</u>
Net paid	<u>541,400</u>	<u>-</u>
Balance at December 31	<u><u>\$ 5,756,600</u></u>	<u><u>\$ 4,549,000</u></u>

As a result of changes in estimates of incurred events in the prior year, the provision for losses changed by \$379,000 and (\$635,000), respectively, due to (lower)/higher than anticipated losses on the development of claims.

The Company's reserve estimates are based on loss experience and exposure data and have assumed future development of incurred and paid losses can be reasonably predicted on the basis of development of such losses in the recent past.

The Company compiles and aggregates its claims data by grouping the claims according to the year in which the claim occurred ("accident year") when analyzing claim payment and emergence patterns and trends over time. It has been assumed that costs associated with workers compensation claims are increasing 2.5% annually and average claim size are increasing by 3.5% annually. For the purposes of defining claims frequency, the number of reported claims includes any claim that has case reserves and/or loss and LAE payments associated with them. The Company has assumed that the average frequency of claims has an annual trend of 1.0%.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

The following tables show the Company's historical incurred and cumulative paid losses and LAE development, net of reinsurance as well as IBNR loss reserves and the number of reported claims on an aggregated basis as of December 31, 2019 for each of the previous 10 accident years:

Incurred Losses and LAE, Net of Reinsurance											2019	
Years Ended December 31,												
Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)	2018 (1)	2019	IBNR	Cumulative number of reported claims
(in thousands, except claims counts)												
2010	\$ 31.3	\$ 58.0	\$ 35.4	\$ 50.9	\$ 24.2	\$ 38.7	\$ 9.7	\$ -	\$ -	\$ 8.1	\$ 129.3	3
2011		32.6	55.9	45.7	26.0	20.3	-	-	-	-	-	0
2012			60.6	64.7	44.5	33.7	-	-	-	-	-	0
2013				80.7	493.0	421.5	466.4	319.9	410.6	404.9	8.2	1
2014					514.7	694.6	623.7	389.5	274.1	180.1	180.1	0
2015						494.0	774.8	636.3	309.1	270.7	270.7	0
2016							409.7	741.8	454.1	392.7	392.7	0
2017								393.1	1,705.1	1,566.8	782.3	1
2018									788.6	2,072.3	1,317.6	2
2019										790.1	790.1	0
Total										\$ 5,685.7		

Cumulative Paid Losses and LAE, Net of Reinsurance												
Years Ended December 31,												
Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)	2018 (1)	2019		
(in thousands)												
2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2011		-	-	-	-	-	-	-	-	-	-	
2012			-	-	-	-	-	-	-	-	-	
2013				-	-	-	-	-	-	-	-	
2014					-	-	-	-	-	-	-	
2015						-	-	-	-	-	-	
2016							-	-	-	-	-	
2017								-	-	-	-	
2018									-	541.4		
2019										-		
Total										\$ 541.4		
All outstanding liabilities for unpaid losses and LAE prior to 2010, net of reinsurance												612.3
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance												\$ 5,756.6

(1) Data presented for these calendar years is considered to be supplementary information, which is unaudited.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

The following table presents the average percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2019 and is presented as required supplementary information, which is unaudited:

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
0.0%	3.3%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The following table represents a reconciliation of claims development to the aggregate carrying amount of the liability for unpaid losses and LAE:

Liabilities for unpaid losses and LAE, net of reinsurance	\$ 5,756.6
Reinsurance recoverable on unpaid losses	-
Unallocated LAE	-
Total liability for unpaid losses and LAE	<u><u>\$ 5,756.6</u></u>

NOTE 7 - SURPLUS CONTRIBUTION:

The following is a summary of the surplus contributed to the Company from PACT pursuant to authorization by the Executive Committee of PACT:

Years	Surplus PACT Contribution
2007	\$ 5,000,000
2008	5,600,000
2009	5,000,000
2010	8,017,375
2011	3,406,464
2012	135,598
2013	-
2014	-
2015	448,242
2016	1,093,260
2017	25,000,000
2018	-
2019	-
Total	<u><u>\$ 53,700,939</u></u>

NRS 694C.250 requires a pure captive to maintain capital of not less than \$200,000, the Company is in compliance with this requirement as of December 31, 2019 and 2018.

**PUBLIC COMPENSATION MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - RELATED PARTIES:

All premiums and surplus contributions are made by PACT and all claims activity is attributable to the quota share reinsurance agreement with PACT.

Public Compensation Mutual has entered into a management services agreement with Nevada Risk Pooling, Inc. to provide captive management for the day to day operations of PCM for a five year period from July 1, 2019 to June 30, 2024. The cost of the initial base year is \$225,000 with annual increases of 3% each succeeding year.

NOTE 9 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 11, 2020, which is the date the financial statements were available to be issued.

Casey Neilson, Inc.
Accountants and Advisors

**REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
NEVADA ADMINISTRATIVE CODE 694C.210**

To the Board of Directors
Public Compensation Mutual

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Public Compensation Mutual, which comprise the balance sheet as of December 31, 2019, and the related statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2020.

In planning and performing our audit of the GAAP basis financial statements of Public Compensation Mutual as of and for the year ended December 31, 2019 in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Compensation Mutual's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected or corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In connection with our audit, nothing came to our attention that caused us to believe that Public Risk Mutual failed to comply with the terms, covenants, provisions, or conditions of their bylaws, articles of incorporation, or business plan, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, insofar as they relate to accounting matters

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



Carson City, Nevada
March 11, 2020

PUBLIC RISK MUTUAL
DECEMBER 31, 2019 AND 2018

**PUBLIC RISK MUTUAL
DECEMBER 31, 2019 AND 2018**

TABLE OF CONTENTS

	<u>PAGE NO.</u>
PRESIDENT'S LETTER	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-8
INDEPENDENT AUDITOR'S REPORT	9-10
FINANCIAL STATEMENTS	
Balance Sheets	11
Statements of Income and Comprehensive Income	12
Statements of Changes in Surplus	13
Statements of Cash Flows	14
Notes to Financial Statements	15-27
COMPLIANCE SECTION	
Report on Internal Control and Compliance over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Nevada Administrative Code 694C.210	28

President's Letter

There were many challenges for Public Risk Mutual (PRM) in 2019 but the results showed the strength of its business plan. Here are few of the primary financial highlights:

- ❖ PRM is a pure captive of the Nevada Public Agency Insurance Pool (NPAIP). The total NPAIP surplus contribution of \$29,477,263 remained unchanged since there were no additional surplus contributions to PRM.
- ❖ PRM continued to provide \$300,000 excess of NPAIP's \$200,000 retention for property reinsurance.
- ❖ PRM continued its data security liability reinsurance program for all NPAIP members and has continued to support a passive network assessment (PNA) program to help prevent cyber claims. These assessments have helped help mitigate protecting our members from cyber-attacks and the resulting insurance costs related to cyber-attacks. This risk management initiative has been well received by our membership. The Cyber Educational Summit was a success with our members.
- ❖ Total investments increased from \$40,914,152 in 2018 to \$45,979,714 in 2019. This increase is due primarily to the increase in the market values of investments held as a result of the Federal Reserve lowering interest rates during 2019 resulting in unrealized gains on available for sale and equity securities during the year. PRM's surplus increased from \$37,209,743 to \$41,702,381 during the year. The primary reason for the increase is the investment income and the net realized and unrealized gains on the portfolio. PRM's business plan strategy of having enough surplus contribution for PRM to help provide additional coverage for our members, coupled with the business plan of utilizing a conservative investment strategy is successfully maturing as planned.
- ❖ PRM's investment income had a slight reduction from \$1,299,667 in 2018 to \$1,249,305 in 2019 due to the lower book yields as a result of the Federal Reserve's actions during the year. PRM's investment portfolio includes U.S. government obligations, U.S. state and local bonds, U.S. corporate bonds, Fixed income mutual funds, bond mutual funds and equity mutual funds.
- ❖ One of PRM's main goals is to continue increasing investment earnings while providing our members added value to property and liability coverage through cost effective reinsurance. This has been instrumental when PRM is seeking reinsurance and excess quotes from its insurance partners.

Due to improvements in liability loss developments during 2019 and payoff of some large claims in 2018, the loss and loss adjustment expenses decreased from \$2,051,058 to \$1,669,939. This type of loss activity is a reminder of why PRM exists to help lessen any rate increases while still providing enough funds to cover our losses. This is especially true as the "hardening" insurance market continues to impact rates.

I personally want to thank the board of trustees for NPAIP and the PRM captive board of trustees for their commitment to the dynamic development of the coverages and risk management products that we have been able to support. PRM has remained true to its business plan in providing appropriate coverage and rate stabilization for our members.

Best,



PRM President

PUBLIC RISK MUTUAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2019 AND 2018

Public Risk Mutual's 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 the Company'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 President's letter, financial statements and notes to gain a more complete understanding of the information presented.

Company Overview

Public Risk Mutual ("PRM"), a Nevada nonprofit pure captive mutual insurer formed pursuant to Nevada Revised Statutes 694C, is engaged in the business of providing reinsurance for the Nevada Public Agency Insurance Pool (POOL). Effective July 18, 2013, the Company became a pure captive authorized by the State of Nevada Division of Insurance. PRM's formation was approved on July 26, 2004 by the State of Nevada Division of Insurance and began operations September 1, 2004. Currently, the Company issues a single reinsurance policy to POOL each year and the underlying POOL program in turn issues a certificate of participation to the members with a copy of the POOL coverage form providing coverage details.

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.

PRM has identified the estimates inherent in the valuation of investments and loss reserves (including reserves for unreported 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. The estimates were made with the assistance of an independent outside actuarial firm in relation to the IBNR and overall loss reserve adequacy.

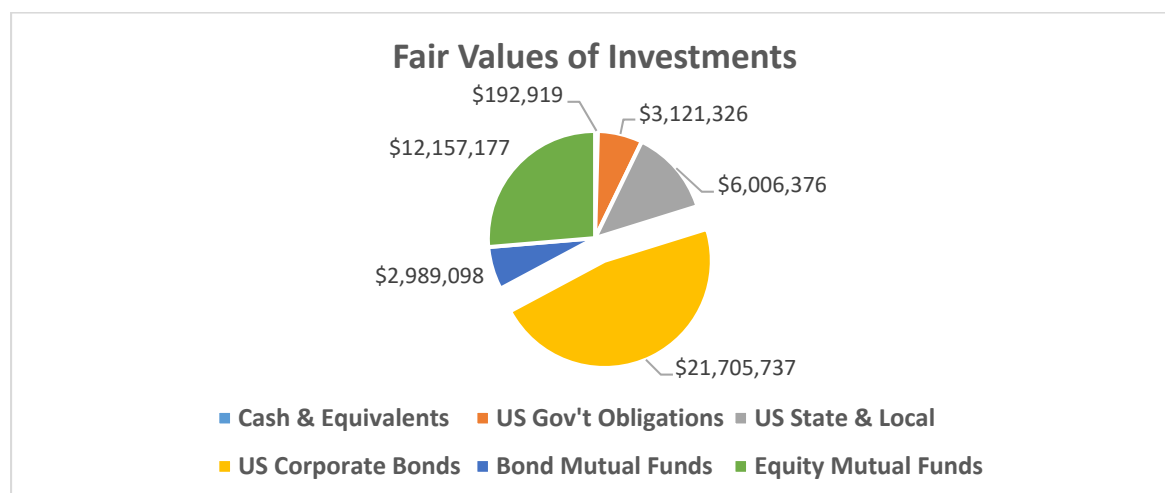
Investments

One significant estimate inherent in the valuation of investments is the evaluation of fair value and other than temporary impairment (OTTI). Fair value requires management judgment on the appropriate classes of assets and liabilities for which disclosures about fair value measurement should be provided. Fair value for investments primarily is a quantitative assessment. For debt and equity securities, class is determined on the basis, nature and risk of the investments. A full disclosure of PRM's fair value methodology can be found in Note 3 Fair Value of Financial Instruments in the Notes to the Audited Financial Statements.

The determination of OTTI is a quantitative and qualitative process, which is subject to judgment in the determination of whether declines in the fair value of investments are other than temporary. The cost basis of fixed maturity investments is adjusted for impairments in value, deemed to be other than temporary, with the associated realized loss reported in net income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) the magnitude of the decline in value; 2) current economic conditions and the financial condition and near-term prospects of the issuer; 3) the amount of time that the fair value has been less than cost; and 4) the estimated period over which the security is expected to recover and whether PRM's cash or working capital requirements and contractual or regulatory requirements may indicate a need to sell the security before its forecasted recovery.

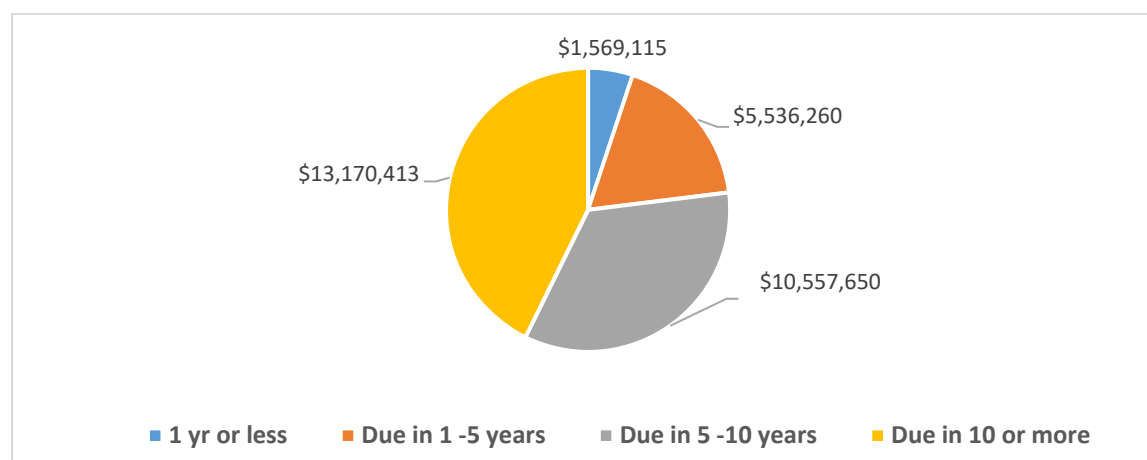
Cash and investments of \$46,172,633 are available to meet current liabilities, including reserves for loss and loss adjustment expenses of \$4,678,700. Total liabilities include accounts payable, reserves for loss and loss adjustment expenses and unearned premiums. This is a conservative measure of cash and investments available to pay current obligations. PRM's cash ratio is 9.9, meaning that it has 9.9 times the unrestricted cash and investments on hand to meet its obligations. Last year's cash ratio was 9.8.

Investments as of December 31, 2019 were \$45,979,714 compared to 2018 balance of \$40,914,152. Thus, an increase of \$5,065,562 or 12.4% during the year. The increase is due primarily to the increase in the market value of the investments held as a result of the Federal Reserve Board lowering interest rates during 2019 resulting in unrealized gains on available for sale and equity securities during the period. As noted in Note 3, Level 1 quoted price in active market for identical assets were valued at \$15,339,194, the Level 2 significant other observable inputs at \$30,833,439 and no Level 3 assets. The following is an overview of the fair value investments allocation:



As noted in Note 6- Investments, the contractual maturities of available-for-sale debt securities at December 31, 2019 and 2018 are as follows:

	Estimated Fair Values	
	<u>2019</u>	<u>2018</u>
1 year or less	\$1,569,115	\$594,548
Due in 1 – 5 years	5,536,260	7,664,657
Due in 5 - 10 years	10,557,650	9,064,588
Due in 10 years or more	<u>13,170,413</u>	<u>10,103,989</u>
Total Investment in debt securities	<u>\$30,833,438</u>	<u>\$27,427,782</u>



Investment Income Receivable

The investment income receivable at December 31, 2019 is \$192,198 compared to \$176,272 in 2018. This is a change of \$15,926 or 9.0%. This is due primarily to the timing of the payment of accrued interest on the investments.

Loss Reserves

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 net future liabilities of the current in-force business. Changes in or deviations from the assumptions used to develop the loss reserves can significantly affect PRM'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, PRM retains an outside independent actuary, to provide a loss reserve opinion and establish a range for PRM's loss reserves. PRM's policy is to book reserves at the 75% confidence level as recommended by the actuary. Management has elected not to discount the reserves for anticipated investment income. See Note 7- Reserve for Loss and Loss Adjustment Expense note in the financial statements.

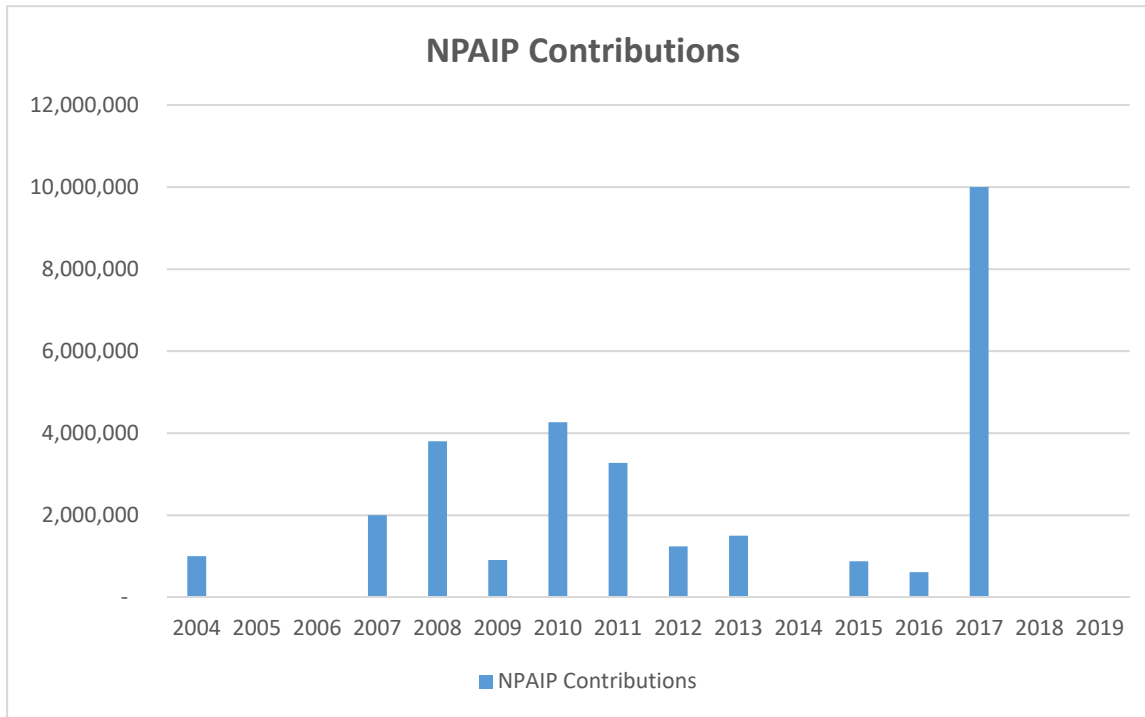
Reserves for loss and loss adjustment expenses increased from \$3,591,000 to \$3,955,000 at December 31, 2019 an increase of \$364,000 or 10.1% during the year. This increase is due to the claim development in the current year and increases in prior year claims loss development.

Unearned Premiums

PRM writes only 12-month insurance policies effective July 1st the year written, so all the \$703,525 unearned assessments carried in 2019 will be fully earned in 2020.

Surplus Contributions

There were no surplus contributions from NPAIP in 2019. Surplus contributions from NPAIP during 2017 were \$10,000,000 as approved by the Board at their meeting held on March 22, 2017 meeting. This brings the total surplus contribution into PRM at \$29,477,263. See Note 8 Surplus Contributions for more details. The following chart indicated the NPAIP surplus contributions to PRM:



Surplus

PRM's total surplus at December 31, 2019 was \$41,702,381 an increase of \$4,492,638 from the December 31, 2018 balance of \$37,209,743. The increase is the result from the net income of \$3,003,032 combined with accumulated other comprehensive income of \$1,489,606 during the year. At December 31, 2018, PRM had paid-in capital (NPAIP's contributions) of \$29,477,263 and accumulated retained earnings and other comprehensive income of \$7,732,480 to account for the total surplus of \$37,209,743 in 2018.

The following is the comparative Balance Sheet of Public Risk Mutual as of December 31, 2019 and 2018.

**Public Risk Mutual
Balance Sheet**

	2019	2018	\$ Difference	% Difference
Assets				
Cash and cash equivalents	\$ 192,919	\$ 309,851	\$ (116,932)	-37.7%
Premium receivable	\$ 11,250		\$ 11,250	
Deposit	5,000	5,000	-	0.0%
Investments	45,979,714	40,914,152	5,065,562	12.4%
Investment income receivable	192,198	176,272	15,926	9.0%
Total Assets	\$ 46,381,081	\$ 41,405,275	\$ 4,975,806	12.0%
Liabilities and Surplus				
Accrued expenses	\$ 20,175	\$ 18,532	\$ 1,643	8.9%
Unearned premium	703,525	586,000	\$ 117,525	20.1%
Reserve for loss and loss adjustment expenses	3,955,000	3,591,000	364,000	10.1%
Total liabilities	\$ 4,678,700	\$ 4,195,532	\$ 483,168	39.1%
Surplus	40,894,749	37,989,713	2,905,036	7.6%
Accumulated other comprehensive income (loss)	807,632	(779,970)	1,587,602	203.5%
Total Surplus	41,702,381	37,209,743	4,492,638	12.1%
Total Liabilities and Surplus	\$ 46,381,081	\$ 41,405,275	\$ 4,975,806.00	12.0%

Net Income from Operations

PRM reported net income from operations for the year ended December 2019 of \$3,003,032 an increase of \$3,161,803 from the prior year end loss of (\$158,771). The increase is primarily driven by an increase in net realized and unrealized investment income of \$2,768,734 compared to a loss of (\$32,821) in the prior year. This increase was offset by increases of \$230,672 in administrative expenses as a result of payment to NPAIP for risk management services for the members and offset by a reduction in the allocation of management cost approved by the Board of Directors. There was a reduction in the loss and loss adjustment expenses from \$2,051,058 in 2018 to \$1,669,939 in 2019. The reduction is due to less claim development during 2019. See further explanation below.

Earned Premiums

Earned premiums increased by \$122,525 or 10.5% to \$1,289,525 at December 31, 2019 compared to prior year amount of \$1,167,000. Pricing is determined with the assistance of the independent actuary.

Investment Income Including Realized and Unrealized Gains

Investment income of \$1,249,305, including net realized and unrealized gains on investments of \$2,768,734, at December 31, 2019 was \$2,751,193 higher than the same period during 2018. The increase was primarily due to the implementation of ASU 2016-01 which requires the unrealized gains and losses on equity securities to be reported on the income statement, as well as the higher investment balance and higher investment book yields. The unrealized gains from the portfolio are

largely a result of market yields decreasing based on actions by the Federal Reserve Board to lower interest rates during 2019. See Note 6 Investments for greater details.

Loss and Loss Adjustment Expenses

Losses and loss adjustment expenses decreased by (\$381,119) from \$2,051,058 to \$1,669,939 in 2019. The decrease was primarily due to the favorable development of current and prior year losses related to property and liability business.

Administrative Expenses

Administrative expenses including membership services expenses were \$634,593 and \$541,559 respectively, for the years ended December 31, 2019 and 2018. There was \$274,600 in cyber assessments in 2019 compared to \$412,238 in 2018. PRM provided \$237,500 to NPAIP to support risk management services to our members as approved by the Board to reduce future claim costs.

Other Comprehensive Income

Other comprehensive income, which consist of unrealized gains (losses) on available for sale securities arising during the period less reclassification adjustment for (gains) losses recognized in net income. In 2019, the unrealized gain on available for sale securities during the period was \$1,465,783 compared to unrealized loss of (\$2,165,741) in 2018. The reclassification adjustment for (gains) losses recognized in net income were (\$309,999) compared to \$32,821 in 2018. This results in total Other Comprehensive Income (Loss) of \$1,155,784 in 2019 and (\$2,132,920) in 2018. This increase in Other Comprehensive gain is due primarily to the decreases in the interest rates imposed by the Federal Reserve in 2019 compared to them raising the rates in 2018. Additionally, the implementation of ASU 2016-01 required the reclassification of equity securities from available-for-sale to equity securities with unrealized gains and losses reported on the income statement rather than as a component of Other Comprehensive Income (Loss). As noted in board policy, investments are intended to be held for maturity, thus the unrealized gains (losses) are not likely to materialize. The significant unrealized gains will become future net investment income as the payment of the book yield occurs on the portfolio.

The following is the Statement of Income and Comprehensive Income for the years ended December 31, 2019 and 2018.

Public Risk Mutual
Statement of Income and Comprehensive Income

	2019	2018	\$ Difference	% Difference
INCOME				
Premiums	\$ 1,289,525	\$ 1,167,000	\$ 122,525	10.5%
Net Investment income	\$ 1,249,305	\$ 1,299,667	\$ (50,362)	-3.9%
Net realized and unrealized gains and (losses)	2,768,734	(32,821)	\$ 2,801,555	8535.9%
Total Income	5,307,564	2,433,846	2,873,718	118.1%
EXPENSES				
Administrative expenses	359,993	129,321	230,672	178.4%
Membership service expenses	274,600	412,238	(137,638)	-33.4%
Loss and loss adjustment expenses	1,669,939	2,051,058	(381,119)	-18.6%
Total Expenses	2,304,532	2,592,617	(288,085)	-11.1%
Net Income Before Income Taxes	3,003,032	(158,771)	3,161,803	1991.4%
Provision for Income Taxes	-	-	-	
Net Income	\$ 3,003,032	\$ (158,771)	3,161,803	1991.4%
OTHER COMPREHENSIVE INCOME				
Unrealized gains (losses) on available for sale securities arising during the period	\$ 1,465,783	\$(2,165,741)	\$ 3,631,524	167.7%
Less: Reclassified adjustments for (gains) losses recognized in net income	(309,999)	32,821	(342,820)	-1044.5%
Other Comprehensive Income (Loss)	1,155,784	(2,132,920)	3,288,704	154.2%
Comprehensive Income (Loss)	\$ 4,158,816	\$(2,291,691)	\$ 6,450,507	281.5%

Request for Information

This financial report is designed to provide a general overview of the financial activities and conditions of Public Risk Mutual to all having an interest in PRM. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Public Risk Mutual, 201 South Roop Street, Suite 102, Carson City, Nevada 89701 or email at akalt@poolpact.com.

Casey Neilson, Inc.
Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Public Risk Mutual

We have audited the accompanying financial statements of Public Risk Mutual (a Nevada non-profit pure captive mutual insurer) which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of income and comprehensive income, changes in surplus and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Risk Mutual as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the expanded disclosures regarding short duration contracts contained in Note 7 to the financial statements be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Nevada Administrative Code, we have also issued our report dated March 11, 2020, on our consideration of the Company's internal control and compliance over financial reporting. That report is an integral part of an audit performed in accordance with this code and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in black ink that reads "Casey Nalon". The signature is written in a cursive, flowing style.

Carson City, Nevada
March 11, 2020

**PUBLIC RISK MUTUAL
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 192,919	\$ 309,851
Premiums receivable	11,250	-
Investments	45,979,714	40,914,152
Investment income receivable	192,198	176,272
Deposits	5,000	5,000
Total Assets	\$ 46,381,081	\$ 41,405,275
 LIABILITIES AND SURPLUS		
Accrued expenses	\$ 20,175	\$ 18,532
Unearned premium	703,525	586,000
Reserve for loss and loss adjustment expenses	3,955,000	3,591,000
Total Liabilities	4,678,700	4,195,532
Surplus	40,894,749	37,989,713
Accumulated other comprehensive income (loss)	807,632	(779,970)
Total Surplus	41,702,381	37,209,743
Total Liabilities and Surplus	\$ 46,381,081	\$ 41,405,275

See accompanying notes.

PUBLIC RISK MUTUAL
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
REVENUES		
Premiums earned	\$ 1,289,525	\$ 1,167,000
Net investment income	1,249,305	1,299,667
Net realized and unrealized gains and (losses)	2,768,734	(32,821)
Total Revenues	5,307,564	2,433,846
EXPENSES		
Administrative expenses	359,993	129,321
Membership services expense	274,600	412,238
Loss and loss adjustment expenses	1,669,939	2,051,058
Total Expenses	2,304,532	2,592,617
Net Income (Loss) Before Income Taxes	3,003,032	(158,771)
Provision for income taxes	-	-
Net Income (Loss)	\$ 3,003,032	\$ (158,771)
OTHER COMPREHENSIVE INCOME		
Unrealized gains (losses) on available for sale securities arising during the period	\$ 1,465,783	\$ (2,165,741)
Less: Reclassification adjustment for (gains) losses recognized in net income	(309,999)	32,821
Other Comprehensive Income (Loss)	1,155,784	(2,132,920)
Comprehensive Income (Loss)	\$ 4,158,816	\$ (2,291,691)

See accompanying notes.

**PUBLIC RISK MUTUAL
STATEMENTS OF CHANGES IN SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Surplus</u>
Balance, December 31, 2017	\$ 38,148,484	\$ 1,352,950	\$ 39,501,434
Surplus contributions	-	-	-
Net loss	(158,771)	-	(158,771)
Unrealized holding losses arising during the period	-	(2,165,741)	(2,165,741)
Add: Reclassification adjustment for losses included in net income	-	32,821	32,821
Balance, December 31, 2018	<u>37,989,713</u>	<u>(779,970)</u>	<u>37,209,743</u>
Net income	3,003,032	-	3,003,032
Unrealized holding gains arising during the period	-	1,465,783	1,465,783
Add: Reclassification adjustment for gains included in net income	-	23,823	23,823
Cumulative change in accounting principle pursuant to ASU 2016-01	<u>(97,996)</u>	<u>97,996</u>	<u>-</u>
Balance, December 31, 2019	<u><u>\$ 40,894,749</u></u>	<u><u>\$ 807,632</u></u>	<u><u>\$ 41,702,381</u></u>

See accompanying notes.

**PUBLIC RISK MUTUAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 3,003,032	\$ (158,771)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized (gains) losses on equity securities	(2,458,735)	-
Realized (gains) losses on sales of securities	(309,999)	32,821
Amortization of premium or discount	66,359	94,748
Changes in assets and liabilities:		
(Increase) decrease in:		
Investment income receivable	(15,926)	(9,998)
Premiums receivable	(11,250)	-
Deposits	-	(5,000)
Increase (decrease) in:		
Accrued expenses	1,643	(53,602)
Unearned premium	117,525	5,000
Reserve for loss and loss adjustment expenses	364,000	1,096,000
	756,649	1,001,198
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities	17,000,647	2,539,017
Purchase of investments	(17,874,228)	(3,377,819)
	(873,581)	(838,802)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contribution of surplus	-	-
	-	-
Net Cash Provided (Used) by Financing Activities	-	-
Increase (Decrease) in Cash and Cash Equivalents	(116,932)	162,396
CASH AND CASH EQUIVALENTS, Beginning of Year	309,851	147,455
CASH AND CASH EQUIVALENTS, End of Year	\$ 192,919	\$ 309,851

See accompanying notes.

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Operations:

Public Risk Mutual (the “Company”), a Nevada nonprofit captive association mutual insurer formed pursuant to Nevada Revised Statute 694C, is engaged in the business of providing reinsurance for the Nevada Public Agency Insurance Pool (POOL). Effective July 18, 2013, the Company became a pure captive authorized by the State of Nevada Division of Insurance. POOL 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 Company’s formation was approved on July 26, 2004 by the State of Nevada Division of Insurance and began operations September 1, 2004.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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 period. Actual results could differ from those estimates.

Basis of Presentation:

The accompanying financial statements have been prepared in conformity with reporting practices prescribed or permitted by the State of Nevada Division of Insurance. These financial statements are also presented in conformity with accounting principles generally accepted in the United States of America because the accounting practices prescribed or permitted under statutory authority, when applied to the Company, do not vary materially from generally accepted accounting principles.

Cash Equivalents:

For the purpose of presentation in the Company’s financial statements, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

Method of Accounting:

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

Debt Securities Available for Sale:

Investments not classified as either trading or held-to-maturity are reported at fair value, adjusted for other than temporary declines in fair value, with unrealized gains and losses excluded from net income and reported as a separate component of surplus. Realized gains and losses are calculated using the specific identification method. The fair value of securities is determined by quoted market prices and observable information for similar items in active or inactive markets.

PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Equity Securities:

Beginning in 2019, with the adoption of ASU Number 2016-01, Financial Instruments - Overall (Subtopic 825-10), the Company's investments in equity securities at fair value are no longer classified as available-for-sale and changes in fair value are included in net realized and unrealized gains (losses) on investments on the Company's income statement.

The adoption of ASU 2016-01 also removed the impairment assessment for equity securities at fair value beginning in 2019 and changes in fair value are included in net realized and unrealized (losses) gains on investments on the Company's Statements of Income and Comprehensive Income. Prior to adoption of this standard, when, in the opinion of management, a decline in the fair value of an equity security below its cost was considered to be "other-than-temporary," the equity security's cost was written down to its fair value at the time the other-than-temporary decline is identified.

Valuation of Investments:

The Company has adopted and implemented FASB ASC 820-10, Fair Value Measurements, which provides a framework for measuring fair value under GAAP. This statement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price), in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. FASB ASC 820-10 establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

There are three general valuation techniques that may be used to measure fair value, as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3: Unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances.

Reserve for Loss and Loss Adjustment Expenses:

Loss and loss adjustment expenses includes an amount determined from loss reports on individual cases and estimates of the cost of claims incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided. It is reasonably possible that the estimate will change within one year of the date of the financial statements. The loss liabilities were developed from a combination of the insurance industry loss payment and reporting patterns. The data was developed and trended, using standard actuarial techniques, to meet the Company's premium rate structure and experience. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently.

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Premiums:

Premiums are generally recognized as revenue on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Reinsurance:

In the normal course of business, the Company may seek to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by purchasing reinsurance at certain levels of risk in various areas of exposure with other insurance enterprises.

Income Tax Status:

Under Internal Revenue Code Section 115, and pursuant to regulations and rulings issued by the Internal Revenue Service, organizations formed, operated and funded by political subdivisions formed to pool casualty and other risks arising from their obligations concerning public liability, may exclude income derived from such activities from taxable income. Accordingly, no provision for income taxes has been provided in the accompanying financial statements, and no federal tax returns have been filed. As no tax returns have been filed, there is no statute of limitations to toll, and all years remain open to potential adjustment.

Investments and Investment Income:

Captive insurance companies are governed by NRS 694C.340 regarding allowable investments, however, as a pure captive, the Company is not subject to any restrictions on allowable investments. The Board has, by policy, implemented investment guidelines to which the Company adheres such that investments are in accordance with NRS 682A.

Credit Risk:

Credit risk is the risk that the issuer of a security will default on principal and interest in the security. The investment guidelines, do not limit investments based upon the rating of a security, but it is policy to limit those securities with potential default risk such that the Company's annual investment income would exceed a loss on a single issuer's securities.

Concentration of Credit Risk:

The Company limits investments in any single mutual fund, exchange traded fund or similar vehicle to no more than 10% of assets, except for diversified money market funds approved by the NAIC (National Association of Insurance Commissioners).

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company minimizes this risk through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

Prior Year Reclassifications:

The prior year's financial statements have been reclassified where applicable to conform to the current year's presentation.

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 – NEW ACCOUNTING STANDARDS:

Recently Adopted Accounting Standards:

In January 2016, the FASB issued ASU Number 2016-01, Financial Instruments - Overall (Subtopic 825-10). This update replaces the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for sale) and requires equity securities to be measured at fair value with changes in fair value recognized through net income. Additionally, this update eliminates the method and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. It requires financial instruments to be measured at fair value using the exit price notion. Furthermore, this update clarifies that an evaluation of deferred tax assets related to available-for-sale securities is needed, in combination with an evaluation of other deferred tax assets, to determine if a valuation allowance is required. This update becomes effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The company adopted this update effective January 1, 2019. Adoption of this accounting standard resulted in a reclassification adjustment to surplus from accumulated other comprehensive income of \$97,996.

In May 2014, the FASB issued ASU Number 2014-09, Revenue from Contracts with Customers (Topic 606). This update clarifies the principles for recognizing revenue and develops revenue standards to improve revenue recognition guidance. This update requires an entity to recognize revenue as performance obligations are met in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. In applying this guidance companies are required to: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract(s); (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract(s); and (5) recognize revenue when, or as, the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, and interim reporting periods within that annual reporting period. Insurance contracts are not within the scope of this updated guidance. The Company has analyzed revenue streams within the current business operation and determined the adoption of this standard did not have an impact on its financial condition and results of operations.

Recently Issued Accounting Standards – Not Yet Adopted:

In August 2018, the Financial Accounting Standards Board (FASB) issued ASU Number 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. This update removes the disclosure requirements for the amounts of and the reasons for transfers between Level 1 and Level 2 and disclosure of the policy for timing of transfers between levels. This update also removes disclosure requirements for the valuation processes for Level 3 fair value measurements. Additionally, this update adds disclosure requirements for the changes in unrealized gains and losses for recurring Level 3 fair value measurements and quantitative information for certain unobservable inputs in Level 3 fair value measurements. This update becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has determined that the impact of this new standard will not be material to the Company's financial statements.

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value in conformity with FASB ASC 820-10:

Cash and Cash Equivalents: For these short term instruments, the carrying amount is a reasonable estimate of fair value. This fair value estimate represents a level 1 input as described in Note 1.

PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

Investments in Marketable Securities: For investments in marketable securities, fair values are based on quoted market prices or dealer quotes if available. If a quoted market price is not available, fair value is estimated using quoted market price for similar securities. This fair value estimate represents a level 2 input as described in Note 1.

The following table presents the Company's fair value hierarchy for financial instruments measured at fair value on a recurring basis as of December 31, 2019 and 2018:

Description	December 31, 2019	<u>Fair Value measurement at reporting date using</u>		
		Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 192,919	\$ 192,919	\$ -	\$ -
U.S. government obligations	3,121,326	-	3,121,326	-
U.S states and local authorities Bonds	6,006,376 21,705,737	- -	6,006,376 21,705,737	- -
Fixed income mutual funds	-	-	-	-
Bond mutual funds	2,989,098	2,989,098	-	-
Equity mutual funds	12,157,177	12,157,177	-	-
Total	<u>\$ 46,172,633</u>	<u>\$ 15,339,194</u>	<u>\$ 30,833,439</u>	<u>\$ -</u>

Description	December 31, 2018	<u>Fair Value measurement at reporting date using</u>		
		Quoted price in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	\$ 309,851	\$ 309,851	\$ -	\$ -
U.S. government obligations	4,873,403	1,404,796	3,468,607	-
U.S states and local authorities Bonds	5,217,983 17,336,396	- -	5,217,983 17,336,396	- -
Fixed income mutual funds	1,147	1,147	-	-
Bond mutual funds	1,364,019	1,364,019	-	-
Equity mutual funds	12,121,204	12,121,204	-	-
Total	<u>\$ 41,224,003</u>	<u>\$ 15,201,017</u>	<u>\$ 26,022,986</u>	<u>\$ -</u>

There were no transfers between fair value levels during the year ended December 31, 2019 and 2018.

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 - CONCENTRATIONS:

As detailed in Note 1, the Company provides excess insurance coverage to POOL; additionally, POOL provided the surplus contribution to the Company, and is the sole insured.

The Company maintains its cash balances in various institutions. The balances are insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Company has not experienced any losses in such accounts.

Additionally, as of December 31, 2019 and 2018, the company has certain cash equivalent and investment balances insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 (with a limit of \$250,000 for cash) per institution. In addition, the Company's investment policy provides additional coverage above the SIPC limits for any missing securities and cash in client investment accounts up to a firm aggregate limit of \$1 billion (including up to \$1.9 million for cash per client). The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 5 - REINSURANCE ACTIVITY:

Until June 30, 2011, the Company ceded insurance to another company; however, effective July 1, 2010, POOL no longer passes the property premiums through the Company, and is directly reinsured by an outside reinsurer. This reinsurance contract does not relieve the Company from its obligations to policyholders. Failure of the reinsurer to honor its obligations could result in losses to the Company; the Company does not believe that there is a substantial risk of the reinsurer not honoring its obligations. All claims that were incurred during the period of reinsurance coverage are now closed, and there are no outstanding liabilities or receivables attributable to the reinsurance policies.

NOTE 6 - INVESTMENTS:

Available-for-sale securities at December 31, 2019 and 2018 consist of various investments as indicated below:

	December 31, 2019			
	Cost	Estimated Fair Value	Gross Unrealized	
			Gains	Losses
U.S. government obligations	\$ 3,103,859	\$ 3,121,326	\$ 26,773	\$ (9,306)
U.S. states and local authorities	5,910,744	6,006,376	122,806	(27,174)
Bonds	21,011,202	21,705,736	722,937	(28,403)
Total debt securities	30,025,805	30,833,438	872,516	(64,883)
Total available-for-sale securities	\$ 30,025,805	\$ 30,833,438	\$ 872,516	\$ (64,883)

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – INVESTMENTS (continued):

	December 31, 2018			
	Cost	Estimated Fair Value	Gross Unrealized	
			Gains	Losses
U.S. government obligations	\$ 5,020,459	\$ 4,873,403	\$ 6,094	\$ (153,150)
U.S. states and local authorities	5,289,621	5,217,983	11,477	(83,115)
Bonds	17,799,677	17,336,396	29,785	(493,066)
Total debt securities	28,109,757	27,427,782	47,356	(729,331)
Fixed income mutual funds	1,213	1,147	-	(66)
Bond mutual funds	1,495,169	1,364,019	-	(131,150)
Equity mutual funds	12,087,983	12,121,204	504,927	(471,706)
Total equity securities	13,584,365	13,486,370	504,927	(602,922)
Total available-for-sale securities	\$ 41,694,122	\$ 40,914,152	\$ 552,283	\$ (1,332,253)

Proceeds from the sale of investment securities available for sale were \$10,954,264 in 2019 and \$2,539,017 in 2018.

During 2019 and 2018, net realized gains(losses) on investments and the change in unrealized gains (losses) on the Company's investments recorded at fair value are determined on a specific-identification basis and were as follows:

	December 31, 2019				
	Gross Realized Gains	Gross Realized Losses	Changes in Net Unrealized Gains (Losses)	Change in FV Reflected in Earnings	Change in FV Reflected in AOCI, before tax
Debt securities	\$ 10,193	\$ (34,016)	\$ 1,489,606	\$ -	\$ 1,465,783
Equity securities	390,186	(56,364)	2,458,735	2,458,735	-
	\$ 400,379	\$ (90,380)	\$ 3,948,341	\$ 2,458,735	\$ 1,465,783
	December 31, 2018				
	Gross Realized Gains	Gross Realized Losses	Changes in Net Unrealized Gains (Losses)	Change in FV Reflected in Earnings	Change in FV Reflected in AOCI, before tax
Debt securities	\$ -	\$ (32,821)	\$ (620,853)	\$ -	\$ (653,674)
Equity securities	-	-	(1,512,067)	-	(1,512,067)
	\$ -	\$ (32,821)	\$ (2,132,920)	\$ -	\$ (2,165,741)

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 – INVESTMENTS (continued):

Management evaluates available-for-sale securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the entity to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As management has the ability to hold the securities for the foreseeable future, no declines are deemed to be other-than-temporary.

The adoption of ASU 2016-01 removed the impairment assessment for equity securities at fair value, and, beginning in 2019, changes in fair value are included in net realized and unrealized gains and losses on investments in the Company’s Statements of Income and Comprehensive Income. Prior to adoption of this standard, the Company did not recognize any other-than-temporary impairments on equity securities as management has the intent and ability to hold the securities for the foreseeable future.

All investments have been valued based on quoted prices in active markets for identical assets and liabilities.

Contractual maturities of available-for-sale debt securities at December 31, 2019 and 2018 are as follows:

	Estimated Fair Values	
	2019	2018
1 year or less	\$ 1,569,115	\$ 594,548
Due in 1 - 5 years	5,536,260	7,664,657
Due in 5 - 10 years	10,557,650	9,064,588
Due in 10 years or more	13,170,413	10,103,989
Total investment in debt securities	\$ 30,833,438	\$ 27,427,782

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

NOTE 7 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES:

The Company provides property reinsurance to POOL on an excess of loss basis per the following table:

Fiscal Year	Insurance layer
7/1/2005-7/1/2007	\$ 50,000 excess of \$150,000
7/1/2007-7/1/2014	\$ 50,000 excess of \$200,000
7/1/2014-7/1/2019	\$300,000 excess of \$200,000
7/1/2019-7/1/2020	\$300,000 excess of \$200,000

Also, from inception of the captive until June 30, 2010, Lloyds of London reinsured the Company for property losses exceeding \$50,000 net loss per incident, but that reinsurance is now directly contracted by POOL, not the Company.

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

The Company's coverage to Nevada Public Agency Insurance Pool's liability program is as follows:

Fiscal Year	Retention 1			Retention 2			
	Insurance layer	Quota share	Insurance layer - excluding school district	Quota share	Insurance layer - all members	Quota share	Insurance layer - school district
7/1/05-7/1/07	\$250,000 excess of \$2,000,000						
7/1/07-7/1/11	\$250,000 excess of \$2,000,000	20%	\$1,500,000 excess of \$500,000				
7/1/11-7/1/14		20%	\$2,500,000 excess of \$500,000				
7/1/14-7/1/16		20%	\$2,500,000 excess of \$500,000	15%	\$7,000,000 excess of \$3,000,000		
7/1/16-7/1/17		30%	\$2,500,000 excess of \$500,000	25%	\$7,000,000 excess of \$3,000,000		\$2,500,000 excess of
7/1/17-7/1/18		30%	\$2,500,000 excess of \$500,000	25%	\$7,000,000 excess of \$3,000,000	25%	\$500,000
7/1/18-7/1/19		30%	\$2,500,000 excess of \$500,000	25%	\$7,000,000 excess of \$3,000,000	25%	\$2,500,000 excess of
7/1/19-7/1/20		30%	\$2,500,000 excess of \$500,000	25%	\$7,000,000 excess of \$3,000,000		\$500,000

Loss reserve estimates are inherently uncertain because the ultimate amount the Company will pay for many of the claims it has incurred as of the balance sheet date will not be known for many years. The estimate of loss reserves is intended to equal the difference between the expected ultimate losses of all claims that have occurred as of a balance sheet date and amounts already paid. The Company establishes loss reserves based on its own analysis of emerging claims and review of the results of actuarial projections. The Company's aggregate carried reserve for unpaid losses is the sum of its reserves for each accident year and represents its best estimate of outstanding loss reserves.

The amount by which estimated losses in the aggregate differ from those previously estimated for a specific time period is known as reserve "development." Reserve development is unfavorable when losses ultimately settle for more than the amount reserved or subsequent estimates indicate a basis for reserve increases on open claims, causing the previously estimated loss reserves to be "deficient." Reserve development is favorable when estimates of ultimate losses indicate a decrease in established reserves, causing the previously estimated loss reserves to be "redundant." Development is reflected in the Company's operating results through an adjustment to incurred losses during the period in which it is recognized.

The three main components of reserves for unpaid losses are case reserves, incurred but not reported (IBNR) loss reserves and reserves for loss adjustment expenses (LAE).

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

When claims are reported, the Company establishes individual estimates of the ultimate cost of each claim (case reserves). These case reserves are continually monitored and revised in response to new information and for amounts paid. IBNR is an actuarial estimate of future payments on claims that have occurred but have not yet been reported. The Company also estimates and makes a provision for the extent to which the case reserves on known claims may develop. IBNR reserves apply to the entire body of claims arising from a specific time period, rather than a specific claim. Most of the Company's IBNR reserves relate to estimated future claim payments on recorded open claims.

For the year ended December 31, 2019, estimated unpaid losses have been determined to range from a recommended low of \$3,688,000 to a recommended high of \$4,795,000 with a conservative estimate of \$5,887,000 based on actuarial estimates; further the actuary has projected expected losses at \$2,787,000 . For the year ended December 31, 2018, estimated unpaid losses have been determined to range from a recommended low of \$3,591,000 to a recommended high of \$4,696,000 with a conservative estimate of \$5,781,000 based on actuarial estimates; further the actuary has projected expected losses at \$2,681,000.

Management has estimated reserves to be \$3,955,000 and \$3,591,000 at December 31, 2019 and 2018. This estimate is based on funding the Company at the 75% confidence level as recommended by the actuary and adjusting for claims that are deemed paid during the actuarial analysis but in reality, have not yet been paid by the Company. Management has elected not to discount the reserves for anticipated investment income.

Activity in the reserve for loss and loss adjustment expenses account is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance at January 1	\$ 3,591,000	\$ 2,495,000
Incurred related to:		
Current year	1,735,500	1,392,500
Prior years	<u>(65,561)</u>	<u>658,558</u>
Total incurred	<u>1,669,939</u>	<u>2,051,058</u>
Net paid	<u>1,305,939</u>	<u>955,058</u>
Balance at December 31	<u>\$ 3,955,000</u>	<u>\$ 3,591,000</u>

As a result of changes in estimates of incurred events in prior years, the provision for losses changed by \$(65,561) and \$658,558 for the years ended December 31, 2019 and 2018 due to (higher) lower than anticipated losses on the development of claims.

The Company's reserve estimates are based on loss experience and exposure data and have assumed future development of incurred and paid losses can be reasonably predicted on the basis of development of such losses in the recent past.

The Company compiles and aggregates its claims data by grouping the claims according to the year in which the claim occurred ("accident year") when analyzing claim payment and emergence patterns and trends over time. It has been assumed that costs associated with liability claims and claim size are increasing by 2.0% annually. For the purposes of defining claims frequency, the number of reported claims includes any claim that has case reserves and/or loss and LAE payments associated with them. The Company has assumed that the average frequency of claims stays constant.

PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

The Company analyzed the usefulness of disaggregation of its results and determined the characteristics associated with the policies and the related unpaid loss reserves, incurred losses, and payment patterns are similar in nature. The following tables show the Company's historical incurred and cumulative paid losses and LAE development, net of reinsurance, (liability and property combined) as well as IBNR loss reserves and the number of reported claims on an aggregated basis as of December 31, 2019 for each of the previous 10 accident years:

Incurred Losses and LAE, Net of Reinsurance											2019	
Years Ended December 31,												
Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)	2018 (1)	2019	IBNR	Cumulative number of reported claims
(in thousands, except claims counts)												
2010	\$ 259.7	\$ 460.7	\$ 256.0	\$ 288.4	\$ 274.1	\$ 273.7	\$ 252.5	\$ 196.2	\$ 186.2	\$ 186.2	\$ -	4
2011		276.9	420.0	74.4	274.1	273.7	252.5	196.2	186.2	170.5	-	4
2012			314.5	211.7	131.0	97.8	93.5	92.9	213.9	50.0	-	2
2013				270.5	193.3	73.8	54.6	54.8	51.5	422.4	-	-
2014					284.9	291.5	558.7	355.6	531.3	360.4	16.0	2
2015						804.0	435.5	402.7	394.3	1,286.6	39.4	5
2016							582.8	1,398.2	1,426.3	1,222.6	148.5	6
2017								818.7	1,307.9	883.5	168.8	6
2018									1,207.6	2,306.9	978.5	1
2019										860.9	560.9	2
Total										\$ 7,750.0		

Cumulative Paid Losses and LAE, Net of Reinsurance										
Years Ended December 31,										
Accident Year	2010 (1)	2011 (1)	2012 (1)	2013 (1)	2014 (1)	2015 (1)	2016 (1)	2017 (1)	2018 (1)	2019
(in thousands)										
2010	\$ -	\$ 50.0	\$ 50.0	\$ 50.0	\$ 50.0	\$ 86.2	\$ 86.2	\$ 88.6	\$ 88.6	\$ 186.2
2011		100.0	100.0	100.0	140.0	140.0	140.0	140.0	140.0	170.5
2012			-	-	-	50.0	50.0	50.0	50.0	50.0
2013				-	50.0	50.0	50.0	50.0	50.0	422.4
2014					-	73.7	73.7	417.9	417.9	310.5
2015						-	50.0	245.2	245.2	1,167.1
2016							50.0	200.0	1,177.3	600.0
2017									600.0	714.7
2018										173.6
2019										-
Total										3,795.0
All outstanding liabilities for unpaid losses and LAE prior to 2010, net of reinsurance										-
Total outstanding liabilities for unpaid losses and LAE, net of reinsurance										\$ 3,955.0

(1) Data presented for these calendar years is considered to be supplementary information, which is unaudited.

The following table presents the average percentage payout of incurred claims by age, net of reinsurance, as of December 31, 2019 and is presented as required supplementary information, which is unaudited:

**PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 - RESERVE FOR LOSS AND LOSS ADJUSTMENT EXPENSES (continued):

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
6.3%	16.7%	13.5%	24.5%	11.9%	-2.1%	25.8%	0.4%	8.9%	52.4%

The following table represents a reconciliation of claims development to the aggregate carrying amount of the liability for unpaid losses and LAE:

Liabilities for unpaid losses and LAE, net of reinsurance	\$ 3,955.0
Reinsurance recoverable on unpaid losses	-
Unallocated LAE	-
Total liability for unpaid losses and LAE	<u><u>\$ 3,955.0</u></u>

NOTE 8 - SURPLUS CONTRIBUTION:

The following is a summary of the surplus contributed to the Company from POOL pursuant to authorization by the Executive Committee of POOL:

Years	Surplus POOL Contribution
2004	\$ 1,000,000
2005	-
2006	-
2007	2,000,000
2008	3,800,000
2009	908,416
2010	4,265,924
2011	3,276,619
2012	1,237,581
2013	1,500,000
2014	-
2015	876,123
2016	612,600
2017	10,000,000
2018	-
2019	-
Total	<u><u>\$ 29,477,263</u></u>

NRS 694C.250 requires a pure captive to maintain capital of not less than \$200,000, the Company is in compliance with this requirement as of December 31, 2019 and 2018.

PUBLIC RISK MUTUAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - RELATED PARTIES:

All premiums and surplus contributions are made by POOL and all claims activity is attributable to the quota share reinsurance agreement with POOL.

Public Risk Mutual has entered into a management services agreement with Nevada Risk Pooling, Inc. to provide captive management for the day to day operations of PRM for a five year period from July 1, 2019 to June 30, 2024. The cost of the initial base year is \$75,000 with annual increases of 3% each succeeding year.

NOTE 10 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through March 11, 2020, which is the date the financial statements were available to be issued.

Casey Neilson, Inc.
Accountants and Advisors

**REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
NEVADA ADMINISTRATIVE CODE 694C.210**

To the Board of Directors
Public Risk Mutual

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Public Risk Mutual, which comprise the balance sheet as of December 31, 2019, and the related statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2020.

In planning and performing our audit of the GAAP basis financial statements of Public Risk Mutual as of and for the years ended December 31, 2019 in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Risk Mutual's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, detected or corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In connection with our audit, nothing came to our attention that caused us to believe that Public Risk Mutual failed to comply with the terms, covenants, provisions, or conditions of their bylaws, articles of incorporation, or business plan, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Company's noncompliance with the above-referenced terms, insofar as they relate to accounting matters

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



Carson City, Nevada
March 11, 2020

NEVADA PUBLIC AGENCY INSURANCE POOL

INVESTMENT GUIDELINES

1. Scope

This investment policy applies to all financial assets of the POOL. These funds are accounted for in the POOL's annual financial report.

2. Statement of Purpose

- A. Safety of principal is an important objective of the investment program. To ensure that investment of funds is accomplished in a safe and secure manner, particularly with respect to limiting the exposure of the POOL to unnecessary risk, investments shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, diversification is required in accordance with these guidelines.
- B. To provide adequate liquidity to meet all operating obligations which reasonably may be anticipated.
- C. To structure an investment portfolio which is designed to attain a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and cash flow characteristics of the portfolio. A balanced return of current income and modest growth of principal is an important objective. In addition, a related objective is to achieve returns in excess of the rate of inflation over the investment horizon in order to preserve the purchasing power of POOL.
- D. To assure that the investment allocation does not impair the maintenance of capital in accordance with the POOL Capitalization Policy Statement.

3. Investment Strategy

- A. POOL generally will adhere to the concept of matching amounts and maturities to uses of funds.
- B. Investment officers acting in accordance with written procedures and exercising due diligence will not have personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investment officials will adhere to the Prudent Investor Rules that state that a fiduciary must:

- 1. Make investment and management decisions with respect to individual assets in the context of the investment portfolio as a whole and as part of an overall investment strategy, not in isolation.
- 2. Adhere to fundamental fiduciary duties of loyalty, impartiality, and prudence.
- 3. Maintain overall portfolio risk at a reasonable level. That is, risk and return objectives must be reasonable and suitable to the portfolio. The tradeoff between risk and return is the fiduciary's central concern.
- 4. Provide for the reasonable diversification of investments.

5. Act with prudence in deciding whether and how to delegate authority to experts and in selecting supervising agents. Be cost conscious when investing. The fiduciary should incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the fiduciary.

C. Investment strategy will facilitate an appropriate balance of these investment objectives:

- 1) capital preservation;
- 2) diversification among types of investments, issuers and credit ratings; and
- 3) allocation of investments in a manner consistent with principles of prudent investment management;
- 4) liquidity to meet operating obligations.

D. The investment strategy will conform to state statutes governing investment of public funds per NRS 377.170 & 377.171.

4. Investment Risk

A. It is the policy of the POOL that safety of principal is an important objective of the investment program and seeks to mitigate risks to the extent possible. Four types are recognized:

1. Credit Risk - is the risk that the issuer of a security will default on the principal and interest. POOL will not assume significant credit risk in an attempt to enhance return. Acceptable credit ratings for securities shall be AAA, AA, or A as rated by a Nationally Recognized Statistically Rating Organization ("NRSRO") pursuant to statutory limitations. In addition, POOL will diversify the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

2. Liquidity Risk - is the risk that an investment may not be converted into cash if a need for cash arises. POOL will minimize liquidity risk to the extent possible through planning investment maturities to ensure that funds are available to meet cash flow needs (static liquidity) and maintain a portion of the funds in money market mutual funds which offer same-day liquidity for short-term funds. In addition, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

3. Maturity Risk - is the risk that an investment may yield poor results if the length of maturity or maturity structure is inappropriate for the market conditions. The POOL will minimize this risk by actively managing the maturity structure to enable holding securities to maturity unless 1) the security has declining credit and needs to be sold early to minimize loss of principal, 2) a security swap would improve the quality, yield or target duration of the portfolio, or 3) liquidity needs of the portfolio require that the security be sold.

4. Market Risk - arises from the change in the value of the investment as economic conditions and interest rates change. POOL will, to the extent possible, minimize market risk by matching investments with its liabilities, making it possible to hold investments to maturity if appropriate. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles consistent with investment risk constraints and liquidity needs.

5. Investment Responsibility

- A. Investment authority for POOL rests with the Board of Directors. This authority may be delegated to the Executive Committee and the Executive Director.
- B. The Board of Directors may contract with investment advisor(s) to advise and manage the POOL's investments. Such advisor(s) shall provide a comprehensive report at least annually to the Board of Directors or its designee of all transactions and the investment performance of funds under management. The report shall suggest changes in policies or improvements that might be made in the investment program.
- C. The Executive Director will manage all investment activity as closely as is practicable. The Executive Director will make day-to-day investments. In all cases, the Executive Director will:
 - 1. Ensure that all investments are made in accordance with POOL policies;
 - 2. Make recommendations to the Board of Directors concerning investment policy and strategy;
 - 3. Inventory all securities held by POOL (This shall be done in conjunction with the annual CPA audit);
 - 4. Provide quarterly reports to the Executive Committee and annually reports to the Board of Directors of all investment activity. The reports shall include a listing of all securities bought, sold and matured. The reports will also include a status of all investments held;
 - 5. The Board of Directors will review the investment report, and shall make the review a matter of record in the minutes;
 - 6. The Board of Directors may appoint a Fiscal Officer. The Fiscal Officer will, at the direction of the Board of Directors, make investments and execute transactions in cooperation with the Executive Director.
 - 7. Officers, the Executive Director and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Such persons shall disclose to the Executive Director or to the Chairman of the Board any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the POOL.
 - 8. The Board of Directors will review this investment policy and the asset allocation, diversification and risks at least annually and at any other time as needed to fulfill its fiduciary responsibility.

6. Authorized Investments

- A. The following types of securities are eligible investments subject to asset allocation:
 - 1) U.S. Treasury Securities;

- 2) Federal Agency Securities;
- 3) Federal Funds;
- 4) Bank Certificates of Deposit insured;
- 5) Savings and Loan Certificates of Deposit insured;
- 6) Repurchase Agreements;
- 7) Money Market Mutual Funds
- 8) U.S. Corporate Bonds (rated A or better; maturity not more than 5 years)
- 9) Such other securities as authorized under Nevada laws applicable to the POOL.

Not more than ten percent (10%) of the fixed income portfolio should be to any one issuer, other than securities of the U.S. government or agencies. Corporate bond allocation cannot exceed 20% of the total par value of the portfolio.

- B. A Master Repurchase Agreement must be signed with the bank or dealer.
- C. If governmental sponsored pools and/or mutual funds are to be utilized, a thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The following general information must be addressed:
1. A description of the eligible investment securities, and a written statement of investment policy and objectives
 2. A description of interest calculations and how its is distributed, and how gains and losses are treated.
 3. A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
 4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
 5. A schedule for receiving statements and portfolio listings.
 6. A statement regarding utilization by the pool/funds of reserves or retained earnings.
 7. A fee schedule and when and how it is assessed.
 8. A statement regarding whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

7. Authorized Financial Dealers and Institutions

The Executive Director will maintain a list of financial institutions authorized by the Board or the Executive Committee to provide investment services. No public deposit shall be made except in a qualified public depository as established by Nevada law. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Executive Director with the following evidence of qualifications:

- a. audited financial statements
- b. proof of National Association of Security Dealers certification
- c. trading resolution
- d. proof of Nevada registration
- e. completed broker/dealer questionnaire
- f. certification as having read the POOL's Investment Guidelines and depository contracts

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Fiscal Officer. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the POOL invests.

8. Investment Guidelines and Limitations

- A. Diversity. There will be sufficient diversity in the authorized instruments to allow for variety in the makeup of the portfolio. The Board of Directors will review investment activity reports to assure appropriate diversity exists. The POOL will diversify its investments by maturity, security type and issuer. Maturities selected shall provide for stability of income and reasonable liquidity. For cash management funds, the following guidelines shall apply: Liquidity shall be assured through practices ensuring that the next disbursement date is covered through maturing investments or marketable U.S. Treasury bills
- Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.
- B. Maximum Duration. To the extent possible, the POOL will attempt to match its investments with anticipated cash flow requirements. The Pool will not directly invest in securities that have a weighted average life of more than ten (10) years from the date of purchase, except as permitted by law. The average duration of the portfolio will not exceed +/- 20% of the benchmark duration.
- C. Return on Investment. The POOL's investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the POOL's investment risk constraints and the cash flow characteristics of the portfolio.
- D. Performance Standards. The investment portfolio results will be compared to reasonably comparable indexes reflective of the investment goals listed below:
1. Goal - to outperform over a 4-5 year period the risk free return from short-term U.S. Treasury bills by at least 100 to 200 basis points per year.
 2. Goal - to outperform the Consumer Price Index over a 4 to 5 year period by at least 200 basis points per year.
 3. Goal - to perform in line with the iShares Lehman 1-3 Year Treasury Bond Fund (currently trading as SHY) over a 4 to 5 year period.

E. After consultation with the investment advisor(s), periodic variance waivers may be granted by the Chief Operations Officer or Chief Financial Officer with the concurrence of the Executive Director for allocation percentage and credit rating variances. The POOL Executive Committee will be notified of any waiver(s) granted at the next regular meeting.

Formatted: Font: 11.5 pt

Formatted: Tab stops: Not at 0.81"

9. Safekeeping and Custody

Securities purchased by the POOL will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of POOL. If securities are purchased

from outside dealers, then trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

The Executive Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Audit Committee and with the independent auditor. The controls shall be designed to prevent the loss of POOL funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees, service providers and officers of POOL.

10. Collateralization

Collateralization will be required on two types of investments: certificates of deposit in excess of current FDIC insurance limits and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

Collateral always will be held by an independent third party with which the POOL has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the POOL and retained.

The right of collateral substitution is granted.

11. Selection and Performance Review of Investment Managers

The POOL Board of Directors will select appropriate investment managers to manage POOL assets. A qualifying investment manager must meet the following minimum criteria:

- Be a registered investment advisor under the Registered Investment Advisors Act of 1940 or be a bank, insurance company or investment management company.
- Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel.
- Clearly articulate the investment strategy that will be followed and document that the strategy successfully has been adhered to over time.
- Have no outstanding legal judgments or past judgments that may reflect negatively on the firm.
- Provide in writing acknowledgement of fiduciary responsibility to POOL Board.

The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration will be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this investment policy statement.

The Board of Directors intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason, including the following:

- Investment performance that significantly is less than anticipated given the discipline employed and the risk parameters established or unacceptable justification of poor results.
- Failure to adhere to any aspect of this investment policy statement including communication and reporting requirements.’
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

12. Reporting

The Executive Director will include a market report on investment activity and returns in the POOL's Financial Report, which will be distributed quarterly to the Executive Committee and at each Board meeting.

12. Investment Policy Adoption

The POOL's investment policy will be adopted by the Board of Directors. The policy will be reviewed on an annual basis by the Executive Committee and any modifications made thereto must be approved by the Board.

Adopted 9/91
Revised 10/95
Revised 4/98
Revised 5/1/2000
Revised 9/13/2006
Revised 5/1/2009
Revised 5/1/2015
Revised 2-23-2018

PUBLIC AGENCY COMPENSATION TRUST

INVESTMENT GUIDELINES

1. Scope

This investment policy applies to all financial assets of PACT. These funds are accounted for in PACT's annual financial report.

2. Statement of Purpose

- A. Safety of principal is an important objective of the investment program. To ensure that investment of funds is accomplished in a safe and secure manner, particularly with respect to limiting the exposure of the PACT to unnecessary risk investments shall be undertaken in a manner that seeks to ensure the preservation of capital. To attain this objective, diversification is required in accordance with these guidelines.
- B. To provide adequate liquidity to meet all operating obligations which reasonably may be anticipated.
- C. To structure an investment portfolio which is designed to attain a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints and cash flow characteristics of the portfolio. A balanced return of current income and modest growth of principal is an important objective. In addition, a related objective is to achieve returns in excess of the rate of inflation over the investment horizon in order to preserve the purchasing power of PACT.
- D. To assure that the investment allocation does not impair the maintenance of capital in accordance with the PACT Capitalization Policy Statement.

3. Investment Strategy

- A. PACT generally will adhere to the concept of matching amounts and maturities to uses of funds.
- B. Investment officers acting in accordance with written procedures and exercising due diligence will not have personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

Investment officials will adhere to the Prudent Investor Rules that state that a fiduciary must:

- 1. Make investment and management decisions with respect to individual assets in the context of the investment portfolio as a whole and as part of an overall investment strategy, not in isolation.
- 2. Adhere to fundamental fiduciary duties of loyalty, impartiality, and prudence.
- 3. Maintain overall portfolio risk at a reasonable level. That is, risk and return objectives must be reasonable and suitable to the portfolio. The tradeoff between risk and return is the fiduciary's central concern.
- 4. Provide for the reasonable diversification of investments.
- 5. Act with prudence in deciding whether and how to delegate authority to experts and in selecting supervising agents. Be cost conscious when investing. The fiduciary should incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the fiduciary.

C. Investment strategy will facilitate an appropriate balance of these investment objectives:

- 1) capital preservation;
- 2) diversification among types of investments, issuers and credit ratings; and
- 3) allocation of investments in a manner consistent with principles of prudent investment management; and
- 4) liquidity to meet operating obligations.

D. The investment strategy will conform to state statutes governing investment of public funds per NRS 355.170 & 355.171.

4. Investment Risk

- A. It is the policy of PACT that safety of principal is an important objective of the investment program and seeks to mitigate to mitigate risks to the extent possible. Four types are recognized:
1. Credit Risk - is the risk that the issuer of a security will default on the principal and interest. PACT will not assume significant credit risk in an attempt to enhance return. Acceptable credit ratings for securities shall be AAA, AA, or A as rated by a Nationally Recognized Statistically Rating Organization ("NRSRO") pursuant to statutory limitations. In addition, PACT will diversify the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.
 2. Liquidity Risk - is the risk that an investment may not be converted into cash if a need for cash arises. PACT will minimize liquidity risk to the extent possible through planning investment maturities to ensure that funds are available to meet cash flow needs (static liquidity) and maintain a portion of the funds in money market mutual funds which offer same-day liquidity for short-term funds. In addition, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).
 3. Maturity Risk - is the risk that an investment may yield poor results if the length of maturity or maturity structure is inappropriate for the market conditions. The PACT will minimize this risk by actively managing the maturity structure to enable holding securities to maturity unless 1) the security has declining credit and needs to be sold early to minimize loss of principal, 2) a security swap would improve the quality, yield or target duration of the portfolio, or 3) liquidity needs of the portfolio require that the security be sold.
 4. Market Risk - arises from the change in the value of the investment as economic conditions and interest rates change. PACT will, to the extent possible, minimize market risk by matching investments with its liabilities, making it possible to hold investments to maturity if appropriate. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles consistent with investment risk constraints and liquidity needs.

5. Investment Responsibility

- A. Investment authority for PACT rests with the Board of Trustees. This authority may be delegated to the Executive Committee and the Executive Director.
- B. The Board of Trustees may contract with investment advisor(s) to advise and manage the PACT's investments. Such advisor(s) shall provide a comprehensive report at least annually to the Board of Directors or its designee of all transactions and the investment performance of funds under management. The report shall suggest changes in policies or improvements that might be made in the investment program.

C. The Executive Director will manage all investment activity as closely as is practicable. The Executive Director will make day-to-day investments. In all cases, the Executive Director will:

1. Ensure that all investments are made in accordance with PACT policies;
2. Make recommendations to the Board of Trustees concerning investment policy and strategy;
3. Inventory all securities held by PACT (This shall be done in conjunction with the annual CPA audit);
4. Provide quarterly reports to the Executive Committee and annually to the Board of Trustees of all investment activity. The report shall include a listing of all securities bought, sold and matured. The report will also include a status of all investments held;
5. The Board of Trustees will review the investment report, and shall make the review a matter of record in the minutes;
6. The Board of Trustees may appoint a Fiscal Officer. The Fiscal Officer will, at the direction of the Board of Trustees, make investments and execute transactions in cooperation with the Executive Director.
7. Officers, the Executive Director and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions. Such persons shall disclose to the Executive Director or to the Chairman of the Board any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the PACT.
8. The Board of Directors will review this investment policy and the asset allocation, diversification and risks at least annually and at any other time as needed to fulfill its fiduciary responsibility.

6. Authorized Investments

A. The following types of securities are eligible investments subject to asset allocation:

- 1) U.S. Treasury Securities;
- 2) Federal Agency Securities;
- 3) Federal Funds;
- 4) Bank Certificates of Deposit insured ;
- 5) Savings and Loan Certificates of Deposit insured ;
- 6) Repurchase Agreements;
- 7) Money Market Mutual Funds
- 8) U.S. Corporate Bonds (rated A or better; maturity not more than 5 years)
- 9) Such other securities as authorized under Nevada laws applicable to the PACT.

Not more than ten percent (10%) of the fixed income portfolio should be to any one issuer, other than securities of the U.S. government or agencies. Corporate bond allocation cannot exceed 20% of the total par value of the portfolio.

B. A Master Repurchase Agreement must be signed with the bank or dealer.

C. If governmental sponsored pools and/or mutual funds are to be utilized, a thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The following general information must be addressed:

1. A description of the eligible investment securities, and a written statement of investment policy and objectives
2. A description of interest calculations and how its is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes) and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. A statement regarding utilization by the pool/funds of reserves or retained earnings.
7. A fee schedule and when and how it is assessed.
8. A statement regarding whether the pool/fund is eligible for bond proceeds and/or whether it will accept such proceeds.

7. Authorized Financial Dealers and Institutions

The Executive Director will maintain a list of financial institutions authorized by the Board or the Executive Committee to provide investment services. No public deposit shall be made except in a qualified public depository as established by Nevada law. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Executive Director with the following evidence of qualifications:

- a. audited financial statements
- b. proof of National Association of Security Dealers certification
- c. trading resolution
- d. proof of Nevada registration
- e. completed broker/dealer questionnaire
- f. certification as having read the PACT's Investment Guidelines and depository contracts

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Executive Director. A current audited financial statement is required to be on file for each financial institution and broker/dealer in which the PACT invests.

8. Investment Guidelines and Limitations

A. Diversity. There will be sufficient diversity in the authorized instruments to allow for variety in the makeup of the portfolio. The Board of Trustees will review investment activity reports to assure appropriate diversity exists. PACT will diversify its investments by maturity, security type and issuer. Maturities selected shall provide for stability of income and reasonable liquidity. For cash management funds, the following guidelines shall apply: Liquidity shall be assured through practices ensuring that the next disbursement date is covered through maturing investments or marketable U.S. Treasury bills

Risks of market price volatility shall be controlled through maturity diversification such that aggregate price losses on instruments with maturities exceeding one year shall not be greater than coupon interest and investment income received from the balance of the portfolio.

B. Maximum Duration. To the extent possible, the PACT will attempt to match its investments with anticipated cash flow requirements. The PACT will not directly invest in securities that have a weighted average life of more than ten (10) years from the date of purchase, except as permitted by law. The average duration of the portfolio will not exceed +/- 20% of the benchmark duration.

C. Return on Investment. The PACT's investment portfolio will be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the PACT's investment risk constraints and the cash flow characteristics of the portfolio.

D. Performance Standards. The investment portfolio results will be compared to reasonably comparable indexes reflective of the investment goals listed below:

1. Goal - to outperform over a 4-5 year period the risk free return from short-term U.S. Treasury bills by at least 100 to 200 basis points per year.
2. Goal - to outperform the Consumer Price Index over a 4 to 5 year period by at least 200 basis points per year.
3. Goal - to perform in line with the iShares Lehman 1-3 Year Treasury Bond Fund (currently trading as SHY) over a 4 to 5 year period.

E. After consultation with the investment advisor(s), periodic variance waivers may be granted by the Chief Operations Officer or Chief Financial Officer with the concurrence of the Executive Director for allocation percentage and credit rating variances. The PACT Executive Committee will be notified of any waiver(s) granted at the next regular meeting.

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: A, B, C, ... + Start at: 5 + Alignment: Left + Aligned at: 0.5" + Indent at: 0.75", Tab stops: Not at

Formatted: Font: (Default) Calibri

Formatted: Font: 11 pt

9. Safekeeping and Custody

Securities purchased by the PACT will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of PACT. If securities are purchased from outside dealers, then trades will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

The Executive Director shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Audit Committee and with the independent auditor. The controls shall be designed to prevent the loss of PACT funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by employees, service providers and officers of PACT.

10. Collateralization

Collateralization will be required on two types of investments: certificates of deposit in excess of current FDIC insurance limits and repurchase (and reverse) agreements. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest.

Collateral always will be held by an independent third party with which the PACT has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the PACT and retained.

The right of collateral substitution is granted.

11. Selection and Performance Review of Investment Managers

The PACT Board of Directors will select appropriate investment managers to manage PACT assets. A qualifying investment manager must meet the following minimum criteria:

- Be a registered investment advisor under the Registered Investment Advisors Act of 1940 or be a bank, insurance company or investment management company.

- Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule and support personnel.
- Clearly articulate the investment strategy that will be followed and document that the strategy successfully has been adhered to over time.
- Have no outstanding legal judgments or past judgments that may reflect negatively on the firm.
- Provide in writing acknowledgement of fiduciary responsibility to PACT.

The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration will be given to the extent to which the investment results are consistent with the investment objectives, goals and guidelines as set forth in this investment policy statement.

The Board of Directors intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason, including the following:

- Investment performance that significantly is less than anticipated given the discipline employed and the risk parameters established or unacceptable justification of poor results.
- Failure to adhere to any aspect of this investment policy statement including communication and reporting requirements.'
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

12. Reporting

The Executive Director will include a market report on investment activity and returns in the PACT's Financial Report, which will be distributed quarterly to the Executive Committee and at each Board meeting.

13. Investment Policy Adoption

The PACT's investment policy will be adopted by the Board of Trustees. The policy will be reviewed on an annual basis by the Executive Committee and any modifications made thereto must be approved by the Board.

Adopted 9/91
 Revised 10/95
 Revised 4/98
 Revised 5/1/2000
 Revised 9/13/2006
 Revised 5/1/2009
 Revised 5/1/2015
 Revised 2/23/2018

PACT BUDGET 2020-2021

Presented at Executive Committee March 11 & April 6 To Be Adopted at Annual Meeting April 17, 2020	FY 2020- 2021 Budget	% of Total Revenues	Notes
Revenues			
Assessments	\$ 15,165,746	85.2%	Overall 8.3% rate increase plus exposure changes
Assessments for Heart Lung	2,056,385	11.6%	Rate to Include Cardiac Wellness Program
PCM Risk Management Fee	575,000	3.2%	Fixed Amount from PCM
Total Revenues	\$ 17,797,131	100.0%	
Loss Fund & Insurance Expense			
Claims and Adjustment Expenses	\$ 7,768,000	43.6%	Actuarial amount at 70% Confidence Interval
Heart Lung Loss Reserves Expenses	2,056,385	11.6%	Includes Cardiac Wellness Program Charges
Excess Insurance Premiums	463,558	2.6%	Carrier Renewal rates plus additional exposures
Reinsurance Premium (PCM)	2,522,875	14.2%	PCM Rate at 75% CL + Admin Expenses
Total Loss Fund and Insurance Expenses	\$ 12,810,818	72.0%	
Program Expenses			
Member Education and services	\$ 699,272	3.9%	PRI, Target Solution, 24/7/365, EAP, MSDS On-line, E-learning
Loss control expenses	406,000	2.3%	Willis Loss Control Services, Inspections, trainings
Underwriting and claims processing	1,026,207	5.8%	Third Party Administrator, ASC Claims Processing
Total Program Expenses	\$ 2,131,479	12.0%	
Administration Expenses			
Management Services	\$ 698,625	3.9%	Nevada Risk Pooling Management Team
Professional Fees	112,819	0.6%	Independent Audit, Payroll Audits
Administrative and Overhead	689,242	3.9%	Rent, Utilities, Copier, Phone, Training, Technology, Support
Insurance Division Fees	759,338	4.3%	State of Nevada mandated fees
Nevada Insolvency Fund and related expenses	20,900	0.1%	State of Nevada mandated fees
Total Administrative Expenses	\$ 2,280,925	12.8%	
Operating Income (Loss)	\$ 573,910	3.2%	Thin margins to mitigate rate increase to membership
Investment Income	1,254,950	7.1%	Earnings from Investment Portfolio managed by NEAM, SAA
Net Gain (Loss)	\$ 1,828,860	10.3%	
Net Gain (Loss) After Loss Control Grants	\$ 1,328,860		
Other Expenses: Loss Control Grants: Paid from Surplus	\$ 500,000		Loss Control Grants Approved by Loss Control Committee

PACT

\$ 38,740,561.40 \$ 387,405.61 \$ 112,594.39 **15,166,836** 15,925,178 \$ 2,128,358.43

	FY 2016 Audit	FY 2017 Audit	FY 2018 Audit	FY 2019 Audit	FY 2020 Board Approved Budget	FY 2021 Board Proposed Budget			\$ Change	% Change	Notes
						Option 1	Option 2	Option 3			
						70% CL	Hybrid: Cost +5% Flat Rate	75% CL			
REVENUES											
Assessments	\$ 13,655,893	\$ 13,036,187	\$ 10,083,799	\$ 11,792,275	\$ 13,574,420	\$ 15,166,836	\$ 15,925,178	\$ 15,455,836	\$ 1,592,416	11.7%	Fixed Dollar Amount to support Risk Management Services Same Rate +4% payroll increase +\$500,000 Cardiac Wellness
PCM Investment in Risk Mitigation Services				575,000	575,000	575,000	575,000	\$ -			
Heart Lung Fund	2,682,092	2,113,595	1,104,106	1,109,118	1,496,524	2,056,385	2,128,358	\$ 559,861	37.4%		
Total Revenues	16,337,985	15,149,782	11,187,905	12,901,393	15,645,944	17,798,221	18,556,563	18,159,195	2,152,277	13.8%	
Loss Fund and Insurance Expense											
Claims and Adjustment Expenses	5,843,507	6,257,686	6,431,493	8,822,730	6,285,000	7,768,000	7,768,000	8,057,000	1,483,000	23.6%	70% CL No Discounting Rate for Earnings
Heart Lung Loss Reserves Expenses	2,784,477	2,305,819	1,450,372	1,506,637	2,006,637	2,056,385	2,056,385	2,128,358	49,748	2.5%	HL Collections Plus C. Wellnes Cost from SpecHealth
Excess Insurance Premiums	414,360	524,612	526,516	537,133	462,468	463,558	463,558	463,558	1,090	0.2%	CL/Safety National Renewal Updated Quote
Reinsurance Premium (PCM)	1,207,000	1,246,065	1,931,416	1,607,000	2,237,200	2,522,875	2,522,875	285,675	12.8%	75% CL Plus PCM Admin Cost Allocation	
Total Loss Fund and Insurance Expenses	10,249,344	10,334,182	10,339,797	12,473,500	10,991,305	12,810,818	12,810,818	13,171,791	1,819,513	16.6%	
Program Expenses											
Member Education and services	729,656	578,476	629,804	652,803	704,300	699,272	699,272	699,272	(5,028)	-0.7%	PACT to paid for all expenses directly
Loss control expenses	406,000	406,000	406,000	406,000	406,000	406,000	406,000	406,000	-	0.0%	Willis Agreement
Risk Management grants	117,460	657,230	186,174	314,076	500,000	500,000	500,000	500,000	-	0.0%	Board Policy: LCC Monitor Amounts
Underwriting and claims processing	745,539	846,380	863,769	1,011,041	885,363	1,026,207	1,026,207	1,026,207	140,844	15.9%	ASC, SH, Willis (FY 19 + 1.5%)
Total Program Expenses	1,998,655	2,488,086	2,085,747	2,383,920	2,495,663	2,631,479	2,631,479	2,631,479	135,816	5.7%	
Administration Expenses											
Management Services	475,860	490,136	513,174	821,488	675,000	698,625	698,625	698,625	23,625	3.5%	Executive Committee Recommended Rate
Professional Fees	95,181	110,534	110,407	107,961	112,819	112,819	112,819	112,819	0	0.0%	FY 19A + 4.5%
Administrative and Overhead	470,045	597,859	659,562	984,475	689,242	689,242	689,242	689,242	0	0.0%	FY 18A + 4.5%
Insurance Division Fees	303,645	453,233	484,186	696,933	515,658	759,338	759,338	759,338	243,680	47.3%	Reg Assessment for FY 20A +2.5% increase FY 20B understated
Nevada Insolvency Fund and related expenses	16,754	19,500	19,000	20,000	19,855	20,900	20,900	20,900	1,045	5.3%	FY 19 + 4.5%
Amortization expenses	2,769,879	3,212,594	4,473,428	4,321,761	3,835,096	-	-	-	-	0.0%	Eliminated Transfer Amortization
Total Administration Expenses	4,131,364	4,883,856	6,259,757	6,952,618	5,847,670	2,280,925	2,280,925	2,280,925	268,351	4.6%	
Total Loss Fund, Insurance, Program and Administration	16,379,363	17,706,124	18,685,301	21,810,038	19,334,638	17,723,221	17,723,221	18,084,195	2,223,679	10.2%	
Increase (Decrease) in operating Net Position	(41,378)	(2,556,342)	(7,497,396)	(8,908,645)	(3,688,694)	75,000	833,342	75,000	(71,402)	0.8%	
Non-operating net investment income	2,170,922	(574,816)	82,932	2,989,380	1,369,121	1,254,950	1,254,950	1,254,950			Kelly's Book Income @ 95% Does not reflect unrealized G/L
Increase (Decrease) in Net Position	\$ 2,129,544	\$ (3,131,158)	\$ (7,414,464)	\$ (5,919,265)	\$ (2,319,573)	\$ 1,329,950	\$ 2,088,292	\$ 1,329,950			
Net Position, beginning of year	\$ 47,790,198	\$ 49,919,742	\$ 25,159,424	\$ 17,744,960	\$ 11,825,695	\$ 11,825,695	\$ 11,825,695	\$ 11,825,695			
Net Position, end of year	\$ 49,919,742	\$ 46,788,584	\$ 17,744,960	\$ 11,825,695	\$ 9,506,122	\$ 13,155,645	\$ 13,913,987	\$ 13,155,645			

17.32% Option 2
13.86% Option 3

Adjustments:										
Amortization expenses (Non-cash item)	2,769,879	3,212,594	4,473,428	4,321,761	-	-	-	-	-	-
Net Change in Operating NP before Investment Income	2,728,501	656,252	(3,023,968)	(4,586,884)	75,000	833,342	75,000			
Net Change in Operating NP after Investment Income	4,899,423	81,436	(2,941,036)	(1,597,504)	1,329,950	2,088,292	1,329,950			

\$ **7,398,836.25**
Overhead Allocation less Amortization 46.5%
Expense Gross up % for renewal and rates 53.5%

Budgetary Issues to Consider:

- Heart Lung Cardiac Wellness Cost (Speciality Health) blend cost into HL Contribution/Rate: \$500,000 ADDED TO HL RATE AND PAID FROM MEMBER HL CONTRIBUTIONS
- PACT pays all Members Services Cost: PCM paid PACT flat rate for Risk Management Services as approved by Boards. EXECUTIVE COMMITTEE AGREED TO \$575,000 FOR RISK MANAGEMENT SERVICES
- Underwriting : Actuarial Work: Confidence Level, Rate Making to include all program costs: OPTION 1 @ 70% CL NO DISCOUNTING
- Other Items From Board Members

PACT/PCM Renewal Options to Consider
2020-2021
March 27, 2020

PACT Options

1. Increase PACT's Loss Fund Contribution from 70% Confidence Level to 75% Confidence Level for Worker's Compensation Coverage. **Fiscal Impact:** = +\$289,000

Discussion: The PACT has been using the 70% Confidence Level (Marginally Acceptable) from the Bickmore Actuarial Reports. This means that 70% of the time, it will result in adequate funding and 30% of the time it would be underfunded. To improve underwriting reserves, an increase to 75% CL would provide additional funds to pay claims. The Worker's Compensation Funding would increase to \$8,057,000 from \$7,768,000 or \$289,000 more to move to the 75% CL. Note that the increase from the current year 70% CL to FY 21 70% CL is \$1,483,000. No discounting in the actuarial numbers.

Recommendation: Not Recommended to increase Confidence Level at this time.

Board Direction:

Reinsurance Options / PCM

2. Keep 75% Confidence Level at PCM **Fiscal Impact:** =
WC Rates Only 70% \$2,382,500 75% \$2,519,500 Difference \$137,000

Discussion: The higher the confidence level the more likely the reserve is adequate to for the actual claim results. A higher CL could result in an Underwriting Gain. Lower rate could result in an Underwriting Loss for the year. As noted by our Auditor, we have experienced underwriting losses in some of the previous years. FY 20 75% CL was \$1,980,000 compared to \$2,261,000 in FY 21 and increase of \$281,000.

Recommendation: 75% Confidence Level. It is a difficult to cut the Confidence Level during a period of time where claims are hitting the PCM level.

Board Direction:

Cost Allocation Options

3. PCM Administration Cost Allocation to PACT **Fiscal Impact:** \$261,875

Discussion: PCM administrative expenses include: management, actuary, and audit fees and meeting expenses. This is an increase of \$4,675 from the prior year. This amount has been included in the PCM Quote as required.

Recommendation: Apportion the administrative expenses of PCM to the renewal quotes given to PACT.

Board Direction:

4. Cardiac Wellness / Specialty Health Non-Apportion Cost **Fiscal Impact:** \$500,000
PACT Revenue in Heart Lung Fund: Expense in Member education and services.

Discussion: PACT has supported the Specialty Health Cardiac Wellness program for many years. From the pilot project in Churchill County to a membership wide program, this program has been successful in identifying Police/Fire Members who are at high risk for a heart/lung medical issue. The goal is to prevent heart attacks, strokes and lung disease with advanced medical testing and risk management programs. Historically, these program costs have been paid from surplus. Allocation to the employee classification rate would be a way to match the cost with those who benefit.

Recommendation: It is recommended to add the cardiac wellness cost into the Police/Fire Heart Lung Assessment Rate.

Board Direction:

5. NRP Cost Allocation : **Information Only**

The second year of the NRP grant has the following cost allocation for the period of 7-1-2020 to 6-30-2021: POOL = \$543,375 PACT = \$698,625 PRM = \$77,250 PCM = \$231,750. It should be noted that PRM and PCM will be prorated as it has a calendar year accounting system. (50% old rate = 50% of new rate).

POOL BUDGET 2020-2021

Presented at Executive Committee March 11 & April 6 Finalized & Adopted at Annual Meeting April 17, 2020	To Be	FY 2020- 2021 Budget	% of Total Revenues	Notes
Revenues				
Premiums Written		\$ 18,552,474	96.9%	
Other Income		\$ 121,075	0.6%	Technology reimbursement
PRM Risk Management Services Payment		\$ 475,000	2.5%	Fixed Amount from PRM
Total Revenues		\$ 19,148,549	100.0%	
Loss Fund and Insurance Expenses				
Losses and loss adjustment expenses		\$ 6,176,000	32.3%	Actuarial Amount at 70% CL
Excess Insurance Premiums		7,338,139	38.3%	Property, Liability Insurance
Special Insurance programs		505,023	2.6%	Environmental & Student Accident
Agent Commissions & Taxes Written		1,318,262	6.9%	Board Policy ... State Tax Regs
Total Loss Fund and Insurance Costs		\$ 15,337,423	80.1%	
Program Expenses				
Pooling and loss control fees		\$ 505,000	2.6%	Willis Pooling Broker & LC Services
Third party administrator fees		\$ 730,000	3.8%	Davies Claims Administration
Member education and training		\$ 1,584,148	8.3%	Members Services Dividend
Total Program Expenses		\$ 2,819,148	14.7%	
Administrative Expenses				
Management Services		\$ 543,375	2.8%	Nevada Risk Pooling Management Team
Casualty Insurance, Travel, Technology Services		183,362	1.0%	Insurance, Travel, Technology support
Operating expenses		151,178	0.8%	Copier, phones, utilities, meeting costs
Legal Expenses, Consultant appraisals		135,553	0.7%	Coverage Counsel, Asset Works Appraisals
Total pool administration expenses		\$ 1,013,468	5.3%	
Total Loss Fund, Program and Administration Expenses		\$ 19,170,039	100.1%	
Net Operating Income (Loss)		\$ (21,490)	-0.1%	
Non-Operating Investment Income		596,875	3.1%	Earnings from investment portfolio
Net Gain (Loss)		\$ 575,385	3.0%	
Net Gain (Loss) including Loss Control Grants		\$ 200,385	1.0%	Net Margin for Contingencies/Loss Development
Other Expenses: Loss Control Grants Paid From Surplus		\$ 375,000		Board Policy: \$500K less \$125K Jail Audits

Other : Building Ownership				
Rental Income		\$ 238,769		Fair Market Value of Office Rents in Carson
Total Building Income		\$ 238,769		
Building Utilities and Maintenance		98,159		Janitorial, utilities, maintenance, landscaping
Building Roof Repairs or Extraordinary Repairs		-		None anticipated in FY 2021
Depreciation		55,525		Non-cash item based on life of building
Total Building Expenses		\$ 153,684		
Net Building Income (Loss)		\$ 85,086		
Net Change in Net Position		\$ 285,471		

POOL

834,844

Approved by Board
4/17/2019

	FY 2016 Audit	FY 2017 Audit	FY 2018 Audit	FY 2019 Audit	FY 2020 Budget	FY 2021 Budget Option 1	FY 2021 Budget Option 2	FY 2021 Budget Option 3	\$ Change	% Change	Notes/Comments	
REVENUES						70% CL	75% CL Prop 70% CL Liability	75% CL: Both				8.00%
Premiums written	13,938,226	13,832,878	14,390,787	15,678,937	17,178,217	18,552,474	19,270,765	19,245,425	1,374,257	8.0%	Option 1 Has 8% Fixed Rate increase	12.18%
Rental Income	257,937	258,326	261,643	266,582	231,815	238,769	238,769	238,769	6,954	2.6%	3% Increase per contracts	12.03%
PRM Payment for Risk Management Services					475,000	475,000	475,000	475,000	-		Same as FY 19-20	
Other Income	181,366	68,324	50,174	53,460	75,000	121,075	121,075	121,075	46,075	86.2%	Technology Fee Reimbursement NRP PRI	
Total Revenues	14,377,529	14,159,528	14,702,604	15,998,979	17,960,032	19,387,319	20,105,609	20,080,269	1,427,287	8.9%		
Loss Fund and Insurance Expenses												
Losses and loss adjustment expenses	3,629,644	4,549,021	6,461,215	5,154,084	5,857,000	6,176,000	6,346,000	6,584,000	319,000	6.2%	70% CL Actuarial Number	
Excess Insurance Premiums	5,044,561	5,633,992	5,309,446	5,960,178	6,328,385	7,338,139	7,338,139	7,058,139	1,009,754	16.9%	See Excess Grid below: Pending Market	
Special Insurance programs	-	-	485,154	-	498,662	505,023	505,023	505,023	6,361	1.3%	Student Accident, Pollution Coverage	
Agent Commissions	911,271	905,483	955,653	1,024,640	1,234,969	1,298,673	1,329,399	1,346,059	63,704	6.2%	Commission Rate Remaining the Same	
Taxes written	8,248	2,166	18,443	18,656	18,000	19,589	19,589	19,589	1,589	8.5%	FY 19 + 5%	
Total Loss Fund and Insurance Costs	9,593,724	11,090,662	13,229,911	12,157,558	13,937,016	15,337,423	15,538,149	15,512,809	1,400,407	10.0%		
	6.5%	6.5%	6.6%		7.2%	7.0%	6.9%	7.0%				
Program Expenses												
Pooling and loss control fees	505,000	505,000	505,000	505,000	505,000	505,000	505,000	505,000	-	0.0%	Willis	
Third party administrator fees	652,721	659,418	710,655	726,947	730,000	730,000	730,000	730,000	-	0.0%	ASC/Davies	
Loss Control awards and grants	185,900	320,627	240,525	396,565	375,000	375,000	375,000	375,000	-	0%	\$500K lowered by \$125K Jail Audit Costs	
Member education and training	1,067,403	1,310,767	1,177,977	1,199,910	1,544,200	1,584,148	1,584,148	1,584,148	39,948	3%	See detailed list below	
Total Program Expenses	2,411,024	2,795,812	2,634,157	2,828,422	3,154,200	3,194,148	3,194,148	3,194,148	39,948	1.3%		
ADMINISTRATION EXPENSES												
Management Services	475,860	490,136	513,174	821,488	525,000	543,375	543,375	543,375	18,375	3.5%	New NRP Contract	
Building maintenance and utilities	80,948	124,219	93,190	93,485	300,000	98,159	98,159	98,159	(201,841)	-67.3%	Roof repair in 2020/No major maintenance needed	
Depreciation	44,593	44,564	49,319	50,477	50,000	55,525	55,525	55,525	5,525	11.0%	Building Depreciation 201 S. Roop Street	
Amortization	1,779,165	1,946,893	2,473,560	2,295,226	-	-	-	-	-	#DIV/0!	Change in Policy: No Amortization of Transfers	
Travel	54,711	48,662	54,981	59,994	55,000	65,993	65,993	65,993	10,993	20.0%	Board, Staff Travel, Trainings FY 19 +10%	
Casualty Insurance	40,767	51,553	31,075	47,970	32,000	50,369	50,369	50,369	18,369	57.4%	Pool Coverage FY 19 Audit +5%	
Operating expenses	232,066	113,484	189,723	143,979	150,000	151,178	151,178	151,178	1,178	0.8%	FY 19 Audit +5%	
Legal Expenses	40,931	85,109	45,788	16,775	80,000	47,500	47,500	47,500	(32,500)	-40.6%	Coverage Determination, Admin Legal Support	
Consultant appraisals	114,850	87,500	85,700	83,860	80,000	88,053	88,053	88,053	8,053	10.1%	AssetWorks Property Appraisals FY 19 +5%	
Environmental consultation	18,972	23,665	-	-	-	-	-	-	-			
Technology services	-	81,967	12,483	106,783	15,000	67,000	67,000	67,000	52,000	346.7%	Cost Allocation: MR Cost Summary	
Total pool administration expenses	2,882,863	3,097,752	3,548,993	3,720,037	1,287,000	1,167,152	1,167,152	1,167,152	(171,848)	-4.6%		
Decrease in operating Net Position	(510,082)	(2,824,698)	(4,710,457)	(2,707,038)	(418,184)	(311,404)	206,161	206,161	158,780	-38.0%		
Non-operating net investment income	1,209,345	(297,011)	(51,267)	1,148,315	650,000	596,875	596,875	596,875	(53,125)		Kelly's Book Income @ 97.5% Less Fees	
Increase (Decrease) in Net Position	699,263	(3,121,709)	(4,761,724)	(1,558,723)	231,816	285,471	803,036	803,036	105,655	-6.8%		
Net Position, beginning of year	34,163,124	34,862,387	31,740,678	13,332,286	11,773,563	12,005,379	11,773,563	11,773,563				
Net Position, end of year	34,862,387	31,740,678	26,978,954	11,773,563	12,005,379	12,290,850	12,576,599	12,576,599				

Allocated Program Costs	3,211,529	3,459,427	3,344,999	3,731,362	3,734,200	4,104,716	4,104,716	4,104,716
Dollar Change		247,898	(114,428)	386,363	2,838	370,516	370,516	370,516
Percentage Change		7.7%	-3.3%	11.6%	0.1%	9.9%	9.9%	9.0%
Overhead Costs	37.0%	34.0%	28.4%	33.6%	30.6%	30.4%	30.0%	30.4%
							Spread Expense Load	
Actuary final 70% CL 2019-20		\$ 408,000	6.97%	Total Costs		19,545,039	19,998,276	19,972,936

LF 21
LF 20 @ 70CL

Property	Liability	\$ 6,584,000.00	75% CL Level	Under Rated	\$ 1,023,935	\$ 727,511	\$ 727,511
\$ 2,590,000	\$ 3,586,000	\$ 6,176,000	319,000		% of Unallocated Costs 5.23%	3.63%	3.64%
2,554,000	\$ 3,303,000	5,857,000	5.45%		Allocated Premiums 94.77%	96.37%	96.36%

Reinsurance Estimates 2019-20	2019-20	2020-2021	\$ Change	%	
GEM	\$ 247,414	\$ 256,796	\$ 9,382	3.79%	
Brit (40% Q/S)	\$ 232,800	\$ 264,717	\$ 31,917	13.71%	
UE	\$ 323,514	\$ 378,416	\$ 54,902	16.97%	
CRL	\$ 615,988	\$ 741,501	\$ 125,513	20.38%	
PRM Liability	\$ 514,400	\$ 664,963	\$ 150,563	29.27%	\$ 664,963
PRM Property	\$ 881,400	\$ 909,963	\$ 28,563	3.24%	\$ 879,963
Lloyds Property	\$ 3,198,327	\$ 3,582,126	\$ 383,799	12.00%	
Lloyds Terrorism Property	\$ 133,500	\$ 133,500	\$ -	0.00%	
Lloyds Terrorism Liability	\$ 44,000	\$ 44,000	\$ -	0.00%	
Cyber Loss Fund Contribution	\$ -	\$ 250,000	\$ 250,000	#DIV/0!	
BoilerRe	\$ 137,042	\$ 143,527	\$ 6,485	4.73%	
TOTAL:	\$ 6,328,385	\$ 7,369,509	\$ 1,041,124	14.13%	\$ 7,089,509 75% CL
Liability total	\$ 1,934,116	\$ 2,306,393	31.3%		
Property total	\$ 4,394,269	\$ 5,063,116	68.7%		

Special Insurance	2019-2020	2020-2021	\$ Change	%
Student Accident	\$ 196,776	\$ 195,590	\$ (1,187)	-0.60%
Environmental Liability	\$ 301,886	\$ 309,433	\$ 7,547	2.50%
Totals	\$ 498,662	\$ 505,023		

NPAIP/PRM Renewal Options to Consider
2020-2021
March 27, 2020

POOL Options

1. Increase POOL's Loss Fund Contribution from 70% Confidence Level to 75% Confidence Level for Property and Liability Coverage. **Fiscal Impact:** = +\$727,000
Discussion: The POOL has been using the 70% Confidence Level (Marginally Acceptable) from the Bickmore Actuarial Reports. This means that 70% of the time, it will result in adequate funding and 30% of the time it would be underfunded. In an effort to improve underwriting reserves, an increase to 75% CL would provide additional funds to pay claims.

The **Liability Funding** at 70% CL would be \$3,586,000 compared to the current year amount of \$3,303,000. This represents an increase of \$283,000 or 8.56% over expiring rate. The 75% CL funding rate would be \$3,824,000 or an increase of \$238,000 to move to the 75% CL. This would be an overall increase of \$521,000 over expiring rate.

The **Property Funding** at 70% CL would be \$2,590,000 compared to the current year about of \$2,554,000 or an increase of \$36,000 or 1.4%. The 75% CL funding rate would be \$2,760,000 or an increase of \$170,000 over the 70%CL or \$206,0000 or 8.0% higher than the expiring rate.

The **Combined Increase** at the 70% CL would be \$319,000 or 5.45% increase over the expiring rate. If both programs were funded at the 75% CL, the increase would be \$727,000 or 12.4% over the expiring rate. If Liability was funded at 70% CL and Property at 75% CL, the increase over expiring rates would be \$489,000 or 8.34%.

Recommendation: 70% Confidence Level. It is a difficult renewal with price increases so the timing of raising the CL to 75% may create a financial hardship to members. Goal would be to work towards the 75% Confidence Level in the near future.

Board Direction:

2. Cyber Loss Fund Contribution **Fiscal Impact:** \$250,000
Discussion: We are seeing an increase in the number of Cyber incidents with our membership. Some of these incidents have resulted in the payment of ransomware. Currently, there is no Loss Fund Contribution to pay for the cyber claims so all payments are coming from surplus.
Recommendation: Given the increase in frequency of these cyber claims and more members working remotely, a loss fund contribution of \$250,000 would assist in funding these claims.
Board Direction:

Reinsurance Options / PRM

3. Maintain 75% Confidence Level for Captive **Fiscal Impact:** +\$148,250 over expiring
Discussion: The higher the confidence level the more likely the reserve is adequate to for the actual claim results. A higher CL could result in an Underwriting Gain. Lower rate could result in an Underwriting Loss for the year. As noted by our Auditor, we have experienced losses in the PRM layer of coverage.
Recommendation: Maintain 75% Confidence Level for Captive coverage
Board Direction:

4. Property Quotation: Pending
PRM to consider filling in for any “holes” in the quilt **Fiscal Impact:** Unknown
Increase SIR from \$500K to \$750K to Up to \$1M
Discussion:
Recommendation:
Board Direction:

Cost Allocation Options

5. PRM Administration Cost Allocation to POOL **Fiscal Impact:** \$117,926
Discussion: PRM administrative expenses include: management, actuary, and audit fees and meeting expenses. This is a reduction of \$4,568 from the 2019 audit number.
Amount included in the PRM rates given to POOL.
Recommendation: Apportion the administrative expenses of PRM to the property and liability renewal quotes given to NPAIP.
Board Direction:

6. Student Accident Existing Plan cost \$195,590: **Fiscal Impact:** 50% allocation \$97,795
Discussion: POOL has been paying 75% of this coverage from surplus and 25% charge to rate. The direction was to phase 25% per year until fully apportioned into the rate.
Recommendation: It is recommended to add 50% (\$97,795) of the cost into the base rate this year. Recommend applied by Average Daily Attendance to the School Districts
Board Direction:

7. Member Education & Risk Management Services: **Fiscal Impact:** \$1,584,148
Focused Risk Management Programs: PRI contract, Jail Audits, Cyber, School HVA, e-learning, Law Enforcement/Fire training, and EAP.
Discussion: RM Programs to mitigate claim losses. Important programs for members with group pricing provided through POOL. Estimated program cost: Jails \$125K year for 3 years. Cyber finalize passive assessments \$225K School HVA updates \$100K per year
Recommendation: Looking at moving EAP to KEPRO at a reduced rate. Reduce Loss Control Grant program has \$125,000 reserved for Jail audits.
Board Direction:

8. Other

NEVADA PUBLIC AGENCY INSURANCE POOL (POOL)

CYBER RISK COVERAGE FORM DECLARATIONS

FORM NUMBER	COVERAGE PERIOD	NAMED ASSURED	MAINTENANCE DEDUCTIBLE
CRCF 202021	07/01/2020 – 07/01/2021 Standard Time	Per Attachment A	none

SECURITY RISK COVERAGE LIMITS	Limit per Named Assured Per PRIVACY OR SECURITY EVENT	Annual Aggregate Limit Per Named Assured
PART TWO: Privacy or Security Liability Limits	3,000,000	3,000,000
<i>The following sublimits are a part of and not in addition to the Limits of Liability:</i>		
PART THREE: Security Failure/Privacy Event Management Coverage	\$100,000	
PART FOUR: Network Interruption Coverage	\$250,000	Waiting Hours Period: 12 hours
PART FOUR: Proof of Loss Preparation Costs	\$50,000	
Retroactive Date		July 1, 2013

*This Declarations Page, together with the Nevada Public Agency Insurance Pool (hereinafter referred to as POOL) Cyber Risk Coverage Form, edition 2020-2021, outlines the coverage provided by POOL. In accepting coverage, the **Named Assured** agrees to pay an annual contribution, as determined by POOL.*

Countersigned:



Authorized Representative

Date: July 1, 2020

NEVADA PUBLIC AGENCY INSURANCE POOL (POOL) COVERAGE FORM

All terms or phrases in **bold print** in the body of the Coverage Form are defined terms.

Section I. Named Assured: The **Named Assured** means each member listed on Attachment A of this Coverage Form and all Boards, Departments, Divisions, Commissions, and Authorities under the supervision or control of the **Named Assured** whether now or hereafter constituted.

It is agreed that the unqualified word **Assured** wherever used within this coverage includes not only the **Named Assured** but also:

1. (a) any official, trustee, director, officer, volunteer or employee of the **Named Assured** while acting within the course and scope of their duties as such, and

(b) unless otherwise excluded under this Coverage Form, any person, organization, trustee or estate to whom the **Named Assured** is obligated by written contract or agreement to provide insurance or coverage such as is offered by this coverage, but only with respect to operations by or on behalf of the **Named Assured**; such coverage does not apply to any **Event** that takes place prior to the execution of such contract or agreement,
2. as respects Section VI. Liability Coverage and subject to the Definitions and Conditions therein, any person or organization specified in a written contract or agreement to be named an additional assured and who leases equipment to the **Named Assured** or whose land or premises is used by the **Named Assured**, but only with respect to liability for the use of the leased equipment, land or premises by the **Named Assured**, and not to exceed the limits of liability required in the written contract or agreement nor in any case to exceed the sublimit shown in the Declarations per **Event**, such sublimit applying as part of and not in addition to the Section VI Limits of Liability available to the **Named Assured**.

Such coverage does not apply:
 - (a) to any **Event** that takes place prior to the execution of such contract or agreement,
 - (b) to any **Event** which takes place after the equipment lease expires or use of the land or premises ceases;
 - (c) to any **Wrongful Act** or **Law Enforcement Activities**;
 - (d) to any **Event** arising out of the sole negligence of such person or organization;
 - (e) to structural alterations or new construction performed by or on behalf of such person or organization;
3. any person while using an owned **automobile** or a hired **automobile**, and any person or organization legally responsible for the use thereof, provided the actual use of the **automobile** is by the **Named Assured** or with its permission, and any **Assured** with respect to the use of non-owned **automobiles** in the business of the **Named Assured**. This Coverage with respect to any person or organization other than the **Named Assured** does not apply:
 - (a) to any person or organization, or to any agent or employee thereof, operating an **automobile** sales agency, repair shop, service station, storage garage or public parking place, with respect to any accident arising out of the operation thereof;
 - (b) to any employee with respect to injury to or sickness, disease or death of another employee of the same employer injured while such employment in an accident arising out of the maintenance or use of the **automobile** in the business of such employer;
 - (c) with respect to any hired **automobile**, to the owner or a lessor thereof, other than the **Named Assured**, nor to any agent or employee of such owner or lessor;
4. the interest of the **Named Assured** in any joint venture or interlocal cooperation agreement to which the **Named Assured** is a party and any activities under the supervision or control of the **Named Assured** whether now or hereafter constituted, provided no separate independent legal entity is formed and subject to the Other Insurance or Coverage provisions contained herein.

Section II. Property Limits, Liability Limits and Maintenance Deductible

1. PROPERTY LIMITS

- A. The Limit per Loss shown in the Declarations applies to all Covered Property of all Assureds combined as described in the Schedule of Locations.
- B. POOL's maximum Limit per Loss for direct physical loss or damage to Covered Property resulting from any one loss shall not exceed the Limit per Loss set forth in the Property Declarations, subject to any coverage extensions, sublimits, exclusions, restrictions or limitations.
- C. All sublimits apply as part of and not in addition to the Limit per Loss.

2. LIABILITY LIMITS

- A. The Limit of Liability applies separately to each **Named Assured** listed on Attachment A.
- B. POOL's maximum Limit of Liability for all loss resulting from any one **Event** shall not exceed the Per **Event** Limit of Liability set forth in the Liability Declarations nor the Annual Aggregate Limit of Liability, regardless of the number of persons, Boards, Departments, Divisions, Commissions, and Authorities under the supervision or control of the **Named Assured**.
- C. The inclusion hereunder of more than one **Assured** shall not operate to increase the Pool's Limit of Liability for the **Named Assured**.
- D. All sublimits apply as part of and not in addition to the Limit of Liability
- E. All expenses including related medical and legal costs are included when calculating appropriate deductible amounts and limits of liability within this coverage section.
- F. All defense costs, including attorney's fees, incurred by NPAIP in defense of an Assured reduce the deductible amounts and limits of liability within this coverage section.

3. MAINTENANCE DEDUCTIBLE

Pool will not be liable for loss or damage in any one loss/**Event** until the amount of loss or damage exceeds the Maintenance Deductible amount shown on the declarations page of this Coverage Form. If two or more Maintenance Deductibles apply to a single loss/**Event**, then the largest Maintenance Deductible amount will apply. However, this Coverage Form allows for application of (a) separate and distinct Maintenance Deductibles; and (b) Maintenance Deductibles for specific loss categories; as shown in the Declarations.

Section III. General Conditions – All Sections

- 1. **SALVAGE AND RECOVERY CLAUSE:** All salvages, recoveries and payments recovered or received subsequent to a loss settlement under this coverage shall be applied as if recovered or received prior to the settlement and all necessary adjustments shall be made by the parties hereto.
- 2. **CANCELLATION/NONRENEWAL:** If the **Assured** fails to pay the Contribution by the date specified by the POOL in its written invoice, 30 days written notice of cancellation will be given. This Coverage is otherwise cancelable only at the end of a coverage period. Either of the parties may cancel by giving written notice to the other party, provided notice is issued at least 120 days prior to the end of the current coverage period.
- 3. **BANKRUPTCY AND INSOLVENCY:** In case of bankruptcy or insolvency of the **Assured** or any entity comprising the **Assured**, POOL shall not be relieved of the payment of any claim to the

Assured or its liquidator, receiver or statutory successor under this Coverage Form without diminution because of the insolvency of the **Assured**.

4. OTHER INSURANCE OR COVERAGE: If any other coverage, bond or insurance is available that covers a loss covered herein, except for coverage, bond or insurance purchased to apply specifically in excess of this coverage, then this coverage will apply in excess of the other valid and collectable coverage, bond or insurance. When this coverage is excess over other coverage, bond or insurance, POOL will pay only the amount of loss, if any, that exceeds the sum of all deductibles (and self-funded amounts) and the amount all such other coverage, bond or insurance would pay for the loss in the absence of this coverage.
5. MORTGAGE CLAUSE: The interest of any creditor, lien holder or mortgagor on property covered hereunder is included as if a separate endorsement were attached hereto to the extent of the amount of the debt, lien or mortgage as of the date of loss subject to the limits of liability set forth in this coverage.
6. SUBROGATION AND RECOVERIES: POOL shall be subrogated to all rights which the **Assured** has against any person or other entity in respect to any claim or payment made under this coverage, and the **Assured** shall cooperate with POOL to secure the rights of POOL. In case any reimbursement is obtained or recovery made, the net amount of such reimbursement or recovery, after deducting the actual cost incurred by the **Assured** and/or POOL in obtaining or making the same, shall be applied in the following order: (a) to reduce the amount of loss which exceeds the applicable limit of liability; (b) to reduce POOL loss until POOL is fully reimbursed; (c) to reduce the **Assured**'s loss because of the application of the deductible.
7. WAIVER OF SUBROGATION: This coverage shall not be invalidated if the **Assured** by written agreement has waived or shall waive its right of recovery from any party for loss or damage covered hereunder; provided that any such waiver is made prior to the occurrence of said loss or damage.
8. ASSIGNMENT/TRANSFER OF RIGHTS AND DUTIES: The **Assured**'s rights, interests, benefits and/or duties (both pre-loss and post loss) under this Coverage Form may not be transferred or assigned without POOL's prior written consent. Any such transfer or assignment without POOL's prior written consent is void and invalid.
9. CHANGES: By acceptance of this coverage, the **Assured** agrees that it embodies all agreements existing between the **Assured** and POOL relating to this coverage. None of the provisions, conditions or other terms of this coverage shall be waived or altered except by written endorsement; nor shall notice to any agent or knowledge possessed by any agent or other person be held to be a waiver or change in any part of this coverage.
10. CONCEALMENT, MISREPRESENTATION OR FRAUD: POOL will not pay for any loss or damage in any case of intentional concealment or misrepresentation or fraud committed by the **Assured** at any time and relating to a claim under this coverage.
11. LIMITATION ON RIGHT TO SUE. An **Assured** shall not sue or maintain any litigation or lawsuit for damages against POOL. By acceptance of this coverage, the **Assured** specifically agrees to waive any right to sue or maintain any litigation or lawsuit for damages against POOL. However, this Section does not prohibit any declaratory relief action seeking to interpret wording of this Coverage Form. Carson City County, Nevada shall be the sole venue for any and all disputes or declaratory relief litigation brought by an **Assured** relating to this Coverage Form or the POOL.

Section IV. General Exclusions – All Sections

1. **WAR AND TERRORISM EXCLUSION:** Coverage does not apply herein for loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any of the following regardless of any other cause or event contributing concurrently or in any other sequence to the loss:
 - (A) war, invasion, acts of foreign enemies, hostilities or warlike operations, (whether war be declared or not), civil war, rebellion, revolution, insurrection, civil commotion assuming the proportions of or amounting to an uprising, military or usurped power; or
 - (B) any act of terrorism.

For the purpose of this exclusion an act of terrorism means an act, including but not limited to an act by any person or group(s) of persons, whether acting alone or on behalf of or in connection with any organization(s), government(s), power(s), authority(ies) or military force(s),

- (i) that:
 - a. involves the use of force or violence and/or the threat thereof against human life or property;
 - b. is dangerous to human life or property; or
 - c. interferes with or disrupts an electronic or communication system; and
- (ii) the purpose or effect of which is to
 - a. intimidate, coerce or harm a government or the civilian population of a country, state or community;
 - b. disrupt the economy of a country, state or community; or
 - c. influence or affect the policy or conduct of the government of a country, state or community.

An act of terrorism includes but is not limited to an “act of terrorism” as defined by the Terrorism Risk Insurance Act of 2002, as amended, (“TRIA”) or any law enacted to reauthorize or succeed TRIA.

Coverage does not apply to loss, damage, cost or expense of whatsoever nature directly or indirectly caused by, resulting from or in connection with any action taken in controlling, preventing, suppressing or in any way relating to (A.) and/or (B.) above.

2. **NUCLEAR INCIDENT EXCLUSION:**

DEFINITIONS - As used in this exclusion, “hazardous properties” include radioactive, toxic or explosive properties; “nuclear material” means source material, special nuclear material or by-product material; “source material”, “special nuclear material”, and “by-product material” have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; “spent fuel” means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; “waste” means any waste material (1) containing by-product material and (2) resulting from the operation by any person or organization of any nuclear facility included within the definition of nuclear facility; “nuclear facility” means (a) any nuclear reactor, (b) any equipment or device designed or used for separating the isotopes of uranium or plutonium, processing or utilizing spent fuel, or handling, processing or packaging waste, (c) any equipment or device used for the processing, fabrication or alloying of special nuclear material if at any time the total amount of such material in the custody of the **Assured** at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235, or (d) any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste, and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; “nuclear reactor” means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material.

PROPERTY- This coverage does not apply to any loss or damage arising directly or indirectly from nuclear reaction, nuclear radiation or radioactive contamination however caused. But

if Fire is covered and a Fire arises directly or indirectly from nuclear reaction, nuclear radiation or radioactive contamination any loss or damage arising directly from that Fire shall (subject to the provisions of this Coverage Form) be covered. LIABILITY- This coverage does not apply under any Liability Coverage, to injury, sickness, disease, death or destruction:

- (A) with respect to which an **Assured** under the coverage is also an **Assured** under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an **Assured** under any such policy but for its termination upon exhaustion of its limit of liability; or
- (B) resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the **Assured** is, or had this coverage not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization; or
- (C) resulting from the hazardous properties of nuclear material if
 - (1) the nuclear material (a) is at any nuclear facility owned by, or operated by or on behalf of, an **Assured** or (b) has been discharged or dispersed therefrom;
 - (2) the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an **Assured**; or
 - (3) the injury, sickness, disease, death or destruction arises out of the furnishing by an **Assured** of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories or possessions or Canada, this exclusion- 2 (C) (3) - applies only to injury to or destruction of property at such nuclear facility.

With respect to injury to or destruction of property, the words "injury" or "destruction" include all forms of radioactive contamination of property.

3. POLLUTION HAZARD - It is agreed that this coverage does not apply to:

- A) any loss or damages which would not have occurred in whole or in part but for the actual, alleged or threatened existence, discharge, dispersal, seepage, migration, release or escape of pollutants, irritants or hazardous substances at any time; "Pollutant" means any solid, liquid, gaseous or thermal irritant, corrosive or contaminant, including but not limited to smoke, vapors, soot, fumes, acids or alkalis, chemicals, metals and waste. Waste also includes materials to be recycled, reconditioned or reclaimed.
- B) any loss, cost or expense arising out of any:
 - (1) request, demand or order that any **Assured** or others test for, monitor, clean up, remove, contain, treat, detoxify or neutralize or in any other way respond to, or assess the effects of pollutants; or
 - (2) claim or suit by or on behalf of a governmental authority or others for damages because of testing for, monitoring, cleaning up, removing, containing, treating, detoxifying or neutralizing, or in any way responding to or assessing the effects of pollutants.

However, coverage does apply to any loss or damage arising out of:

- i) Heat, smoke or fumes from a hostile fire;
- ii) Backup or overflow of any sewer;
- iii) Use of teargas, mace, or similar substance by any public safety officer within the scope of employment for the **Named Assured**;
- iv) Collision, upset or overturn of any vehicle;
- v) Loss or damage caused by an employee or official of the **Named Assured** (but only while acting within the scope of duty and on behalf of the **Named Assured**)

and where property or persons are in danger because of sudden and unexpected discharge, dispersal, release or escape of any pollutant. The onset of the discharge, dispersal, release or escape of pollutants must have occurred no more than 72 hours prior to any **Assured's** arrival at the site or location of the **Event**. POOL's Limit of Liability for all such loss will not exceed the sublimit shown in the Declarations for any one **Event** or in the aggregate annually.

- vi) Water intended for sale or use by an **Assured**, provided the damages arise out of pollution that was accidental, demonstrated as having commenced during the term of the Coverage Form, became known to the **Assured** within 120 hours, was reported by the **Named Assured** within 14 calendar days from the start of the **Event**, and efforts to terminate the **Event** were expended as soon as reasonably possible;
- vii) Use of chemicals approved by the U.S. Environmental Protection Agency to disinfect or purify a swimming pool owned or operated by the **Assured**;
- viii) Cost of cleanup at the premises of the **Assured** made necessary as a result of covered loss or damage to Covered Property.
- ix) Weed spraying operations by or on behalf of any **Assured**; coverage is extended only for **Property Damage** liability; damage must manifest itself and be reported to POOL within 180 days of the spraying; POOL's Limit of Liability for all such loss will not exceed the limit of liability shown in the Declarations page for any one **Event** or in the aggregate annually.

- 4. **LEAD:** This coverage does not apply to: any loss or damages arising out of lead or the hazardous properties of lead; any loss or damages for remedial investigations or feasibility studies or the costs of testing, monitoring, abatement, mitigation, cleaning, removal or disposal of lead or any item(s) containing lead; any loss or damages arising out of any supervision, instructions, recommendations, warnings or advice given or which should have been given in connection with the above; or any obligation to share damages with or repay someone else who must pay damages in connection with the above.
- 5. **SILICA DUST OR ASBESTOS:** This coverage does not apply to any loss or damages arising out of Asbestosis, Silicosis, Mesothelioma, Emphysema, Pneumoconiosis, Pulmonary Fibrosis, Pleuritis, Endothelioma or any lung disease or any ailment caused by or aggravated by asbestos in any form or by silica dust; any loss or damages arising out of the existence of asbestos in any form or of silica dust, including the costs of investigations or feasibility studies, or to the costs of testing, monitoring, abatement, mitigation, cleaning, removal or disposal of any property or substance; any loss or damages arising out of any supervision, instructions, recommendations, warnings or advice given or which should have been given in connection with the above; or any obligation to share damages with or repay someone else who must pay damages in connection with the above.
- 6. **MOLD, MILDEW AND FUNGUS CLAUSE AND MICROORGANISM EXCLUSION (MAP)**
(Time Limit and Sublimit)
 - A) This Coverage Form only cover physical loss or damage to **Assured** property by mold, mildew or fungus when directly caused by a peril covered by this Coverage Form occurring during the policy period.

This coverage is subject to all limitations in the Coverage Form and, in addition, to each of the following specific limitations:

- (1) Said property must otherwise be covered under this Coverage Form for physical loss or damage by that peril.
- (2) The **Assured** must report to the Pool the existence and cost of the physical loss or damage by mold, mildew or fungus as soon as practicable, but no later than twelve (12) months after the peril first caused any physical loss or damage to covered property during the coverage period. This Coverage Form does not cover any physical loss or damage by mold, mildew or fungus first reported to the Pool after that twelve (12) month period.

Regardless of circumstance or other Coverage Form provisions, the maximum amount covered and payable under this Coverage Form for all mold, mildew or fungus caused by or resulting from such peril is the sublimit shown in the Declarations for all parts of any claim and in total (the aggregate sublimit) for the Coverage period. This sublimit applies to all sections or extensions of the Coverage Form combined under which any claim arises or is made.

- B) Except as set forth in the foregoing Section A, this Coverage Form does not cover any loss, damage, claim, cost, expense or other sum directly or indirectly arising out of or relating to:

mold, mildew, fungus, spores or other microorganism of any type, nature, or description, including but not limited to any substance whose presence poses an actual or potential threat to human health.

This exclusion applies regardless whether there is (i) any physical loss or damage to covered property; (ii) any covered peril or cause, whether or not contributing concurrently or in any sequence; (iii) any loss of use, occupancy, or functionality; or (iv) any action required, including but not limited to repair, replacement, removal, cleanup, abatement, disposal, relocation, or steps taken to address medical or legal concerns.

7. COMMUNICABLE DISEASE EXCLUSION

This Coverage Form, subject to all applicable terms, conditions and exclusions, covers losses attributable to direct physical loss or physical damage occurring during the period of coverage. Consequently and notwithstanding any other provision of this Coverage Form to the contrary, this Coverage Form does not insure any loss, damage, claim, cost, expense or other sum, directly or indirectly arising out of, attributable to, or occurring concurrently or in any sequence with a Communicable Disease or the fear or threat (whether actual or perceived) of a Communicable Disease.

1. For the purposes of this endorsement, loss, damage, claim, cost, expense or other sum, includes, but is not limited to, any cost to clean-up, detoxify, remove, monitor or test:

2.1. for a Communicable Disease, or

2.2. any property covered hereunder that is affected by such Communicable Disease.

2. As used herein, a Communicable Disease means any disease which can be transmitted by means of any substance or agent from any organism to another organism where:

3.1. the substance or agent includes, but is not limited to, a virus, bacterium, parasite or other organism or any variation thereof, whether deemed living or not, and

3.2. the method of transmission, whether direct or indirect, includes but is not limited to, airborne transmission, bodily fluid transmission, transmission from or to any surface or object, solid, liquid or gas or between organisms, and

3.3. the disease, substance or agent can cause or threaten damage to human health or human welfare or can cause or threaten damage to, deterioration of, loss of value of, marketability of or loss of use of property covered hereunder.

3. This exclusion applies to all coverage extensions, additional coverages, exceptions to any exclusion and other coverage grant(s).

8. PROPERTY CYBER AND DATA EXCLUSION

1. Notwithstanding any provision to the contrary within this Coverage Form or any endorsement thereto this Coverage Form excludes any:

1.1 **Cyber Loss**, unless subject to the provisions of paragraph 2;

1.2 loss, damage, liability, claim, cost, expense of whatsoever nature directly or indirectly caused by, contributed to by, resulting from, arising out of or in connection with any loss of use, reduction in functionality, repair, replacement,

restoration or reproduction of any **Data**, including any amount pertaining to the value of such **Data**, unless subject to the provisions of paragraph 3; regardless of any cause or event contributing concurrently or in any other sequence thereto.

2. Subject to all the terms, conditions, limitations and exclusions of this Coverage Form or any endorsement thereto, this Coverage Form covers physical loss or physical damage to property covered under this Coverage Form caused by any ensuing fire or explosion which directly results from a **Cyber Incident**, unless that **Cyber Incident** is caused by, contributed to by, resulting from, arising out of or in connection with a **Cyber Act** including, but not limited to, any action taken in controlling, preventing, suppressing or remediating any **Cyber Act**.
3. Subject to all the terms, conditions, limitations and exclusions of this Coverage Form or any endorsement thereto, should **Data Processing Media** owned or operated by the **Assured** suffer physical loss or physical damage covered by this Coverage Form then this Coverage Form will cover the cost to repair or replace the **Data Processing Media** itself plus the costs of copying the **Data** from back-up or from originals of a previous generation. These costs will not include research and engineering nor any costs of recreating, gathering or assembling the **Data**. If such media is not repaired, replaced or restored the basis of valuation shall be the cost of the blank **Data Processing Media**. However, this Coverage Form excludes any amount pertaining to the value of such **Data**, to the **Assured** or any other party, even if such **Data** cannot be recreated, gathered or assembled.
4. In the event any portion of this exclusion is found to be invalid or unenforceable, the remainder shall remain in full force and effect.
5. This exclusion supersedes and, if in conflict with any other wording in the Coverage Form or any endorsement thereto having a bearing on **Cyber Loss**, **Data** or **Data Processing Media**, replaces that wording.

Definitions

6. **Cyber Loss** means any loss, damage, liability, claim, cost or expense of whatsoever nature directly or indirectly caused by, contributed to by, resulting from, arising out of or in connection with any **Cyber Act** or **Cyber Incident** including, but not limited to, any action taken in controlling, preventing, suppressing or remediating any **Cyber Act** or **Cyber Incident**.
7. **Cyber Act** means an unauthorized, malicious or criminal act or series of related unauthorized, malicious or criminal acts, regardless of time and place, or the threat or hoax thereof involving access to, processing of, use of or operation of any **Computer System**.
8. **Cyber Incident** means:
 - 8.1. any error or omission or series of related errors or omissions involving access to, processing of, use of or operation of any **Computer System**; or
 - 8.2. any partial or total unavailability or failure or series of related partial or total unavailability or failures to access, process, use or operate any **Computer System**.
9. **Computer System** means:
 - 9.1. any computer, hardware, software, communications system, electronic device (including, but not limited to, smart phone, laptop, tablet, wearable device), server, cloud or microcontroller including any similar system or any configuration

of the aforementioned and including any associated input, output, data storage device, networking equipment or back up facility, owned or operated by the **Assured** or any other party.

10. **Data** means information, facts, concepts, code or any other information of any kind that is recorded or transmitted in a form to be used, accessed, processed, transmitted or stored by a **Computer System**.

11. **Data Processing Media** means any property covered by this Coverage Form on which **Data** can be stored but not the **Data** itself.

9. ALL COVERAGE FOR CYBER RISK IS EXCLUDED.

All cyber risk coverage is excluded from this Coverage Form. Any cyber risk coverage is exclusively contained within the separate Pool Cyber Risk Coverage Form and is specifically and entirely excluded from this Coverage Form.

Section V. PROPERTY COVERAGE

A. Property Coverage Agreement

POOL agrees subject to the limits, exclusions, conditions and other terms of this Coverage Form to pay on behalf of the **Assured** for direct physical loss or damage to Covered Property except as excluded or limited in this Coverage Form.

B. Covered Property

This Property Coverage Section covers property, unless excluded, as described in the Schedule of Locations, wherever located, agreed to and kept on file by POOL or its designees that the **Assured**:

Owns;
Operates;
Controls;
or Contractually agrees to cover for physical loss or damage, to the extent of such contractual obligation.

Covered Property shall also include:

1. New construction, including property while in the course of construction;
2. Additions under construction;
3. Alterations and repairs to any building or structure;
4. Improvements and Betterments in which the **Assured** has a legal interest;
5. Materials, equipment and supplies for new construction, additions, buildings or structures;
6. Temporary structures;
7. **Electronic Data Processing Equipment** as defined in this Coverage Form;
8. Machinery, equipment, and fixtures that are permanently attached to the building;
9. **Automobiles** and mobile equipment as per schedule agreed to and kept on file by POOL or its designees;
10. Covered Property in transit;
11. Personal property of officers and employees of the **Named Assured**, while at a location described in the Schedule of Locations;
12. The **Assured's** interest in and legal liability for property of others, while at a location described in the Schedule of Locations; and
13. **Valuable Papers and Records** as defined in this Coverage Form.

C. Coverage Extensions

This Property Coverage Section includes the following Coverage:

- i. are subject to the applicable limit of liability;
- ii. will not increase the POOL limit of liability; and
- iii. are subject to POOL coverage provisions, including applicable exclusions, definitions and deductibles, all as shown in this section and elsewhere in the POOL Coverage Form.

1. Accounts Receivable

This Coverage Form is extended to cover all amounts due the **Named Assured** from customers, which the **Named Assured** is unable to collect, as a result of direct physical loss or damage to accounts receivable records up to the sublimit of liability shown in the Property Declarations.

Coverage includes:

- a. Interest charges on any loan to offset impaired collections pending repayment of sums that cannot be collected.
- b. Collection expenses in excess of normal collection costs.
- c. Other reasonable expenses incurred by the **Named Assured** in recreating records of accounts receivable.

However, there shall be no coverage under this extension for bookkeeping, accounting, or billing error or omission; or alteration, falsification, manipulation, concealment, destruction or disposal of accounts or records of accounts receivable committed to conceal the wrongful giving, taking, obtaining or withholding of money, **securities** or other property.

2. Arson Reward

This Coverage Form is extended to cover payment of any reward offered on the **Named Assured's** behalf for information that leads to conviction of the perpetrator(s) of arson or vandalism to Covered Property that sustains direct physical loss or damage covered by this agreement.

POOL's total liability for any one award is ten percent (10%) of the physical loss or damage to Covered Property up to the sublimit of liability shown in the Property Declarations.

POOL's payment of this reward will not increase regardless of the number of informants providing information that leads to a conviction.

3. Debris Removal:

POOL shall pay for the reasonable and necessary expense incurred to remove debris from a described location that remains as a result of direct physical loss or damage to Covered Property for which there is coverage under this Property Coverage Section. Subject to the Debris Removal – Mold/Asbestos sublimit shown in the Property Declarations, Debris Removal shall also include removal of mold and asbestos containing materials necessitated as a result of direct physical loss or damage to Covered Property caused by a covered loss including the costs of an environmental consultant.

4. Earthquake and Flood:

Earthquake and **Flood** are covered perils, as defined in this Coverage Form subject to the sublimits shown in the Property Declarations.

5. Equipment Breakdown

A. Under Section V. F. Perils Excluded, items 4, 5 and 6 are deleted in their entirety with respect to Covered Property. However, there shall be no coverage under this extension for any of the following:

- 1. Insulating or refractory material; footing, foundation, mounting pad or settings, or piling.

2. Vessel or vessel part not under pressure of its contents or under vacuum.
3. Sewer piping, fire protection piping, or water piping; except piping solely supplying boiler feed water or boiler condensate.
4. **Automobiles**, dragline, excavation or construction equipment.
5. Products manufactured by the **Named Assured** unless permanently installed.
6. Pressure vessels and piping that are buried below ground and require the excavation of materials to inspect, remove, repair or replace.
7. Malfunction including but not limited to adjustment, alignment, calibration, cleaning or modification.
8. Leakage at any valve, fitting, shaft seal, gland packing, joint or connection.
9. The functioning of any safety or protective device.
10. The cracking of any part on an internal combustion gas turbine exposed to the products of combustion.
11. Any loss or damage to any boiler, fired vessel, electric steam generator, or electrical or electronic equipment while undergoing a test which subjects such equipment to greater than maximum allowable operating conditions as identified by the manufacturer of such equipment.

B. Under Section V. F. Perils Excluded, items 5 and 14 are deleted in their entirety with respect to **Electronic Data Processing Equipment, Electronic Data Processing Media and Electronic Data Processing Data.**

C. The following is added to Section V. G. Property Conditions, item 4 Basis of Valuation:

New Generation:

If Covered Property damaged under this coverage extension is valued at replacement cost, cannot be repaired and requires replacement, the damaged Covered Property may be replaced with newer generation Covered Property of the same capacity which improves the environment, increases efficiency or enhances safety. POOL will pay up to an additional 50% of the damage amount for the Covered Property. This additional amount is included in, not in addition to, the applicable Equipment Breakdown coverage limit.

D. This Coverage Extension is subject to the following limitations of coverage and sublimits shown in the Property Declarations:

1. Loss of Income and Extra Expense:

Coverage is extended to pay for actual **Loss of Income** and **Extra Expense** as defined in this Coverage Form sustained due to a loss covered by this coverage extension.

2. Hazardous Substance Coverage:

Coverage is extended to clean, repair, replace, or dispose of Covered Property that is damaged, contaminated or polluted by a substance declared to be hazardous by a governmental agency as a result of direct physical loss or damage covered by this extension of coverage. The coverage provided by this extension of coverage does not include loss to perishable goods due to contamination from the release of a refrigerant, including but not limited to ammonia.

3. Spoilage Coverage:

Coverage is provided for covered perishable goods due to spoilage resulting from direct physical loss or damage covered by this coverage extension, including damage to perishable goods due to contamination from the release of refrigerant, including but not limited to ammonia. Perishable goods are defined as Covered Property that is subject to deterioration or impairment as a result of a change of conditions, including but not limited to temperature, humidity or pressure.

4. Cost to Restore **Electronic Data Processing Data** and any **Electronic Data Processing Media**:

Coverage is extended to pay for the **Named Assured**'s reasonable and necessary cost to research, replace or restore lost **Electronic Data Processing Data** and any **Electronic Data Processing Media** upon which it is stored. However, there shall be no coverage for a loss to media or data that results from any error in machine programming or machine instructions. media or data that results from any error in machine programming or machine instructions.

5. Electrical Risk Improvements:

When Covered Property sustains direct physical loss or damage under this coverage extension resulting from artificially generated electrical current (including arcing) that necessitates its repair or replacement, POOL will pay up to an additional 10% of the amount actually paid for all loss or damage covered by this coverage extension, not to exceed the sublimit shown in the Property Declarations, for costs the **Named Assured** incurs to make material improvements to the electrical system at the location of the loss.

This coverage extension does not pay for:

- a. Stock, work in process, raw materials, finished goods or merchandise.
- b. Any personal property of the **Named Assured**'s employees or officers.
- c. Any Covered Property that is repaired or replaced due to direct physical loss or damage as covered by this coverage extension.
- d. Any **Loss of Income** or **Extra Expense**.

These expenses must be reported in writing within 180 days of direct physical loss or damage covered by this coverage extension.

6. Expediting Expenses:

Subject to the sublimits shown in the Property Declarations, POOL shall pay for reasonable and necessary extra costs to expedite:

- a. Temporary repairs to; and
- b. Permanent repairs to or replacement of;

Covered Property sustaining direct physical loss or damage covered by this Coverage Section.

Expediting Expenses do not include:

- 1) Expenses payable elsewhere in the Property Coverage Section.
- 2) The cost of permanent repair or replacement.

7. **Unintentional Errors and Omissions:**

POOL will accept that property and/or location as being covered subject to the applicable sublimit shown in the Property Declarations for each loss, provided the property and/or location is the same in form and substance as other real and personal property which are scheduled.

The **Named Assured** agrees to report such errors or omissions as soon as reasonably possible after discovery of such, and to schedule the proper locations and values then and thereafter.

8. **Money and Securities**

Money and **securities** of the **Named Assured** only are Covered Property with respect to this coverage extension subject to the sublimits shown in the Property Declarations.

Under Section V. F., Perils Excluded, item 2 is deleted in its entirety but only for this coverage extension. This coverage extension shall apply to direct physical loss or damage resulting from:

- a. Dishonest or fraudulent acts including theft and forgery committed by an official, trustee, director, officer, volunteer or employee of the **Named Assured** acting alone or in collusion with others while in the **Named Assured's** service and who the **Named Assured** compensates directly with salary, wages or commissions; or who are furnished to the **Named Assured** by an employment agency or service and under the **Named Assured's** direct control while performing such services in substituting for a permanent employee on leave, or meeting seasonal or short-term workload conditions.

For purposes of this extension, direct physical loss or damage means loss or damage to tangible property, and does not include consequential, detrimental economic impact or a diminution of value to covered property. Tangible property means property that has physical form and characteristics.

- b. The actual destruction or disappearance of such property.
- c. A peril covered by this Property Coverage Section.

The following are added to Section V. F., Perils Excluded, but only for this coverage extension:

17. Misappropriation, conversion, infidelity, dishonest or fraudulent acts committed by any:

- a. Agent, broker, consignee, independent contractor, subcontractor or similar representatives;
- b. Employee of the **Named Assured** who has previously committed dishonest or fraudulent acts resulting in direct physical loss or damage to **money and securities**; or
- c. Person (excluding employees) to whom the property may be entrusted; Whether committed alone or in collusion with others at any time, on the part of the **Named Assured** or any additional interest.

18. The **Named Assured's** inability to realize income that would have been earned had there been no loss of **money or securities**; Loss or damage when the only proof of such loss or damage is an inventory computation, or a profit and loss computation.

19. Loss or damage to **money or securities** while in transit or at an unnamed location except for:

- a) Robbery while such property is in the care and custody of an employee of the **Named Assured**, or
- b) Actual destruction or disappearance while at a banking institution or similar safe depository.

20. Accounting or arithmetical errors or omissions.

9. Protection and Preservation of Property:

POOL shall pay for the reasonable and necessary costs incurred to temporarily protect or preserve Covered Property at a described location in order to avoid or prevent immediately impending physical loss or damage from a peril covered by this Property Coverage Section.

10. Ordinance or Law:

If at the time of direct physical loss or damage covered by this Coverage Form, there is in force any law or ordinance regulating the demolition, construction, repair, replacement or use of buildings or structures, POOL shall pay for increased costs that are the result of enforcement of such law or ordinance as a direct result of such loss or damage, including:

- a.) the cost to demolish any physically undamaged portion of the buildings or structures and:

- b.) the cost incurred to actually rebuild the physically damaged and the demolished portions of such buildings or structures with materials and in a manner to comply with the law or ordinance, or
- c) at the Member's option, the cost to repair, replace or reconstruct such damaged or destroyed property with material of like kind and quality that qualifies under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System of the U.S, but only up to the sublimits shown in the Property Declarations.

11. Loss of Income and Extra Expense:

POOL shall pay for actual **Loss of Income** and **Extra Expense** sustained by the **Named Assured** due to the necessary suspension of the **Named Assured's** operations during the **Period of Restoration** as defined in this Coverage Form. The suspension must be caused by direct physical loss of or damage to Covered Property at premises that are described in the Schedule of Locations agreed to and kept on file by POOL or its designees, such loss being caused by a covered peril.

Coverage shall also be provided for actual **Loss of Income** sustained and **Extra Expense** caused when access to the described location is prohibited by order of civil authority. This order must be given as a direct result of physical loss or damage from a peril of the type covered by this Property Coverage Section. POOL will be liable for the actual amount of loss sustained at such location for a period of up to 30 consecutive days from the date of this action.

In order to determine any **Loss of Income** and/or **Extra Expense** loss payable, POOL shall give consideration to the experience of the **Named Assured** before and the probable experience after the **Period of Restoration** and continuation of only those normal charges and expenses that would have existed had no interruption of or suspension of business operations or services occurred.

POOL will not be liable for any loss payable under this coverage extension to the extent that it can be reduced by the **Named Assured** through use of any suitable property or service owned or controlled by the **Named Assured**, or obtainable from other sources.

Any salvage value of such property remaining at the end of the period of interruption for property obtained above will be taken into consideration in the adjustment of any loss.

For purposes of determining the loss payable under this Coverage Extension, **Loss of Income** and **Extra Expense** will not include:

- a. Any loss during any period in which goods would not have been produced.
- b. Any loss during any period in which business operations or services would not have been maintained.
- c. Any increase in loss due to the suspension, cancellation, or lapse of any lease, contract, license, or order.
- d. Any loss due to:
 - 1.) Fines or damages for breach of contract.
 - 2.) Late or non-compliance of orders or penalties of any nature whatsoever.
 - 3.) Any other consequential or remote loss.
- e. Any loss resulting from physical loss or damage to property in transit.

12. Transmission Facilities:

This Coverage Form is extended to cover direct physical loss or damage covered by this Property Coverage Section to electrical and telecommunication equipment; electrical, telecommunication, fuel, water, steam, and refrigeration transmission lines; all situated on or within 1000 feet of the described location.

Coverage is excluded for loss resulting from:

- a) The lack of incoming services described above; or
- b) Physical loss or damage to transmission facilities providing these services; that occurs beyond 1000 feet of the described location.

D. Property Definitions

Actual Cash Value is the replacement value of the property, at the time and place of the loss or damage, less proper deduction for depreciation.

Automobile means any land motor vehicle or trailer/semi-trailer) or mobile equipment owned by the **Named Assured** or for which the **Assured** has an obligation to provide coverage.

Earthquake shall mean earthquake, volcanic eruption, subterranean fire, landslide, subsidence, earth sinking, rising, shifting or any such convulsion of nature including a resulting tsunami. If more than one earthquake shock shall occur within one hundred sixty-eight (168) hours during the term of this coverage, such shocks shall be deemed to be a single earthquake.

Electronic Data Processing Data is defined as all information stored on media devices, including facts, concepts, or computer programs converted to a form usable in a data processing operation, which are legally required to be stored.

Electronic Data Processing Equipment is defined as data processing systems, component parts and related peripheral equipment including air conditioning and fire protection equipment used solely for data processing operations. Electronic data processing equipment does not include electronic systems that control production machinery or the production machinery itself or any memory bank attached to the production machinery. Electronic data processing equipment does not mean property in the course of manufacture or property you hold for sale or demonstration.

Electronic Data Processing Media is defined as all materials on which data is recorded including magnetic tapes, disc packs, paper tapes, and cards used in data processing equipment. **Electronic Data Processing Media** does not include any memory bank attached to production machinery or any property you hold for sale or demonstration.

Extra Expense means necessary expenses incurred by the **Named Assured** during the **Period of Restoration** that would not have incurred if there had been no direct physical loss or damage to property caused by or resulting from a covered loss.

Flood shall mean surface waters, tide and tidal water, the rising, overflowing or breaking of boundaries of natural or man-made bodies of water or spray, whether wind driven or not, from any of the foregoing or by water which backs up through sewers or drains; or mudslide.

Loss of Income means the Net Income (net profit or loss before income taxes) that would have been earned or incurred and continuing normal operating expenses incurred, including payroll.

Money means physically tangible currency and coin used by the United States of America government.

Period of Restoration is defined as the period from the time of direct physical damage covered by this Property Coverage Section to the time when, with due diligence and dispatch, physically damaged property could be repaired or replaced and made ready for operations under the same or equivalent physical and operating conditions that existed prior to such damage.

Securities mean physically tangible negotiable and nonnegotiable instruments representing money.

Total Loss means complete physical destruction of the tangible property and/or its function.

Valuable Papers and Records are inscribed, printed or written: documents; manuscripts or records including abstracts; and, books, deeds, drawings, films, maps, or mortgages. Valuable Papers are not: money, securities and stamps; converted data programs or instructions used in the **Named Assured's** data processing operations; or, materials on which data is recorded.

E. Property Excluded

There shall be no coverage for loss or damage to the following property unless coverage is specifically included in Section V. C. Coverage Extensions, or elsewhere in this Property Coverage Section:

1. Land, water, or any substance in or on land, pavement and roadways, trees, shrubs, plants and lawns, growing crops or standing timber, and animals.
2. Underground mines and mining property located below the surface of the ground.
3. Bridges and tunnels used for vehicular traffic, reservoirs, canals and dams.
4. Docks, piers, and wharves which are not a structural part of the building.
5. Furs and fur garments, jewels, jewelry, watches, pearls, precious and semi-precious stones, gold, silver, platinum and other precious metals and alloys for loss caused by theft.

6. **Money, securities**, accounts, bills, tickets, tokens, evidences of debt, **Electronic Data Processing Media and Data**.

7. Satellites, property undergoing insulation tests, aircraft, and watercraft over fifty (50) feet in length. For purposes of this exclusion, "aircraft" includes but is not limited to both manned aircraft and unmanned aerial vehicles. "Unmanned aerial vehicle" means an aircraft that is not designed, manufactured or modified to be controlled directly by a person from within or on the aircraft, including drones. This exclusion does not apply to "unmanned aerial vehicles" under 55 pounds in weight as equipped and as per the schedule agreed to and kept on file by POOL.

8. Personal property in the custody of the **Assured** acting as a warehouseman, bailee for hire, or carrier for hire.

F. Perils Excluded

There shall be no coverage for loss or damage caused by any of the following perils, unless coverage is specifically included in **Section V. C. Coverage Extensions**, or elsewhere in this Property Coverage Section; however, if loss or damage not excluded results, then that resulting loss or damage is covered.

1. Loss of market; loss of use; damage or deterioration arising from any delay, whether such delay is caused by a covered peril or otherwise; loss caused by any legal proceeding.
2. Misappropriation, conversion, infidelity or any dishonest act; whether committed alone or in collusion with others at any time, on the part of the **Assured** or any additional interest, employees, directors, officers, or agents of the **Assured**, or any person to whom the property may be entrusted (bailees for hire excepted). A willful act of destruction committed by employees of the **Assured**, without the knowledge of the **Assured**, resulting in physical damage, is covered.
3. Unexplained loss, mysterious disappearance, or loss or shortage disclosed on taking inventory; except that this exclusion will not apply to property while in the custody of any bailee. There will be no coverage for the voluntary parting with title or possession of property if induced by any fraudulent act or by false pretense.
4. Explosion, rupture, bursting, cracking, burning or bulging of steam boilers, steam turbines, gas turbines and steam engines; rupture, bursting, cracking, burning or, bulging of: pressure vessels, or piping or apparatus; attached to any steam boilers, steam turbines, gas turbines and steam engines; while all such property is owned, operated or controlled by the **Assured** or under the **Assured's** obligation to cover. This Coverage Form will cover physical loss or damage resulting from: the explosion of accumulated combustible gases or unconsumed fuel within the furnace of a boiler or pressure vessel, other than combustion gas turbines; or within the flues or passages which conduct the gases of combustion therefrom. Loss by fire ensuing from any of the above is covered by this Property Coverage Section.
5. Centrifugal force on rotating or moving parts of machinery; electrical, mechanical, or structural breakdown of machinery or equipment, including moving or stationary parts within or forming an integral part of such machinery or equipment.
6. The lack of power or other incoming service supplied from off the described location, however caused. If physical loss or damage covered herein results to Covered Property at a location described in the Schedule of Locations, the resulting damage is covered.
7. **Earthquake** as defined in this Property Coverage Section.
8. **Flood** as defined in this Property Coverage Section.
9. Wear and tear, gradual deterioration, inherent vice, latent defect, vermin or insects.

10. Defects in materials, faulty workmanship (whether the product or process), faulty construction or faulty design.

11. Dampness or dryness of atmosphere; changes of temperature; freezing, except damage to fire protective equipment caused by freezing; heating; shrinkage; evaporation; depletion; erosion; loss of weight; change in color, flavor, texture or finish; rust; corrosion.

12. Settling, cracking, shrinkage, bulging, or expansion of foundations, walls, floors, roofs, or ceilings. This exclusion will not apply to loss or damage resulting from collapse of a building or structure or of a material part of a building or structure.

13. Exposure to rain, sleet, snow, sand or dust to personal property in the open.

14. Electronic or magnetic injury or disturbance of any kind.

15. Loss arising from errors in machine or systems programming or instructions to machines or systems, unless physical damage not excluded by this coverage results, and then only for direct loss or damage caused by such covered peril.

16. Direct physical loss or damage to tangible Covered Property resulting from seizure or destruction of property by order of governmental authority

G. Property Conditions

1. Notice to POOL:

The **Assured** will:

- a) give immediate notice to the POOL of any loss involving Covered Property via the POOL's designated claims service organization.
- b) protect the property from further loss or damage
- c) promptly separate the damaged and undamaged property; put it in the best possible order; and furnish a complete inventory of the lost, destroyed, damaged and undamaged property showing in detail the quantities, costs, **Actual Cash Value**, replacement value and amount of loss claimed.
- d) as often as may be reasonably required, permit the POOL to inspect the property proving the loss or damage and examine the books and records of the **Assured**.
- e) cooperate as requested by POOL in the POOL's investigation, adjustment, and valuation of any claim for loss or damage to Covered Property.

2. No Benefit to Bailee:

No person or organization, other than the **Assured**, having custody of **Assured** property will benefit from this coverage.

3. Vacant and Unoccupied Locations:

Permission is given to cease operations and for locations to be vacant or unoccupied for:

- a. Sixty (60) consecutive days; or
- b. Up to (120) consecutive days for seasonally operated facilities; or
- c. More than sixty (60) consecutive days with the written consent of POOL;

Provided that the **Assured** maintains the same degree of:

- 1) Fire protection; and
- 2) Watch and alarm service;
- 3) Winterizing measures;

as existed prior to the discontinuance of operations. POOL shall reduce the loss payable by 15% on any vacant or unoccupied building. Buildings under construction or renovation are not considered vacant.

4. Loss Payment:

POOL has the sole right to adjust, value, evaluate and pay claims for loss or damage to covered property on behalf of the **Assured**.

a. In the event of loss or damage to Covered Property, POOL, at its option, will either:

- 1) Pay the value of lost or damaged property;
- 2) Pay the cost of repairing or replacing the lost or damaged property;
- 3) Take all or any part of the property at an agreed or appraised value; or
- 4) Repair, rebuild or replace the property with other property of like kind and quality.

POOL will determine the value of lost or damaged property, or the cost of repair or replacement, in accordance with the applicable terms of paragraph 4, entitled "Basis of Valuation" or any applicable provision of this Coverage Form which amends or supersedes these valuation conditions.

b. POOL will give notice under paragraph 3.a within a reasonable time after receiving written notice of loss from the **Assured**.

5. Basis of Valuation:

Adjustment of loss amount(s) under this Property Coverage Section will be determined based on the cost of repairing or replacing (whichever is the lesser), at the time of loss, with materials or equipment of like kind and quality without deduction for depreciation, except as provided in this valuation section.

The following property, unless endorsed, will be valued at the time of loss as follows:

a. On property of others: the amount for which the **Assured** is legally liable, but not exceeding the replacement cost.

b. Fine Arts are valued at the lesser of:

- 1.) The cost to repair or restore the article to the condition that existed immediately prior to the loss;
- 2.) The cost to replace the article; or
- 3.) The value designated for the article on the schedule of fine arts on file with POOL.

In case of physical loss or damage to an article that is part of a pair or a set, POOL will pay the full amount of the value of such pair or set only if the damaged article cannot be repaired or restored to its condition before the loss and the **Assured** surrenders the remaining article or articles of the pair or set to POOL.

c. Accounts receivable is valued at the sum due which the **Assured** is unable to collect from customers, and includes:

- 1.) Interest charges on any loan to offset impaired collections pending repayment of such sums that cannot be collected;
- 2.) Collection expenses in excess of normal collection cost; and
- 3.) Other reasonable expenses incurred by the **Assured** in recreating records of accounts receivable.

If the **Assured** is unable to accurately determine the amount of outstanding accounts receivable at the time of loss, the following method will be used:

- i. Determine the total average monthly amounts of accounts receivable for the 12 months immediately preceding the month in which loss occurs; and
- ii. Adjust that total for any fluctuations in the month in which loss occurs, or for any demonstrated variance for that month.

Unearned interest charges and service charges on deferred payment accounts and normal credit losses on bad debts will be deducted. After payment of loss by POOL, all amounts recovered by the **Assured** on accounts receivable for which the **Assured** has been indemnified will belong to and be paid to the POOL by the **Assured** up to the total amount of loss paid by the POOL. All recoveries in excess of such amounts will belong to the **Assured**.

d. **Automobiles** and mobile equipment are valued at the cost to repair or the market value for like kind and quality at the time of loss.

e. **Specialized Operations Vehicles (Fire, Ambulance, School Buses or other Specialized Vehicles):** If such vehicles are listed on the schedule of vehicles on file with the POOL with an Agreed Value and:

- 1) at the time of loss, a vehicle is determined to be a **Total Loss**, or
 - 2) a physically damaged vehicle is inspected and cannot be certified by a professional mechanic, certified in evaluating emergency vehicles, to be in safe operating condition as an emergency vehicle, then the **Assured** will be paid the Agreed Value.
- f. **Valuable Papers and Records** is valued at: the cost to replace or restore the property with other of like kind and quality including the cost of researching, gathering and/or assembling information. If the information is not replaced or restored with other of like kind or quality, POOL will pay the blank value of such **Valuable Papers and Records**.
- g.. Property while in transit is valued as follows:
- 1) For property shipped to or for account of the **Assured**: the actual invoice to the **Assured**, together with such costs and charges (including the commission of the **Assured** as selling agent) as may have accrued and become legally due on such property.
 - 2) For property that has been sold by the **Assured** and shipped to or for account of the purchaser (if covered by this Property Coverage Section): the amount of the **Assured's** selling invoice, including prepaid or advanced freight.
 - 3) For property not under invoice: the actual cash market value at point of destination on the date of disaster, less any charges saved which would have become due and payable upon delivery at destination.
- h. **Money** and **Securities** are valued as follows:
Money is valued in United States of America currency for all locations, unless specified otherwise. **Money** issued in currencies other than United States of America currency will be valued in United States dollar equivalent determined by the last rate of exchange quoted in the Wall Street Journal on the date of loss.
Securities are valued at:
- 1) The cost to replace or restore the security with other of like kind or quality including the cost of issuing duplicate **securities**, if replaced; or
 - 2) The value of each security as of the close of business on the date of loss, if the **securities** cannot be replaced or restored with other of like kind or quality; provided the **Assured** must assign all rights, titles, and interest in such **securities** to POOL.
- i. Property in Transit is valued as follows:
- 1) Property in transit; Actual invoice value, plus costs and charges (including commission as selling agent) which have accrued and are legally due.
 - 2) Property shipped to or for the account of the **Assured**; selling invoice value, including prepaid or advanced freight, for property which has been sold by the **Assured**.
 - 3) Property shipped to or for the account of the purchaser; **Actual Cash Value** at the point of destination on the date of loss or damage, less any charges saved which would have become due and payable upon delivery at destination for property not under invoice.
- k. The **Named Assured** may:
- 1) Rebuild or have the property rebuilt at another site, provided that such rebuilding does not increase the amount of loss or damage which would otherwise be payable to rebuild at the current site.
 - 2) Give notice of claim to be calculated on **Actual Cash Value** of the property lost or damaged until repair or replacement has been completed.
- l. Replacement cost is subject to all the terms, conditions and limitations of the POOL Coverage Form (including any endorsements) and the following additional provisions:
- 1) In no event will payment exceed the actual repairs, replacement, or the limit of liability stated in this Coverage Form, whichever is the lesser.
 - 2) If during the term of this Coverage Form, any **Assured** real property is offered for sale, the value of loss or damage will not exceed the lesser of:
 - a. The price of the offer for sale while the property is offered for sale (with proper deduction for the value of any land); or

b. The cost to repair or replace. If the **Assured** fails to comply with any of the valuation provisions or does not elect replacement cost within two (2) years from the date of loss, the basis of valuation will be limited to the **Actual Cash Value** as defined in this Coverage Form.

m. Scheduled Property with an Agreed Value:

The POOL will pay the Agreed Value for property listed on the **Assured's** Agreed Value Schedule of Property, as agreed upon by the Assured and POOL, in the event of a **Total Loss** of the property which cannot be repaired or replaced. If the property can be repaired or replaced, the maximum liability shall not exceed the least of:

1. the cost to repair or restore the property to the condition that existed immediately before the loss; or
2. the cost to replace the property; or
3. the Agreed Value.

6. Appraisal:

If the **Assured** and POOL are unable to agree as to the amount necessary to rebuild, repair or replace the damaged or destroyed property or the actual value of loss, each party shall name a competent and disinterested appraiser and the two so chosen shall, before proceeding further, appoint a competent and disinterested umpire. The appraisers together shall obtain repair or replacement estimates, calculate the value of loss, and failing to agree shall submit their differences to the umpire. The award, in writing, duly verified by any two shall determine the points in question. Both parties shall pay the cost of their own appraisers and equally pro rate the cost of the umpire.

7. Suspension:

Upon discovery of a dangerous condition, POOL may immediately suspend the coverage with respect to any Covered Property by giving written notice to the **Assured**. The coverage that is suspended may be reinstated by POOL. If coverage is suspended, it will also be immediately suspended for any mortgagee, lender or additional named interest by written notice of suspension.

8. Conditions Applicable to Property Extension 8. Monies and Securities:

a. Cancellation as to Any Employee

1). This coverage is cancelled as to act of any employee immediately upon notice to or discovery by the **Named Assured** or any official or employee of the **Named Assured** authorized to manage, govern or control employees (who is not in collusion with the employee) of theft or any other dishonest act committed by that employee whether before or after becoming employed by the **Named Assured**.

b. Discovery

1) Coverage applies for **loss** sustained through acts committed or events occurring at any time and discovered by the **Named Assured**

- a) during the coverage period; or
- b) one year after the date of cancellation, termination or expiration of this coverage period.

2) Discovery of loss occurs when the **Named Assured** or any official or employee of the **Named Assured** authorized to manage, govern or control employees (who is not in collusion with the employee) first becomes aware of facts from which a reasonable person would know or should know that a loss covered by this coverage has been or will be incurred even though the exact amount or details of loss may not then be known. Discovery also occurs when the **Named Assured** or any official or employee of the **Named Assured** authorized to manage, govern or control employees (who is not in collusion with the employee) receives notice of an actual or potential claim against the **Named Assured** alleging facts that if true would constitute a covered loss under this Coverage Form.

Section VI. LIABILITY COVERAGE

A. Liability Coverage Agreement (Note: Claims-Made for Wrongful Acts)

In consideration of the payment of the Contribution and subject to the Limits of Liability, exclusions, conditions and other terms of coverage, POOL agrees with the **Assured** to pay on behalf of the **Assured** the total sum of damages which the **Assured** becomes legally obligated to pay as damages resulting from an **Event**, such sum (including related medical and legal costs) being reached either through adjudication or compromise after proper deductions for all recoveries and salvages.

Coverage applies to damages due to an **Event** taking place anywhere in the world, provided that the **Assured's** responsibility to pay damages arising out of such **Event** is determined in a suit on the merits in the United States of America or in a settlement of such suit agreed to by the POOL.

B. Liability Definitions

1. **Automobile** means any land motor vehicle, mobile equipment, trailer/semi-trailer, and attached equipment.
2. **Bodily Injury** means physical injury to any person, including death, sickness, disease or any mental anguish, shock or disability associated with or arising from such physical injury.
3. **Employment-based Benefit Plan Administration** means giving counsel or coverage interpretation to active or prospective benefit plan participants, handling of related records, or effecting enrollment, notification, revision, termination or cancellation of coverage under any employment-based benefit plan. Employment-based benefit plan includes life insurance, accident or health insurance, profit sharing plans, pension plans, stock subscription plans, workers' compensation, unemployment insurance, social security, disability benefits, vacation plans and any other similar employment-based benefit plans.
4. **Event** means one or more of the following:
 - a. an accident that causes **Bodily Injury** or **Property Damage** during this coverage period, excluding consequential **Bodily Injury** that arises out of a **Personal Injury**;
 - b. **Personal Injury** caused by an offense committed during this coverage period;
 - c. **Law Enforcement Activities** during this coverage period which cause **Bodily Injury**, **Property Damage**, **Personal Injury** or the violation of civil rights; however, any damages arising out of employment practices of the **Named Assured** (including discrimination related to recruitment, hiring, evaluation, training, promotion, demotion, discipline or termination of an employee) will be considered a **Wrongful Act** herein;
 - d. any injury caused by errors or omissions arising out of **Employment-based Benefit Plan Administration** committed during this coverage period;
 - e. a **Wrongful Act** taking place during this coverage period or on or after the retroactive date shown in the declarations page of this Coverage Form and reported to POOL during this coverage period or reported to POOL during any extended reporting period added to this coverage by endorsement, but a **Wrongful Act** does not include damages arising out of an **Event** as defined in a., b., c. or d. above.
5. **Law Enforcement Activities** means performance while acting within the scope of duty, including policy making, supervisory and executive functions relating to law enforcement, (a) as a law enforcement officer or reserve officer, (b) as an officer of a jail, (c) as any **Assured** representing a law enforcement agency, and (d) including activities performed for other than the **Named Assured** which are approved in advance by an authorized representative of the **Named Assured**.
6. **Personal Injury** means injury, including consequential **Bodily Injury**, arising out of one or more of the following offenses: False arrest, detention, or imprisonment; malicious prosecution; false or

improper service of process; publication or utterance of libel or slander or disparaging material or a publication or utterance in violation of an individual's right to privacy; violation of right of public occupancy; wrongful eviction, wrongful entry, or invasion of premises; assault and/or battery; discrimination; piracy and infringement of copyright of property.

7. **Property Damage** means physical injury to or loss of use of tangible property of others including damage to structures or portions thereof rented to or leased to the **Assured**, including fixtures permanently attached thereto.
8. **Wrongful Act** means any actual or alleged error or misstatement, omission, act of neglect or breach of duty including misfeasance, malfeasance, and nonfeasance by the **Assured**. **Wrongful Act** includes actual or alleged violations of the United States Constitution or any State constitution, or any law affording protection for civil rights, provided coverage is otherwise afforded hereunder for such **Wrongful Act**.
9. The term **Sexual Abuse** as used hereunder shall mean any actual, attempted or alleged sexual conduct towards or to another person or persons, whether intentional, expected or unintentional, which causes physical and/or mental injuries. **Sexual Abuse** includes, but is not limited to, sexual molestation, sexual assault, sexual contact or touching and/or sexual exploitation or sexual injury.

Sexual Abuse does NOT include **Sexual Harassment** as defined in this Coverage Form.

10. The term **Sexual Harassment** as used hereunder shall mean any actual, attempted or alleged unwelcome sexual advances, requests for sexual favors or other conduct of a sexual nature towards or to another person or persons, which causes physical and/or mental injuries. **Sexual Harassment** includes:
 - a. The above conduct when submission to or rejection of such conduct is made either explicitly or implicitly a condition of a person's employment, or a basis for employment decisions affecting a person; or
 - b. The above conduct when such conduct has the purpose or effect of unreasonably interfering with a person's work performance or creating an intimidating, hostile or offensive work environment.

Sexual Harassment does NOT include **Sexual Abuse** as defined in this Coverage Form.

C. Liability Exclusions

1. Coverage does not apply to any claim for damages, whether direct or consequential, which is covered under any other Section of this Coverage Form. Coverage does not apply to property owned by the **Assured**, or to loss of use of tangible property owned by the **Assured**.
2. Coverage does not apply to any claim brought about or contributed to by acts intended or expected by the **Assured** to cause **Bodily Injury** or **Property Damage**. Any act of any one **Assured** will not be imputed to any other **Assured** for the purpose of determining the application of this exclusion.
3. Coverage does not apply to any claim made against any **Assured** flowing from or originating out of the **Assured** gaining any profit or advantage to which they were not legally entitled including, but not limited to, any wrongful or erroneous collection of taxes, fees or other charges, by whatever name called.
4. Coverage does not apply to any claim arising out of any criminal, dishonest, fraudulent or malicious act, error or omission of any **Assured**, committed with actual, criminal, dishonest, fraudulent or malicious purpose or intent. However, notwithstanding the foregoing, the **Assured** will be reimbursed up to the aggregate limit shown in the Liability Declarations for reasonable attorney fees and costs when incurred in the defense of any criminal proceeding arising out of what would otherwise be within the scope of the **Assured's** employment, provided the **Assured** is exonerated from all charges or all charges are subsequently withdrawn or dismissed. When an **Assured** is a

defendant represented by the same attorney or law firm representing other defendants in the same criminal proceeding who are not an **Assured** under this Coverage Form, payment hereunder shall be limited to the **Assured's** proportionate share of the total of the reasonable attorney fees.

If the **Named Assured** is required by law to provide for an employee's legal defense in a criminal proceeding, this coverage will reimburse the **Assured** in accordance with such law.

Whenever coverage under this Coverage Form would be excluded, suspended or lost because of any exclusion relating to criminal, dishonest, fraudulent or malicious conduct by any person covered hereunder, it is agreed that coverage as would otherwise be afforded herein shall be applicable with respect to an **Assured** who did not personally participate or personally acquiesce in or remain passive (including failure to give timely notice) after having knowledge of such conduct.

5. Coverage does not apply to liability arising out of the ownership, maintenance, loading or unloading, use, operation or entrustment to others of any aircraft, airfields, runways, hangars, buildings, or other properties in connection with aviation activities. For purposes of this exclusion, "aircraft" includes but is not limited to both manned aircraft and any "unmanned aerial vehicles." "Unmanned aerial vehicle" means an aircraft that is not designed, manufactured or modified to be controlled directly by a person from within or on the aircraft including drones.

However, this exclusion does not apply to liability arising out of the use of **automobiles** of the **Assured** used in connection with the operation of an airport and on the premises of an airport owned, maintained, or operated by the **Assured**.

Also, this exclusion does not apply to **Wrongful Acts** arising out of airport ownership.

This exclusion does not apply to "unmanned aerial vehicles" under 55 pounds in weight as equipped and as per the schedule agreed to and kept on file by POOL.

6. Coverage does not apply to any obligation for which the **Assured** may be held liable: (a) to any employee under the Fair Labor Standards Act (FLSA) or under any similar laws; however, coverage is extended for costs of defense of actions alleging violation of such laws; (b) under any workers' compensation, unemployment compensation, disability benefits, uninsured or underinsured motorists law, or under any similar laws; or (c) for bodily injuries to any employee of an **Assured** arising out of and in the course of employment by the **Assured** or arising out of performing duties related to the conduct of the **Assured's** business or **Bodily Injury** to any family member of an employee arising out of such activities. The exclusion under (c) applies whether the **Assured** may be liable as an employer or in any other capacity and to any liability for indemnity or contribution brought by any party for **Bodily Injury**.
7. Coverage does not apply to any liability arising out of or in any way connected with the operation of the principles of eminent domain, condemnation, inverse condemnation, or taking of any real property interest, by whatever name(s) called, whether such liability accrues directly against the **Assured** or by any agreement entered into by or on behalf of the **Assured**.

This exclusion also applies to any liability arising out of or connected with allegations that the **Assured's** actions constitute a taking of any real property interest in violation of substantive due process, including but not limited to any allegations that the **Assured's** actions lack any substantial relation to the public health, safety or general welfare and/or that the **Assured's** actions are arbitrary, capricious, irrational or unreasonable and/or not related to any legitimate governmental purpose.

8. Coverage does not apply to any liability arising out of the rendering of or failure to render the following professional services (including furnishing of food or beverages in connection therewith):
 - a. medical, surgical, dental, radiological or nursing service or treatment except by forensic medical examiners or coroners;
 - b. furnishing or dispensing of drugs or medical, dental or surgical supplies;
 - c. services by any person as a member of a formal accreditation or similar professional board or committee of the **Assured**, or as a person charged with the duty of executing directives of any

such board or committee, except the administrative, certification, and training duties of an ambulance services medical director (including law enforcement and firefighting agencies as required by law) and medical supplies approving authority.

Further, coverage does not apply in any way to liability arising out of the ownership, operation, management or oversight of any hospital.

This exclusion does not apply to incidental malpractice liability arising out of the rendering of, or failure to render, professional health care services by ambulance crews, emergency medical technicians, paramedics, firefighters or police officers, or nurses including those providing forensic blood draw services in connection with a variety of law enforcement investigational activities, allowed or required by Nevada law. The scene of such medical services may be outside the scope of employment or outside the **Assured's** jurisdiction. However, this coverage will not apply if the individuals rendering medical services are doing so on behalf of and while working or volunteering for another medical services organization not an **Assured** under this coverage.

This exclusion does not apply to services by a public health official arising out of their official duties to protect the health and safety of the general public.

9. Coverage does not apply to any liability arising out of any breach of or failure to perform a contractual obligation including warranties of any kind and including labor agreements. However, this exclusion does not apply to employment related contracts other than labor agreements.

This exclusion does not apply to any statutory implied agreement between law enforcement agencies, in the absence of interlocal or cooperative agreement, to defend, hold harmless, and indemnify claims or liability arising out of the act or omission of the **Assured's** employee while participating in a request for assistance, under NRS 277.035 or Nevada law.

10. Coverage does not apply to any claim based upon or attributable to the rendering or failure to render any opinion, treatment, consultation or service if such opinion, treatment, consultation or service was rendered or failed to have been rendered while the **Assured** was engaged in any activity for which they received compensation from any source other than the **Named Assured**.
11. Coverage does not apply to any claim arising out of estimates of probable costs or cost estimates being exceeded or for faulty preparation of bid specifications or plans.
12. Coverage does not apply to any claim for a **Wrongful Act** arising out of failure to supply a specific amount of electrical power or fuel due to interruption of the electrical power or fuel supply or transmission thereof.

However, an **Event** (other than a **Wrongful Act**) arising from interruption of the electrical power or fuel supply or transmission thereof is covered.

13. Coverage does not apply to any claim based upon or arising out of:
- a. the issuance, modification or cancellation of debt instruments, including, but not limited to, loans or transfers, and interest payable, whether legal or illegal; the collection or payment of taxes, fees or other charges or the collection of or payment of taxes, fees or other charges, to or for any other entity, including, but not limited to, hospitals, schools, commissions, joint commissions, boards, agencies, internal or external funds, districts and authorities;
 - b. the failure or alleged failure to comply with any regulatory act or statute such as those governing Medicare or similar Federal programs, the Nevada State Indigent Accident Funds or similar State programs; or
 - c. any fiduciary obligation or duty imposed by the Employee Retirement Income Security Act of 1974 (ERISA), the Pension Benefit Act, the Consolidated Omnibus Budget Reconciliation Act of 1986 (COBRA), or Section 89 of the Internal Revenue Code, or any amendments thereto or similar provisions of any federal, state, local, statutory, or common law.

14. Coverage does not apply to any liability arising out of the performance or non-performance of an investment.
15. Coverage does not apply to any damages, awards of interest, costs, civil fines, penalties, fees, including attorney's fees, or expenses that the **Assured** may become obligated to pay as a result of an adverse judgment for equitable, injunctive or declaratory relief. Coverage does not apply for any restitution, refund or reimbursement whether called damages or otherwise or to any cost or expense in processing such restitution, refund or reimbursement.
16. Coverage does not apply to any damages, costs, civil fines, penalties or expenses incurred by any **Assured** arising out of any complaint or enforcement action from any federal, state, or local government regulatory agency. However, defense costs related to such actions will be reimbursed for an amount not to exceed the amount shown in the Liability Declarations per **Event**.
17. Coverage does not apply to any criminal court sanctions, fines, penalties, fees, costs, expenses or interest awarded against an **Assured** or to any award of attorney's fees and litigation expenses to a prevailing party in a criminal case after a finding by the court that the **Assured's** position in pursuing the criminal action was vexatious, frivolous or in bad faith under NRS Chapter 41, state, or federal law.
18. Coverage does not apply to any liability arising out of:
 - a. Failure of performance of contract by any insurer;
 - b. Failure to procure insurance or the failure of such insurance to adequately cover risks.
19. Coverage does not apply to any liability with respect to **Employment Based Benefit Plan Administration** arising out of:
 - a. Insufficiency of funds to meet any obligations under any plan included in the employment-based benefit plan;
 - b. Errors in providing information on past performance of investment vehicles;
 - c. Advice given to any person with respect to that person's decision to participate or not participate in any plan included in the employment-based benefit plan;
 - d. Failure of any investment to perform as represented;
 - e. Investment or non-investment of funds or the performance or nonperformance of any investment;
 - f. Legal advice or investment advice given to an employee or beneficiary;
 - g. Any loss resulting from the termination of any plan included in the employment-based benefit plan or termination of the employment-based benefit plan;
 - h. Taxes, fines or penalties, including those imposed under the Internal Revenue Code or any similar state or local law; or
 - i. Any act or omission of a third-party administrator, or any person other than an employee, who administers an employment-based benefit plan.
20. Coverage does not apply to any damages for **Bodily Injury, Property Damage, Personal Injury**, or other injury that is continuous or progressively deteriorating, and that is first manifest prior to the effective date or after the expiration of this Coverage Form. This exclusion applies even if such injury or damage continues or deteriorates during the term of this Coverage Form.

The most POOL will pay for **Bodily Injury, Property Damage, Personal Injury** and any other injury that is continuous or progressively deteriorating, and that is first manifest during the period of this Coverage Form, is the applicable limit of coverage shown in the Declarations of this Coverage Form. This is the only limit that applies to all related **Bodily Injury, Property Damage, Personal Injury** or other injury, regardless of whether such injury or damage existed before, or continues or progressively deteriorates after, the period of this Coverage Form.

Within the meaning of this exclusion, injury or damage is manifest when appreciable harm occurs that is or should be known to the **Assured** or the person or organization harmed.

21. Coverage does not apply to any claim arising out of the act of **Sexual Abuse** by the **Assured**. Any such act pertaining to any one **Assured** will be imputed to any other **Assured** who personally participated or personally acquiesced in or remained passive (including failure to give timely notice) after having knowledge of such **Sexual Abuse**.

Coverage for any other **Assured** shall not exceed the sublimit shown in the Liability Declarations.

22. Coverage does not apply to liability of any **Assured** who, directly or indirectly, causes damages to their **Assured** employer or principal.

D. Liability Conditions

1. Duties of the **Assured** – If there is an **Event**, loss, incident, occurrence, demand, notice, summons or claim that might involve this coverage, the **Assured** shall submit written notice to POOL as soon as reasonably practicable via POOL's designated claims service organization including particulars sufficient to identify parties involved, time, place, circumstances, nature of any injury or damage, witnesses and any other pertinent information.
2. Cooperation – The POOL has no duty to defend but may at its sole discretion defend an **Assured** against any claim for damages. Where the POOL has exercised its discretion to defend an **Assured**, the POOL has the sole right to investigate, defend or settle any claim against an **Assured** for damages. The **Assured** shall cooperate with POOL, its claims representatives and investigators, and attorneys assigned by POOL to represent the **Assured**, and if requested, attend hearings and trials, assist in securing and obtaining evidence, and obtaining the attendance of witnesses. The **Assured** shall not admit to any liability, assume any obligation, voluntarily make any payment or incur any expense other than first aid to others at the time of an accident. The **Assured** agrees to comply with all terms and conditions in all sections of this Coverage Form. The **Assureds** shall not waive any immunities granted to local governments.
3. Records - The records as kept by the **Assured** shall be made available to POOL or its representatives as necessary to determine the amount of loss or damage covered hereunder.
4. Appeal – If the **Assured** and POOL are unable to agree to appeal a judgment, a disinterested attorney, mutually agreeable to POOL and the **Assured**, shall be retained to render a written opinion concerning such appeal. Such written recommendation shall be binding on both the **Assured** and POOL. Fees of such retained attorney shall be borne equally by both parties.
5. Opportunity to Associate - It is understood that, when so requested, POOL may afford the **Assured** an opportunity to associate, at the **Assured's** own expense, with the POOL in the defense or control of any claim, suit or proceeding.
6. Severability of Certain Interests: If liability is incurred by reason of injury suffered by an employee of one **Assured**, which does not arise out of the injured employee's employment, for which another **Assured** is liable, then this coverage shall pay on behalf of the **Assured** for such liability in the same manner as if separate coverage documents had been issued to each **Assured**. If liability is incurred because of **Property Damage** to property belonging to any **Assured** for which another **Assured** is liable, then this coverage shall pay on behalf of such **Assured** in the same manner as if separate coverage documents had been issued to each **Assured**. Nothing contained in this Condition shall operate to increase POOL limits of liability or to provide coverage for any **Assured** who, directly or indirectly, causes damages to their **Assured** employer or principal.
7. For the purpose of determining the limit of POOL's liability and the Maintenance Deductible of the **Named Assured**, all damages arising out of one or more related **Events** or arising out of a series of continuous, repeated or interrelated **Events** will be considered as arising out of one **Event**; furthermore, all such damages, whether attributable directly or indirectly to one **Event**, will be added together and the total amount of such damages shall be deemed one **Event**, regardless of the period of time or area over which the **Event** occurs.

8. If any **Event** other than a **Wrongful Act** includes allegations of and is associated with a **Wrongful Act** then all damages arising out of that **Event** and the **Wrongful Act** shall be deemed one **Event** at the time the claim is first made, and the only applicable coverage is that which is in effect at the time the claim is first made.
9. An **Event** with no associated **Wrongful Act** which takes place during more than one coverage period shall be deemed an **Event** during only one coverage period and only the most recent coverage period during which the **Event** took place shall apply.
10. If a **Wrongful Act** did not take place during this coverage period, but commenced on or after the retroactive date shown on the Liability Declarations page of this Coverage Form and prior to the beginning of this coverage period, and a claim because such **Wrongful Act** is made against the **Assured** and reported to POOL during this coverage period, this coverage is extended to damages resulting from such a **Wrongful Act**. Coverage does not apply to damages resulting from a **Wrongful Act** that commenced prior to the retroactive date.
11. Extended Reporting Periods:
 - a. POOL will provide one or more reporting periods, as described below, if this coverage is cancelled or not renewed for any reason other than nonpayment of loss fund contributions or any other amount owed to POOL.
 - b. The reporting periods do not extend the coverage period or change the scope of coverage provided. The reporting periods apply only to claims first made against an **Assured** during the applicable reporting period for damages because of a **Wrongful Act** that occurred before the end of the coverage period.
 - c. The reporting periods do not reinstate or increase the limits of liability.
 - d. A Basic Reporting Period of 30 days from the effective date of cancellation or non-renewal of this form is automatically provided without an additional charge. Subject to the terms and conditions of this coverage, the Basic Reporting Period applies to claims for damages that are first made against the **Assured** and reported in accordance with all coverage provisions no later than the end of the Basic Reporting Period.
 - e. An Optional Extended Reporting Period will take effect on the effective date of cancellation or non-renewal of this coverage and will remain in effect for a period of one to five years, depending on which Optional Extended Reporting Period is purchased. Subject to the terms and conditions of this coverage, the Optional Extended Reporting Period applies to claims for damages that are first made against the **Assured** and reported in accordance with all coverage provisions no later than the end of the Optional Extended Reporting Period. The additional Contribution for this Optional Extended Reporting Period will depend upon which option is chosen. POOL must receive a written request from the **Assured**, together with payment of Contribution due, within 60 days after the effective date of cancellation or non-renewal of this coverage if purchase of one of the Optional Extended Reporting Periods is desired. Once POOL acknowledges receipt of the additional Contribution, the Optional Extended Reporting Period may not be cancelled and the Contribution for the Optional Extended Reporting Period is fully earned.
 - f. The Basic Reporting Period or the Optional Extended Reporting Period does not apply to claims covered under any other coverage purchased subsequent to or to replace this coverage.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

TABLE OF COVERAGE FOR CYBER RISK COVERAGE FORM

<u>DECLARATIONS:</u>	Page
<u>PART ONE (TERMS AND CONDITIONS):</u>	Page 2 - 13
Named Assured	Page 2
Limit of Liability:	Page 2 - 3
Notice:	Page 3
Named Assured 's Obligations:	Page 4 - 5
Discovery:	Page 5
Subrogation:	Page 5
Other Coverage:	Page 6
Notice and Authority:	Page 6
Assignment:	Page 6
Action against POOL:	Page 6
Bankruptcy:	Page 6
Worldwide Territory :	Page 6
Headings:	Page 6
Law Enforcement Cooperation:	Page 6 - 7
Definitions:	Page 7 - 11
Duties of the Named Assured in the Event of a Claim:	Page 12
Common Exclusions:	Page 12 - 13
<u>PART TWO (SECURITY AND PRIVACY LIABILITY COVERAGE) :</u>	Page 13 - 17
Coverage Agreement:	Page 13 - 14
Security and Privacy Coverage Agreement:	Page 14
Discretionary Defense:	Page 14
Settlement:	Page 14
Territory:	Page 14
Exclusions:	Page 14 - 17
Limitation of Liability:	Page 17
<u>PART THREE (SECURITY FAILURE/PRIVACY COVERAGE):</u>	Page 17 - 20
Coverage Agreement:	Page 17
Duties of the Named Assured in the event of a Security Threat:	Page 18
Confidentiality:	Page 18
Notice:	Page 18 - 19
Exclusions:	Page 20
<u>PART FOUR (Network Interruption Coverage):</u>	Page 20 - 26
Sublimit list:	Page 20
Coverage Agreement:	Page 21
Definitions:	Page 21 - 23
Notice:	Page 23
Network Interruption Conditions:	Page 23 - 24
Appraisal:	Page 24
Exclusions:	Page 25
Limit of Liability:	Page 25 - 26

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

PART ONE: COMMON TERMS & CONDITIONS:

All terms or phrases in **bold print** in the body of this Coverage Form are defined terms.

Named Assured: The **Named Assured** means each member listed on Attachment A of this Coverage Form and all Boards, Departments, Divisions, Commissions, and Authorities under the supervision or control of the **Named Assured** whether now or hereafter constituted.

It is agreed that the unqualified word **Assured** wherever used within this coverage includes not only the **Named Assured** but also:

1. any official, trustee, director, officer, volunteer or employee of the **Named Assured** while acting within the course and scope of their duties as such, and
2. the interest of the **Named Assured** in any joint venture or interlocal cooperation agreement to which the **Named Assured** is a party and any activities under the supervision or control of the **Named Assured** whether now or hereafter constituted, provided no separate independent legal entity is formed and subject to the Other Insurance or Coverage provisions contained herein.

1. LIMIT OF LIABILITY

The Limit of Liability shown in the Declarations is the POOL'S maximum liability for all **claims** under all Coverage Sections of this Cyber Risk Coverage Form combined and the POOL shall not be responsible to pay any Loss upon exhaustion of the Limit of Liability.

If a Sublimit of Liability is stated in the Declarations with respect to a Coverage Section of this Coverage Form, then such Sublimit of Liability shall be the POOL'S maximum liability for all Loss with respect to such Coverage Section and the POOL shall not be responsible to pay any Loss under such Coverage Section upon exhaustion of such Sublimit of Liability. Each Sublimit of Liability shall be part of and not in addition to the Limit of Liability and shall in no way serve to increase the Limit of Liability.

***Explanation:** This section articulates the maximum coverage a POOL **Named Assured** will receive following covered cyber security event and notes that the POOL is not obligated to provide coverage after the maximum amount has been exhausted. This section also bars a POOL **Named Assured** from attempting to increase their maximum coverage under this form by combining a Sublimit with another liability limit.*

2. NOTICE AND AUTHORITY

Except for the giving of a notice of Claim, which shall be governed by the provisions of the NOTICE OF CLAIM OR EVENT Section of these Common Terms and Conditions, all notices required under this Coverage Form to be given by a **Named Assured** to the POOL shall be given in writing to the POOL at the address stated in the Declarations.

It is agreed that any **Named Assured** shown on Attachment A shall act on behalf of all of its Assureds with respect to the giving of notice of a **Claim**, the giving and receiving of notice of cancellation and nonrenewal, the payment of contributions and the receiving of

Formatted: Font color: Auto

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

any return contributions that may become due under this Coverage Form, the receipt and acceptance of any endorsements issued to form a part of this Coverage Form, the exercising or declining of the right to tender the defense of a Claim to the POOL and the exercising or declining to exercise any right to a Discovery Period.

2-3. NOTICE OF CLAIM OR EVENT

Formatted: Font: (Default) Microsoft Sans Serif, 12 pt, Bold

- a) The **Named Assured** shall, as a condition precedent to the obligations of the POOL under this Coverage Form, give written notice to the POOL of any Claim made against the **Named Assured** or a First Party Event immediately after:
- i. any personnel in the office of any **Named Assured** first becomes aware of the Claim; or
 - ii. any First Party Event commences or, solely with respect to a Discovery Coverage Section, is discovered.

Formatted: Indent: Left: 0.63", Hanging: 0.19"

Notwithstanding the foregoing and regardless of whether any personnel described in (1) above has become aware, in all events each Claim under a Claims-Made and Reported Coverage Section must be reported no later than either:

- iii. sixty (60) days after the end of the Coverage period; or
 - iv. the end of any applicable Discovery Period.
- b) If written notice of a Claim or a First Party Event has been given to the POOL pursuant to Clause a) above, then:
- i. any subsequent Claim made against ~~any **Named Assured**~~; or
 - ii. any subsequent First Party Event;

Formatted: Indent: Left: 0.63", First line: 0"

arising out of, based upon or attributable to the facts giving rise to such Claim or First Party Event for which such notice has been given, or alleging any related act thereto, shall be considered made at the time such notice was given; and

- c) Solely with respect to any **Claims made** and reported coverage section, if during the coverage period or during the Discovery Period (if applicable), a **Named Assured** shall become aware of any circumstances which may reasonably be expected to give rise to a **Claim** being made, the **Named Assured** shall give written notice to the POOL of such circumstances, the Third Party Events, allegations anticipated and the reasons for anticipating such a **Claim**, with full particulars as to dates, persons and entities involved, then any **Claim** which subsequently is made against ~~an **Named Assured**~~ and reported to the POOL alleging, arising out of, based upon or attributable to such circumstances or alleging any related act to that alleged or contained in such circumstances, shall be considered made at the time such written notice of circumstances was given.
- d) Notice as described herein shall be given in writing to the POOL Claims Service organization.

Formatted: Strikethrough

Any notice must reference the Coverage Form Number set forth in the Declarations and the Coverage Section(s) under which a **Named Assured** is providing notice.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

If mailed or transmitted by electronic mail, the date of such mailing or transmission shall constitute the date that such notice was given and proof of mailing or transmission shall be sufficient proof of notice.

***Explanation:** This section requires a POOL Named Assured to promptly notify the POOL of any claim or potential claim. This prompt Notice requirement allows the POOL to retain the appropriate personnel to investigate and properly respond to each and every claim.*

3.4. NAMED ASSURED'S OBLIGATIONS

In connection with all **Claims** under this Coverage Form, each **Named Assured** shall:

- a) send the POOL copies of all demands, suit papers, other related legal documents and invoices for Defense Costs received by such **Named Assured**, as soon as practicable;
- b) immediately record the specifics of any **Claim** and the date such **Named Assured** first received such **Claim**;
- c) cooperate with and help the POOL and/or any counsel or representative appointed pursuant to the terms of this Coverage Form, including, without limitation, as follows:
 - i. by not admitting liability;
 - ii. in making settlements;
 - iii. in enforcing any legal rights any **Named Assured** may have against anyone who may be liable to any **Named Assured**;
 - iv. by attending depositions, hearings and trials;
 - v. by securing and giving evidence, and obtaining the attendance of witnesses;

vi. by preserving and furnishing any and all documentation, Computer Systems, Electronic Data, or any other item, within the possession, custody or control of such Named Assured that may be required; and

by taking such actions that such Named Assured and the POOL agree are necessary and practicable to prevent or limit loss arising from any Claim.

~~vi-vii.~~

~~vii.i. by taking such actions that such Named Assured and the POOL agree are necessary and practicable to prevent or limit loss arising from any Claim.~~

- d) unless required to do so by law, **Named Assured**'-s shall not, without the POOL'S prior written consent:
 - i. assume any financial obligation or incur any cost unless specifically allowed to settle any **Claim** on behalf of the POOL pursuant to the Coverage Sections under this Coverage Form.

Formatted: Font: 11 pt

Formatted: Font: 11 pt

Formatted: Indent: Left: 0.56", Hanging: 0.31", Space After: 8 pt, Don't add space between paragraphs of the same style

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Font: (Default) Microsoft Sans Serif, 11 pt

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Font: 11 pt

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Font: 11 pt

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Indent: Left: 0.56", Hanging: 0.31", Numbered + Level: 1 + Numbering Style: i, ii, iii, ... + Start at: 1 + Alignment: Right + Aligned at: 0.56" + Indent at: 0.81"

Formatted: Font: (Default) +Body (Calibri), 11 pt

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

- ii. take any action, or fail to take any required action which prejudices the POOL'S rights under this Coverage Form.
- iii. fail to comply with all terms and conditions in all sections of this Cyber Risk Coverage Form.
- iv. destroy, dispose, compromise, or discard any Computer System, Electronic Data, or other item relevant to the Claim.

iv.v. waive any immunities granted to local governments.

Explanation: *This section requires a POOL Named Assured not to admit liability and fully cooperate with the POOL's cyber event response team following a cyber event. This section ensures a uniform cyber event response by POOL Named Assured's and prevents POOL Named Assured's from assuming financial obligations on behalf of the POOL without the POOL'S evaluation and approval.*

4.5. DISCOVERY

This Clause applies solely to **Claims** made and reported coverage Sections of this Coverage Form, but shall not apply in the event of cancellation for non-payment of contribution:

- a) Automatic Discovery Period: If the **Named Assured** or the POOL shall cancel or refuse to renew this Coverage Form the **Named Assured** shall have the right following the effective date of such cancellation or nonrenewal to a period of sixty (60) days (the "Automatic Discovery Period") in which to give written notice to the POOL of **Claims** first made against a **Named Assured** during the Automatic Discovery Period for **Claims** occurring prior to the end of the Coverage period and otherwise covered by this Coverage Form. The Automatic Discovery Period shall not apply where an Optional Discovery Period has been purchased or to **Claims** that are covered under any subsequent coverage a **Named Assured** purchases or that is purchased for a **Named Assured**'s benefit, or that would be covered by any subsequent coverage but for the exhaustion of the amount of coverage applicable to such **Claims** or any applicable retention amount.
- b) Optional Discovery Period: Except as indicated below, if the **Named Assured** or the POOL shall cancel or refuse to renew this Coverage Form or in the event of Bankruptcy (as that term is defined in Clause 10. below), the **Named Assured** shall have the right to a period of up to three (3) years following the effective date of such cancellation or nonrenewal (an "Optional Discovery Period"), upon payment of an additional contribution amount of up to:
 - i. one hundred percent (100%) of the full annual contribution, for a period of one (1) year,
 - ii. one hundred and seventy-five percent (175%) of the full annual contribution, for a period of two (2) years, or
 - iii. two hundred percent (200%) of the full annual contribution, for a period of three (3) years,

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: Font: (Default) Microsoft Sans Serif, 12 pt

Formatted: Left, Indent: Left: 0.5", Space After: 8 pt, Don't add space between paragraphs of the same style, Line spacing: Multiple 1.08 li, No bullets or numbering

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

in which to give written notice to the POOL of **Claims** first made against a **Named Assured** during the Optional Discovery Period for any Third Party Events occurring prior to the end of the Coverage period and otherwise covered by this Coverage Form.

If the **Named Assured** exercises its right to purchase an Optional Discovery Period, that period incept at the end of the Coverage period and there shall be no Automatic Discovery Period.

As used herein, "full annual contribution" means the contribution amount charged to the **Named Assured**, plus an additional contribution charged for any endorsements to this Coverage Form.

The right to purchase an Optional Discovery Period shall terminate unless written notice of election, together with any additional contribution due, is received by the POOL no later than thirty (30) days after the effective date of the cancellation, nonrenewal or transaction.

Any Discovery Period cannot be canceled and any additional contribution charged for an Optional Discovery Period shall be fully earned at inception. The Discovery Period shall not apply to any cancellation resulting from non-payment of contribution.

5.6. SUBROGATION

A **Named Assured** may be able to recover all or part of a **claim** from someone other than the POOL. Such **Named Assured** must do all that is possible after **claim** to preserve any, and all, rights of recovery. As a condition of any payment by the POOL under this Coverage Form, a **Named Assured**'s rights to recovery will be transferred to the POOL. Each **Named Assured** will do whatever is necessary, including signing documents, to help the POOL obtain that recovery.

6.7. OTHER COVERAGE

Coverage as is provided by this Coverage Form shall apply only in the event of a **Privacy or Security Event** unless coverage is expressly excluded. **Privacy or Security Event** coverage, where appropriate, under this Coverage Form is available up to the applicable liability limit or Sublimit, but not both. There is absolutely no coverage under this Coverage Form if coverage or indemnity coverage is available from other sources. There is absolutely no coverage if provided under this Coverage Form beyond the applicable liability limit or Sublimit.

***Explanation:** This section bars coverage for POOL **Named Assured**s under this coverage form if a POOL **Named Assured** has coverage from other sources that would pay for a cyber event related claim or loss in addition to the instant coverage form. The purposes of this limitation is to ensure that all other available coverage sources are exhausted following a cyber event before a POOL **Named Assured** receives coverage under this form.*

7. NOTICE AND AUTHORITY

~~Except for the giving of a notice of **Claim**, which shall be governed by the provisions of of the NOTICE OF CLAIM OR EVENT Sections of these Common Terms and Conditions, all notices required under this Coverage Form to be given by a **Named Assured** to the POOL shall be given in writing to the POOL at the address stated in Item 2(a) of the Declarations.~~

Commented [WC1]: Should this be item 2 before the Notice of Claim or Event section?

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

~~It is agreed that any **Named Assured** shown on Attachment A shall act on behalf of all of its **Assureds** with respect to the giving of notice of a **Claim**, the giving and receiving of notice of cancellation and nonrenewal, the payment of contributions and the receiving of any return contributions that may become due under this Coverage Form, the receipt and acceptance of any endorsements issued to form a part of this Coverage Form, the exercising or declining of the right to tender the defense of a **Claim** to the POOL and the exercising or declining to exercise any right to a Discovery Period.~~

8. ASSIGNMENT

This Coverage Form and any and all rights hereunder are not assignable without the prior written consent of the POOL, which consent shall be in the sole and absolute discretion of the POOL.

9. ACTION AGAINST POOL

LIMITATION ON RIGHT TO SUE. An **Assured** shall not sue or maintain any litigation or lawsuit for damages against POOL. By acceptance of this coverage, the **Assured** specifically agrees to waive any right to sue or maintain any litigation or lawsuit for damages against POOL. However, this Section does not prohibit any declaratory relief action seeking to interpret wording of this Coverage Form. Carson City County, Nevada shall be the sole venue for any and all disputes or declaratory relief litigation brought by an **Assured** relating to this Coverage Form or the POOL.

***Explanation:** This section prohibits any POOL **Named Assured** from initiating a legal proceeding against the POOL, except for declaratory relief.*

10. BANKRUPTCY

Bankruptcy or insolvency of any **Named Assured** or of its **Assureds** shall not relieve the POOL of any of its obligations hereunder.

11. WORLDWIDE TERRITORY

Where legally permissible, this Coverage Form shall apply to **Claims** occurring or suffered anywhere in the world.

***Explanation:** This section provides coverage to POOL **Named Assureds** for claims arising from cyber events anywhere. The all-inclusive area covered is essential given the nature of cyber events (they can originate anywhere in the world).*

12. HEADINGS

The descriptions in the headings of this Coverage Form are solely for convenience, and are not a part of the terms and conditions of coverage.

13. LAW ENFORCEMENT COOPERATION

A **Named Assured** may receive a request from a law enforcement authority to keep confidential certain information about an actual or possible First Party **Claim** or Third Party

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Claim (including, without limitation, a **Privacy or Security Event**). In such circumstances, a notice of such First Party **Claim**, or of a **Claim** relating to or arising out of such Third Party **Claim**, shall be considered timely under the Coverage Form if:

- a) Immediately after receipt such request, a **Named Assured** -or employee of the **Named Assured** -requests permission to share such information with the POOL;
- b) The **Named Assured** -only withholds from the POOL that portion of the information that it has been instructed not to share with the POOL as may be required by law; and
- c) The **Named Assured** -provides full notice of such **Claim** to the POOL as soon as legally permitted.

In addition, to the extent the procedure set forth above is followed in connection with an authorized law enforcement request, any failure or delay in providing information to the POOL shall not be the basis for denial of coverage for a **Claim** or First Party **Claim** under the Coverage Form on the basis of a **Named Assured**'s failure to provide documentation and otherwise cooperate, as required by the Common Terms and Conditions.

Notwithstanding the above, no coverage shall be afforded for any **Claim** or First Party **Claim** if the information withheld relating to such First Party **Claim** or Third Party **Claim** was: (i) known to the **Named Assured**-, or prior to the inception date of the first POOL Coverage Form (or any other coverage agreement or insurance providing substantively identical coverage) provided through the POOL (or an insurance company affiliate of the POOL) to the **Named Assured** and continually renewed by the POOL (or an affiliate) until the inception date of this Coverage Form, and (ii) not disclosed in the Application.

***Explanation:** This section provides coverage in the rare situations where law enforcement (usually FBI) directs POOL **Named Assured** s not to take any action or otherwise keep law enforcement's involvement or discovery of the cyber event confidential. This situation typically arises when law enforcement is tracking a cyber network of illegal actors as part of a "sting" operation.*

14. DEFINITIONS

The following definitions are common to all sections in this Coverage Form:

"Bodily Injury" means physical injury, sickness or disease sustained by any person, including death resulting from these at any time. Bodily Injury also means mental illness, mental anguish or emotional distress, pain or suffering or shock sustained by any person, whether or not resulting from physical injury, sickness, disease or death of any person.

"Business Income" Loss means the sum of the following incurred during the **Period of Indemnity** and the Extended **Period of Indemnity** (if any):

- a. net profits that would have been earned but for the **Material Interruption** (after charges and expenses, but not including any capital receipts, outlays properly chargeable to capital, and deductions for taxes and profits); and
- b. charges and expenses which necessarily continue (including ordinary payroll).

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

If there would have been no net profit, **Business Income Loss** means the charges and expenses which necessarily continue less any loss from business operations that would have been sustained had there been no **Material Interruption**.

“**Claim**” means any demand, **Suit** for damages, **Regulatory Action** or PCI-DSS Assessment resulting from a **Privacy or Security Event**. All Claims because of a single **Privacy or Security Event** will be deemed to be a single Claim and to have been made at the time the first such Claim is made against any **Named Assured**, regardless of the number of individuals or entities making such Claims or the time period over which such Claims are made, even if subsequent Claims are made after the Coverage period or any Extended Reporting Period.

“**Claim Expenses**” means

- a. Reasonable and necessary fees charged by attorneys designated by the POOL to assist with the investigation, adjustment, negotiation, arbitration, defense or appeal of a **Claim**;
- b. All other reasonable and necessary fees, costs and expenses resulting from the investigation, adjustment, negotiation, arbitration, defense or appeal of a **Claim** and incurred by the POOL or by the **Named Assured** with the POOL'S prior consent; and
- c. Contributions on appeal bonds, attachment bonds or similar bonds; however, the POOL is not obligated to apply for or furnish any such bond;

Provided, however, **Claim Expenses** do not include:

- a. any internal salary, administrative, overhead or other related expenses of any **Named Assured** or any charges by a **Named Assured** for time spent cooperating with the investigation and defense of any **Claim**;
- b. **Privacy Response Expenses**; or
- c. **PCI-DSS Assessments**.

“**Computer System**” means computers and associated input and output devices, data storage devices, networking equipment and backup facilities:

- a. operated by and either owned by or leased to the **Named Assured**; or
- b. operated by a third party service provider and used to provide hosted computer application services to the **Named Assured** or for processing, maintaining, hosting or storing the **Named Assured**'s electronic data pursuant to a written contract with the **Named Assured** for such services.

“**Cyber Security Threat Expenses**” means all reasonable and necessary costs and expenses which a **Named Assured** incurs as a direct result of a **Cyber Security Threat**, other than **Cyber Security Threat Monies**.

“**Cyber Security Threat Monies**” means any funds, including any cryptocurrency, which the **Named Assured** pays, with the prior written consent of the POOL, for the purpose of terminating the **Cyber Security Threat**.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

“Cyber Security Threat” means a credible threat or series of related credible threats, including, but not limited to, a demand for **Cyber Security Threat Monies**, directed at a **Named Assured** to:

1. Release, divulge, disseminate, destroy or use confidential information taken from the **Named Assured** as a result of a **Privacy or Security Event**;
2. Introduce malicious code into a Computer System;
3. Corrupt, damage or destroy a Computer System;
4. Restrict or hinder access to a Computer System;

“Electronic Data” means any software or electronic data stored electronically on a **Computer System**, including without limitation **Personal Information**.

“Expenses to Reduce Loss” means expenses incurred by the **Named Assured** during the **Period of Indemnity**, over and above normal operating expenses, for the purpose of reducing **Business Income Loss** or shortening the **Period of Indemnity**.

“Extra Expenses” means expenses incurred by the **Named Assured** during the **Period of Indemnity** or the Extended **Period of Indemnity** (if any), other than **Expenses to Reduce Loss**, that would not have been incurred but for a **Material Interruption**.

“Material Interruption” means the actual and measurable interruption or suspension of a **Named Assured**’s business directly caused by a **Privacy or Security Event**.

“PCI-DSS Assessment” means any monetary penalty owed by a **Named Assured** due to the **Named Assured**’s noncompliance with Payment Card Industry Data Security Standards under an agreement between the **Named Assured** and a financial institution or other person enabling the **Named Assured** to accept credit cards, debit cards, prepaid cards, or other payment cards.

“Personal Information” means an individual’s name in combination with one or more of the following:

- a. information concerning the individual that constitutes “nonpublic personal information” as defined in the Gramm-Leach Bliley Act of 1999, as amended, and implementing regulations;
- b. medical or health care information concerning the individual, including without limitation “protected health information” as defined in the Health Insurance Portability and Accountability Act of 1996, as amended, and implementing regulations;
- c. the individual’s Social Security number, driver’s license or state identification number, credit, debit, or other financial account numbers and associated security codes, access codes, passwords or personal identification numbers that allow access to the individual’s financial account information; or
- d. other nonpublic personally identifiable information, as protected under any local, state, federal or foreign law;

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Provided, however, **Personal Information** does not include information that is lawfully available to the public, including without limitation information lawfully available from any **Named Assured** or any local, state, federal or foreign governmental entity.

“**Privacy or Security Event**” means:

- a. the actual or reasonably suspected theft, loss or unauthorized disclosure of or access to **Personal Information** in the care, custody or control of the **Named Assured** or for which the **Named Assured** is legally responsible, regardless of whether such **Personal Information** is maintained in electronic, paper or any other format; or
- b. a violation or failure of the security of a **Computer System**, including but not limited to unauthorized access, unauthorized use, a denial of service attack or receipt or transmission of malicious code.

Any **Privacy or Security Event** that is continuous or part of a series of repeated or related **Privacy or Security Events** will be considered to be a single **Privacy or Security Event** and will be considered to have commenced when the first such **Privacy or Security Event** commenced regardless of:

- a. The number of individuals or entities engaged in such **Privacy or Security Events**;
- b. The number of individuals or entities affected by such **Privacy or Security Events**;
- c. The number of locations where such **Privacy or Security Events** occurred; or
- d. The number of such **Privacy or Security Events** occurring or period of time over which they occur, even if subsequent **Privacy or Security Events** take place after the Coverage period.

“**Privacy Response Expenses**” means the following reasonable and necessary costs incurred by the **Named Assured** within one year of the discovery of a **Privacy or Security Event** that results in the actual or reasonably suspected theft, loss or unauthorized disclosure of or access to electronic **Personal Information** in the care, custody or control of the **Named Assured** or for which the **Named Assured** is legally responsible:

- a. For the services of a security expert designated by the POOL to determine the scope and cause of a **Privacy or Security Event** and the extent to which **Personal Information** was disclosed to or accessed by unauthorized persons;
- b. For the services of consultants or attorneys designated by the POOL to determine the **Named Assured**'s obligations, if any, under applicable law to give notice to affected individuals;
- c. To notify affected individuals if required by applicable law or if the **Named Assured** voluntarily elects to give such notice, and for the services of a contractor designated by the POOL to assist with providing such notice and responding to questions and concerns raised by individuals who are notified;
- d. For the services of a contractor designated by the POOL to provide identity theft protection services to affected individuals if the **Named Assured** elects to provide such services; and

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

- e. For the services of a public relations consultant designated by the POOL to avert or mitigate damage to the **Named Assured**'s reputation as a result of the **Privacy or Security Event**;

Provided, however, **Privacy Response Expenses** do not include:

- a. any internal salary, administrative, overhead or other related expenses of any **Named Assured** –or any charges by a **Named Assured** for time spent cooperating with the investigation and response to any **Privacy or Security Event**;
- b. **Claim Expenses**;
- c. **PCI-DSS Assessments**;
- d. Electronic Equipment, **Computer Systems** and Electronic Data Damage;
- e. Network Interruption Costs;
- f. Cyber Security Threat Expenses; or
- g. Cyber Security Threat Monies.

“**Proof of Loss Preparation Costs**” means fees and expenses incurred by a **Named Assured** for the services of a third-party forensic accounting firm to establish and prove the amount of loss, including those costs in connection with preparing a proof of loss. **Proof of Loss Preparation Costs** does not include any fees or expenses for consultation on coverage or negotiation of claims.

“**Property Damage**” means damage to, loss of use of, or destruction of any tangible property; however, **Property Damage** does not include the loss of use or damage of electronic equipment **and Computer System** caused by the reprogramming of the software (including the firmware) of such electronic equipment **and Computer System** rendering **it** useless for its intended purpose. For purposes of this definition, “tangible property” shall not include **Electronic Data**.

“**Regulatory Penalties**” means any civil fine or civil monetary penalty imposed in a **Regulatory Action** payable by a **Named Assured** to the governmental entity bringing the **Regulatory Action** and any sum of money that a **Named Assured** –is legally obligated to deposit in a fund as equitable relief for the payment of consumer claims due to an adverse judgment or settlement of a **Regulatory Action**.

“**Regulatory Action**” means a request for information, civil investigative demand, **Suit**, civil investigation or civil proceeding commenced by or on behalf any local, state, federal or foreign governmental entity in the entity’s regulatory or official capacity.

“**Suit**” means a civil proceeding arising out of a **Privacy or Security Event** and includes an arbitration proceeding or other alternative dispute resolution proceeding and to which the **Named Assured** must submit or does submit with the consent of the POOL.

“**Waiting Hours Period**” means the number of hours set forth in the Declarations that must elapse once a **Material Interruption** has begun.

Formatted: Font: (Default) Microsoft Sans Serif, 12 pt

Formatted: Font: (Default) Microsoft Sans Serif, 12 pt

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

15. DUTIES OF THE NAMED ASSURED IN THE EVENT OF A CLAIM

The following duties of the **Named Assured** are common to all sections in this Coverage Form:

After a situation that results in, or may result in, a **claim** under this Coverage Form, is discovered, the **Named Assured** must notify the POOL in writing immediately the date first discovered and cooperate with the POOL in the investigation and settlement of the **claim**. Additionally, the **Named Assured** must:

- a) Submit to an examination under oath at the POOL'S request and provide a signed statement of any written questions the POOL may provide;
- b) Immediately record the specifics of the **claim** and the date discovered;
- c) Immediately send the POOL copies of any demands, notices, summonses, or legal papers received in connection with the **claim**;
- d) Authorize the POOL to obtain records and other information if the POOL requests;
- e) Assist the POOL, upon the POOL'S request, in the enforcement of any right against any person or organization which may be liable to the **Named Assured** because of a **claim** which this Coverage Form may provide coverage.

The **Named Assured** will not, except at its own costs, voluntarily make any payment, assume any obligation, or incur any expense without the POOL'S express prior written consent.

***Explanation:** This section requires a ~~POOL~~ **Named Assured** to promptly notify the POOL of a cyber event following its discovery and provide all known information about the cyber event's nature and severity. This is because time is of the essence when responding to a cyber event as relevant information regarding identity of the actor behind the cyber event (and nature and severity of the event) can be overwritten or destroyed a short period after the event.*

16. COMMON EXCLUSIONS

The following Exclusions are common to all sections in this Coverage Form. This Coverage Form shall not cover any loss in connection with a **Claim** made against a **Named Assured**:

- a) alleging, arising out of, based upon or attributable to any dishonest, fraudulent, criminal or malicious act, error or omission, or any intentional or knowing violation of the law, if committed by any:
 - i. past or present directors, officers, trustees, general or managing partners or principals (or the equivalent positions) of a **Named Assured** -occurring at a time when such ~~Named Assured~~ -served in such capacity, whether acting alone or in collusion with other persons; or
 - ii. past or present employee or independent contractor employed by a **Named Assured** if any person referenced in Sub-paragraph (i) above knew or had reason to know prior to the act of, participated in, approved of or acquiesced to the dishonest, fraudulent, malicious, or criminal act committed by such

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

employee or independent contractor that caused a direct loss to a **Named Assured** or any other person.

- b) alleging, arising out of, based upon or attributable to any (i) misappropriation of a trade secret by any **Named Assured** on behalf of or to the benefit of any **Named Assured** -or (ii) infringement of patent.
- c) alleging, arising out of, based upon or attributable to any **Bodily Injury or Property Damage**.
- d) alleging, arising out of, based upon or attributable to any:
 - i. fire, smoke, explosion, lightning, wind, water, flood, earthquake, volcanic eruption, tidal wave, landslide, hail, act of God or any other physical event, however caused;
 - ii. war (whether war is declared or not), invasion, use of military force, civil war, popular or military uprising, rebellion, revolution, or any action taken to hinder or defend against any of these events;
 - iii. electrical or mechanical failures of infrastructure not under the control of a **Named Assured**, including any electrical power interruption, surge, brownout or blackout; provided, however, this Sub-paragraph (iii) shall not apply to a **Privacy or Security Event** that is caused by such electrical or mechanical failure;
 - iv. failure of telephone lines, data transmission lines or other telecommunications or networking infrastructure not under the control of a **Named Assured**; provided, however, this Sub-paragraph (iv) shall not apply to a **Privacy or Security Event** that is caused by such failure of telephone lines, data transmission lines or other telecommunication or networking infrastructure; or
 - v. satellite failure.
- e) arising out of, based upon or attributable to any seizure, confiscation, nationalization, or destruction of a **Computer System** by order of any governmental or public authority.

f) for any profit or advantage to which any **Named Assured** is not legally entitled.

f)

Formatted: Font: (Default) Microsoft Sans Serif, Bold, Underline

Formatted: List Paragraph, Indent: Left: 0.25", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 5 + Alignment: Left + Aligned at: 0.75" + Indent at: 1"

PART TWO: SECURITY AND PRIVACY LIABILITY COVERAGE:

THIS IS A CLAIMS MADE AND REPORTED COVERAGE SECTION AND A THIRD PARTY COVERAGE SECTION

All terms or phrases in **bold print** in the body of this Coverage Form are defined terms.

1. COVERAGE AGREEMENT

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

With respect to the SECURITY AND PRIVACY LIABILITY COVERAGE AGREEMENT, the POOL'S DISCRETIONARY DEFENSE provisions and the SETTLEMENT provisions of this Clause, solely with respect to Claims first made against a **Named Assured** during the coverage period or the **Discovery Period** (if applicable) and reported to the POOL pursuant to the terms of this Coverage Form, this Security and Privacy Liability Coverage Section affords the following coverage:

- a) **SECURITY AND PRIVACY LIABILITY COVERAGE AGREEMENT:** The POOL shall pay on a **Named Assured's** behalf all loss that such **Named Assured** is legally obligated to pay resulting from a **Claim** alleging a **Privacy or Security Event** up to the Limit of Liability set forth in the Declarations.
- b) **DISCRETIONARY DEFENSE:**
 - i. The POOL has the option and sole discretion to defend a **Suit** or **Regulatory Action** alleging a **Privacy or Security Event**, even if the **Suit** or **Regulatory Action** is groundless, false or fraudulent.
 - ii. The POOL has the sole right to investigate and settle any **Claim**.
 - iii. The POOL will withdraw any defense it undertakes after the applicable Limit of Liability shown in the Declarations is exhausted in the payment of judgements or settlements, **Regulatory Penalties, Claims Expenses, Privacy Response Expenses, PCI-DSS Assessments, Electronic Equipment and Electronic Data Damage, Network Interruption Costs, Cyber Security Threat Expenses, and Cyber Security Threat Monies.**
- c) **SETTLEMENT:**
 - i. The POOL has the right to settle any **Claim** if the POOL believes that it is proper.
 - ii. A **Named Assured** may not settle any **Claim** to which this coverage applies and which are subject without the prior written consent of the POOL.

Explanation: *This section provides coverage to POOL **Named Assured's** for third party claims arising from cyber security events. A typical example of a covered claim under this Part is a cyber event wherein a "hacker" obtains personal financial information of a third-party from a POOL **Named Assured** -and disseminates or otherwise improperly/illegally utilizes the third party's personal information for the hacker's gain (e.g. identify theft). This section also notes the POOL'S right to investigate and settle any claim it deems appropriate as well as the POOL'S discretion to defend any legal proceeding arising from a cyber event.*

2. TERRITORY

This Coverage Form provides coverage for **Privacy or Security Events** anywhere in the world resulting in a **claim** against ~~an~~ **the Named Assured's**. ~~Suits~~, however, must be brought in the ~~United States of America~~ **state of Nevada** against a POOL ~~Named Assured~~.

Formatted: Font: Not Bold

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Explanation: *This section provides coverage to POOL **Named Assured**'s for claims arising from cyber events occurring anywhere in the world. Lawsuits (or legal proceedings) must be brought within the United States of America.*

3. EXCLUSIONS

In addition to the Common Exclusions, the POOL shall not be liable to make any payment in connection with a **Claim** made against a **Named Assured**:

- a) alleging, arising out of, based upon or attributable to any:
 - i. purchase, sale, or offer or solicitation of an offer to purchase or sell securities;
 - ii. violation of any securities law, including the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or any regulation promulgated under the foregoing statutes, or any federal, state or local laws similar to the foregoing statutes (including "Blue Sky" laws), whether such law is statutory, regulatory or common law; provided, however, this exclusion does not apply to a **Claim** alleging a **Privacy Event** in violation of Regulation S-P (17 C.F.R. § 248); provided further, however, this exclusion does not apply to a **Claim** alleging a failure to disclose a **Security Failure** or **Privacy Event** in violation of any Security Breach Notice Law; or
 - iii. violation of the Organized Crime Control Act of 1970 (commonly known as Racketeer Influenced and Corrupt Organizations Act, or "RICO"), as amended, or any regulation promulgated thereunder or any federal, state or local law similar to the foregoing, whether such law is statutory, regulatory or common law;
- b) alleging, arising out of, based upon or attributable to a **Named Assured**'s employment of any individual or any of a **Named Assured**'s employment practices (including, without limitation, wrongful dismissal, discharge or termination, discrimination, harassment, retaliation or other employment-related claim); provided, however, this exclusion shall not apply to any **Claim** by an individual to the extent such individual is alleging (1) a **Privacy or Security Event** in connection with such individual's employment or application for employment with a **Named Assured**, or (2) a failure to disclose a **Privacy or Security Event** in violation of any Security Breach Notice Law.
- c) alleging, arising out of, based upon or attributable to antitrust, unfair competition, restraint of trade, including, without limitation, violations of any local, state or federal law regulating such conduct, or that is brought by or on behalf of the Federal Trade Commission ("FTC") or any other federal, state or local government agency, or foreign government agency; provided, however, solely with respect to unfair competition, this Paragraph (h) shall not apply to any **Claim** arising out of a covered **Regulatory Action**.

⇨

~~e) brought by or on behalf of any **Assured**;~~

~~i. any **Named Assured**;~~

~~d)~~

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Normal, No bullets or numbering

Formatted: Indent: Left: 0.25"

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: Space After: 8 pt, Don't add space between paragraphs of the same style

Formatted: Font: Bold

Formatted: Font: (Default) Microsoft Sans Serif

Formatted: List Paragraph, Left, Line spacing: single, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at:

Formatted: Left, Space After: 8 pt, Don't add space between paragraphs of the same style, Line spacing: Multiple 1.08 li, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Font: Bold

Formatted: List Paragraph, Left, Line spacing: single, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at:

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

ii. ~~any business entity that is controlled, managed or operated, directly or indirectly, in whole or in part, by a **Named Assured**; or~~

Formatted: Strikethrough

iii. ~~any parent company, subsidiary, successor or assignee of a **Named Assured**; or any person or entity affiliated with a **Named Assured**.~~

~~provided, however, this exclusion shall not apply to (i) a **Named Assured** as described in Sub paragraph (3) of the definition of **Named Assured**; or (ii) a **Named Assured** as described in Sub paragraph (2) of the definition of **Named Assured** but only to the extent such **Named Assured** is alleging a **Privacy or Security Event** or failure to disclose a **Privacy or Security Event** in violation of any **Security Breach Notice Law**.~~

Commented [WC2]: No such paragraph (3) exists.

Formatted: Strikethrough

Formatted: Strikethrough

Commented [WC3]: Check reference.

Formatted: Strikethrough

Formatted: Strikethrough

Commented [WC4]: Delete??

Formatted: Strikethrough

Formatted: Strikethrough

e) for any of the following:

- i. the return of a **Named Assured**'s fees or compensation;
- ii. any profit or advantage to which a **Named Assured** is not legally entitled;
- iii. a **Named Assured**'s expenses or charges, including employee compensation and benefits, overhead, over-charges or cost over-runs;
- iv. a **Named Assured**'s cost of providing, correcting, re-performing or completing any services;
- v. civil or criminal fines or penalties imposed by law against a **Named Assured** and any matters deemed uninsurable under the law pursuant to which this Coverage Form shall be construed; provided, however, this Sub-paragraph (v) shall not apply to (a) any monetary amounts a **Named Assured** is required by law or has agreed to by settlement to deposit into a consumer redress fund, or (b) any civil fine or penalty imposed by a governmental agency arising from a **Regulatory Action**, unless the civil fine or penalty imposed is uninsurable under the law of the jurisdiction imposing such fine or penalty;
- vi. A **Named Assured**'s costs and expenses of complying with any injunctive or other form of equitable relief;
- vii. taxes incurred by a **Named Assured**;
- viii. the amounts for which a **Named Assured** is not financially liable or which are without legal recourse to any **Named Assured**;
- ix. amounts a **Named Assured** agrees to pay pursuant to a contract, including without limitation, liquidated damages, setoffs or penalties; provided, however, this exclusion shall not apply to any **PCI-DSS Assessment**.

f) alleging, arising out of, based upon or attributable to any obligation a **Named Assured** has under contract; provided, however, this exclusion shall not apply to:

- i. the obligation to prevent a **Privacy or Security Event**, including without limitation, whether same is in violation of an implied or statutory standard of care;

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

- ii. liability a **Named Assured** would have in the absence of such contract or agreement;
 - iii. the obligation to comply with **PCI Data Security** standards or to indemnify an Acquiring Bank or Payment Processor for amounts owed in connection with a **PCI-DSS Assessment**; or
 - iv. with respect to a **Privacy or Security Event**, any liability or obligation under the confidentiality or non-disclosure provisions of any agreement;
- g) alleging, arising out of, based upon or attributable to any **Security or Privacy Event**, or any Related Acts thereto, alleged or contained in any **Claim** which has been reported, or in any circumstances of which notice has been given, under any Coverage Form or policy of which this POOL Coverage Form is a renewal or replacement or which it may succeed in time.
- h) alleging, arising out of, based upon or attributable to any **Privacy or Security Event** occurring prior to the retroactive date or any related acts thereto, regardless of when such related act occurs.
- i) alleging, arising out of, based upon or attributable to any **Privacy or Security Event** occurring prior to the continuity date, or any related act thereto (regardless of when such related act occurs), if, as of the continuity date, any personnel in the office of a **Named Assured** knew or could have reasonably foreseen that such **Privacy or Security Event** did or would result in a **Claim** against a **Named Assured**.
- j) alleging, arising out of, based upon or attributable to any seizure, confiscation, nationalization, or destruction of a **Computer System** by order of any governmental or public authority.
- k) for (1) the theft of money or securities from a **Named Assured**; or (2) the transfer or loss of money or securities from or to a **Named Assured**'s accounts or accounts under a **Named Assured**'s control, including customer accounts. For purposes of this Sub-paragraph (k), the term "accounts" shall include, but are not limited to, deposit, credit, debit, prepaid and securities brokerage accounts.

PART THREE: SECURITY FAILURE/PRIVACY EVENT MANAGEMENT COVERAGE:

THIS IS A DISCOVERY COVERAGE SECTION AND A FIRST PARTY COVERAGE SECTION

All terms or phrases in **bold print** in the body of this Coverage Form are defined terms.

1. COVERAGE AGREEMENT

With respect to the Security Failure/Privacy Event Management Coverage of this Clause, solely with respect to a **Privacy or Security Event** first discovered during the Coverage period and reported to the POOL pursuant to the terms of this Coverage Form, the POOL affords the following coverage under this Section:

- a) **EVENT MANAGEMENT COVERAGE AGREEMENT:** The POOL shall pay all **Claims** that a **Named Assured** incurs solely as a result of an alleged **Privacy or Security**

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Event that has actually occurred or is reasonably believed by such **Named Assured** and the POOL to have occurred up to the Limit of Liability shown in the Declarations.

b) SETTLEMENT

The POOL has the sole right to settle any Claim if the POOL deems that it is proper.

***Explanation:** This section provides coverage to POOL **Named Assured**'s for harm a POOL **Named Assured** sustains as a result of a cyber event. The typical example of coverage under this Part involves ~~“ransom”security threat expense payments made following a “ransomware”security event attack.~~*

2. DUTIES OF THE NAMED ASSURED IN THE EVENT OF A CYBER SECURITY THREAT

In addition to the Duties of the **Named Assured** common to all parts of this Coverage Form in Part I Section 15 of the Common Terms and Conditions of this Coverage Form, under ~~the this Part Three of the~~ Coverage Agreement when responding to an **cyber security threat** or suspected **cyber security threat** the **Named Assured** must:

- i. Determine that the **cyber security threat** has actually occurred;
- ii. With respect to an **cyber security threat** make every reasonable effort to access your **electric data** from backups, if any, and remediate the cause of the **cyber security threat**;
- iii. Make every reasonable effort to immediately notify the POOL before making any payment based upon the **cyber security threat**;
- iv. Fully cooperate with the POOL'S **Privacy and Security Event** investigative response team, including, but not limited to any cyber security advisor, public relations or legal representative, if deployed to evaluate and assist the **Named Assured** as it relates to the **cyber security threat**; and
- v. Receive express written POOL approval before any payment based upon the **cyber security threat** is made.

The **Named Assured** will not, except at its own costs, voluntarily make any payment, assume any obligation or incur any expense without the POOL'S express prior written consent.

***Explanation:** This section requires POOL **Named Assureds** to properly investigate and take all steps to restore data that has been stolen and encrypted as part of a ~~“ransomware”cyber security event attack.~~ This includes notifying the POOL and fully cooperating with the POOL'S response team (if dispatched). This section also requires POOL **Named Assureds** to receive the POOL'S written consent before paying any ~~“ransom”security threat expense~~ in response to a ~~ransomwarecyber security event attack.~~ Compliance with this section will ensure a uniform response to cyber events, ~~including ransomware.~~*

3. CONFIDENTIALITY

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

To the extent allowed by law, the **Named Assured** shall make every reasonable effort to keep confidential and to not divulge the existence of coverage for **cyber security threats** and amounts paid.

Explanation: This section requires POOL Named Assureds not to disclose "ransom payments" made in response to ransomware or similar cyber events.

4. NOTICE OF PRIVACY OR SECURITY EVENT CLAIM

In addition to the applicable items of the Common Terms and Conditions, and before coverage will apply for a claim under this Coverage Section, each **Named Assured** must also:

- a) complete and sign a written, detailed and affirmed proof of loss immediately after the discovery of any loss (unless such period has been extended by the POOL in writing) which shall include, among any other pertinent information:
 - i. a full description of such **Privacy or Security Event** and the circumstances surrounding a claim or potential claim, which shall include, among any other necessary information, the time, place and cause of the **Privacy or Security Event**;
 - ii. a detailed calculation of any **claim** or potential **claim**; and
 - iii. all underlying documents and materials that reasonably relate to or from any part of the proof of such **claim** or potential **claim**.
- b) upon the POOL'S request, submit to an examination under oath.
- c) immediately record the specifics of any **Privacy or Security Event** and the date such **Named Assured** first became aware of such **Privacy or Security Event**.
- d) provide the POOL with any cooperation and assistance that the POOL may request, including assisting the POOL in:
 - i. public relations management including not making any public statements without the POOL'S prior written approval and cooperating with the POOL'S public relations or legal representative, if deployed in response to a **Privacy or Security Event**;
 - ii. any investigation of the circumstances arising from or relating to a **Privacy or Security Event** regardless whether it gives rise to a **claim** or potential **claim**;
 - iii. enforcing any legal rights a **Named Assured** may have against anyone who may be liable to the **Named Assured** or POOL; ~~and~~
 - iv. executing any documents that the POOL deems necessary to secure its rights under this Coverage Form and
 - iv. _____

Commented [WC5]: Merge into common Notice section? Or re-label Notice of Claim

All adjusted **claims** shall be due and payable thirty (30) days after the presentation and written acceptance by the POOL of satisfactory proof of claim to the address set forth in the Common Terms and Conditions. The costs and expenses of establishing or proving a **Named Assured**'s claim under this Coverage Section, including, without limitation, those

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

connected with preparing a proof of loss, shall be such **Named Assured**'s obligation, and are not covered under this Coverage Form.

Explanation: *This section requires a POOL **Named Assured** to promptly notify the POOL of a cyber event following its discovery and provide all known information about the cyber event's nature and severity. This is because time is of the essence when responding to a cyber event as relevant information regarding the identity of the actor behind the cyber event (and nature and severity of the event) can be overwritten or destroyed a short period after the event. Determining the identify of the actor is critical when responding to a cyber event as certain actors have known behaviors and use certain code that can directly dictate what will be the best response to the cyber event.*

5. EXCLUSIONS

In addition to the Common Exclusions, the POOL shall not be liable to make any payment for any **claim**:

a) arising out of, based upon or attributable to any **Security or Privacy Event**, or any related acts thereto, which has been reported, or in any circumstances of which notice has been given, under any Coverage Form of which this Section is a renewal or replacement or which it may succeed in time.

b) arising out of, based upon or attributable to any amounts for: (i) the original creation of; (ii) diminution of value of; (iii) lost profits of; (iv) or loss of use of, a trade secret, patent, copyright, trademark, trade dress or any other intellectual property.

c) arising out of, based upon or attributable to any amounts for improvements and/or upgrades of any type or kind to the system, hardware, software, or media.

Formatted: Font: (Default) +Body (Calibri), 11 pt

Formatted: Left, Indent: Left: 0.5", Space After: 8 pt, Don't add space between paragraphs of the same style, Line spacing: Multiple 1.08 li, No bullets or numbering

Formatted: Indent: First line: 0.25"

Formatted: Normal, No bullets or numbering

Formatted: Normal, No bullets or numbering

Formatted: Indent: First line: 0.25"

PART FOUR:- NETWORK INTERRUPTION COVERAGE:

THIS IS AN OCCURRENCE COVERAGE SECTION AND A FIRST PARTY COVERAGE SECTION

All terms or phrases in **bold print** in the body of this Coverage Form are defined terms.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

1. COVERAGE AGREEMENT

With respect to the NETWORK INTERRUPTION COVERAGE AGREEMENT of this Clause, solely with respect to a **Security Failure** or **System Failure** first occurring during the Coverage period and reported to the POOL pursuant to the terms of this Coverage Form, this Network Interruption Coverage Section affords the following coverage:

- a) NETWORK INTERRUPTION COVERAGE AGREEMENT: The POOL shall pay all **claims** that a **Named Assured** incurs after the **Waiting Hours Period** and solely as a result of a **Privacy or Security Event** resulting in a **Security Failure** or **System Failure** up to the applicable Network Interruption Sublimit shown in the Declaration.
- b) The maximum liability of the POOL for all Proof of Loss Preparation Costs is the Proof of Loss Preparation Costs Sublimit set forth in the Declarations.

Each of the Sublimits set forth herein is part of and not in addition to the Limit of Liability and the Sublimit of Liability for this Coverage Part Four as set forth in the Declarations.

***Explanation:** This section provides coverage for POOL **Named Assured's** resulting from network failures caused by cyber events. This section would provide coverage for a POOL **Named Assured** that provides internet services that would be unable to provide these services due to a cyber event.*

2. DEFINITIONS

In addition to the common terms applicable to all sections of this Coverage Form, the following definitions apply to this coverage section:

"IT Service Provider" means an entity, other than a **Named Assured**, that:

- i. provides "cloud computing" or other hosted computer resources to a **Named Assured**; or
- ii. provides information technology services required by a **Named Assured** to operate a **Computer System** under its ownership, operation or control;

in each case pursuant to a written contract with a **Named Assured**.

"Non-IT Service Provider" means an entity, other than a **Named Assured**, that provides goods or services to a **Named Assured** pursuant to a written contract; provided, however, under no circumstances shall an entity be considered a **Non-IT Provider** with respect to services provided as an **IT Provider**.

"Outsource Provider" means:

- i. an **IT Service Provider**,
- ii. a **Non-IT Service Provider**, or
- iii. any other entity that is not a **Named Assured** and that a **Named Assured** depends on to conduct its business including, without limitation, any entity providing services as:

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

- (a) a public utility (including, without limitation, a provider of electricity, gas, water or telecommunication services);
- (b) an internet service provider (including any provider of internet connectivity), or
- (c) a securities exchange or market.

Period of Indemnity means the period of time beginning at the inception of the **Material Interruption** and ending:

- i. with respect to a **Security Failure** or **Voluntary Shutdown** of a **Computer System** under the ownership, operation or control of, or leased by, a Company, at the time the **Named Assured** restores access to the **Computer System** to the same or similar conditions that existed prior to the time of the **Material Interruption** (or could have restored access to the **Computer System** if the **Named Assured** exercised due diligence and dispatch); or
- ii. with respect to a **Security Failure** or System Failure of a **Computer System** under the ownership, operation or control of an **Outsource Provider**, the earlier of:
 - (a) the time the **Named Assured** restores its business to the same or similar conditions that existed prior to the time of the **Material Interruption** (or could have restored its business if the **Named Assured** exercised due diligence and dispatch); or
 - (b) the time such **Outsource Provider** restores access to the **Computer System** to the same or similar conditions that existed prior to the time of the **Material Interruption**.

The **Period of Indemnity** shall not be cut short by the end of the coverage period.

“**Security Failure**” means a failure or violation of the security of a **Computer System**, including, without limitation, that which results in or fails to mitigate any unauthorized access, unauthorized use, denial of service attack or receipt or transmission of a malicious code. “**Security Failure**” includes any such failure or violation resulting from the theft of a password or access code from a **Named Assured**’s premises, a **Named Assured**’s **Computer System**, or an employee of a **Named Assured** by non-electronic means.

“**Security Failure**” also means the loss of use of all or part of a **Computer System** caused by the unauthorized reprogramming of software (including firmware) which renders such **Computer System**, or any component thereof, nonfunctional or useless for its intended purpose.

“**Security Failure**” also includes any such failure or violation resulting from Cyberterrorism.

“**System Failure**” means any unintentional and unplanned outage of a **Computer System** that is not part of or caused by a **Security Failure**.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Voluntary Shutdown means the voluntary and intentional shutdown or impairment of a **Computer System** under the ownership, operation or control of a **Named Assured**, by or at the direction of a **Named Assured** after the discovery of a **Security Failure** or **Privacy or Security Event** or suspected **Privacy or Security Event**, with the reasonable belief that such shutdown would limit the Loss that would otherwise be incurred as the result of such **Security Failure** or **Privacy** or **Security Event**.

3. NOTICE OF NETWORK INTERRUPTION CLAIM

In addition to the applicable items of the Common Terms and Conditions, and before coverage will apply for a claim under this Coverage Section, each **Named Assured** must also:

e) a) complete and sign a written, detailed and affirmed proof of loss immediately after the discovery of any loss (unless such period has been extended by the POOL in writing) which shall include, among any other pertinent information:

iv. i) a full description of such **Privacy or Security Event** and the circumstances surrounding a claim or potential claim, which shall include, among any other necessary information, the time, place and cause of the **Privacy or Security Event**;

v. ii) a detailed calculation of any **claim** or potential **claim**; and

vi. iii) all underlying documents and materials that reasonably relate to or from any part of the proof of such **claim** or potential **claim**.

f) b) upon the POOL'S request, submit to an examination under oath.

g) c) Immediately record the specifics of any **Privacy or Security Event** and the date such **Named Assured** first became aware of such **Privacy or Security Event**.

h) d) provide the POOL with any cooperation and assistance that the POOL may request, including assisting the POOL in:

v. iv) any investigation of the circumstances arising from or relating to a **Privacy or Security Event** regardless whether it gives rise to a **claim** or potential **claim**;

vi. v) enforcing any legal rights a **Named Assured** may have against anyone who may be liable to the **Named Assured** or POOL;

vii. vi) executing any documents that the POOL deems necessary to secure its rights under this Coverage Form; and

viii. vii) any calculation or appraisal conducted by or on behalf of the POOL pursuant to this Network Interruption Coverage Section.

All adjusted **claims** shall be due and payable thirty (30) days after the presentation and written acceptance by the POOL of satisfactory proof of claim to the address set forth in the Common Terms and Conditions. The costs and expenses of establishing or proving a **Named Assured**'s claim under this Coverage Section, including, without limitation, those

Commented [WC6]: Combine into common terms or relabel Notice of Claim?

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

Formatted: Indent: Left: 1", No bullets or numbering

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

connected with preparing a proof of loss, shall be such **Named Assured**'s obligation, and are not covered under this Coverage Form.

4. NETWORK INTERRUPTION CONDITIONS

- a) For purposes of this Coverage Section, no entity shall be considered an **IT Service Provider** or a **Non-IT Service Provider** with respect to services it provides as a:
 - i. a public utility (including, without limitation, a provider of electricity, gas, water or telecommunication services); or
 - ii. an internet service provider (including any provider of internet connectivity).
- b) Any amount recovered under any other Coverage Section of this Coverage Form will not be considered as part of a claim under this Coverage Section.
- c) When calculating **Business Income Loss**, due consideration shall be given to:
 - i. the experience of the business before the date of the **Material Interruption** and the probable experience thereafter during the **Period of Indemnity** had no **Material Interruption** occurred;
 - ii. the continuation of only those necessary charges and expenses that would have existed had no **Material Interruption** occurred; and
 - iii. **Business Income Loss** which is made up during the Extended **Period of Indemnity** (if any) or within a reasonable period of time (no less than one year) after the expiration of the **Period of Indemnity** and the Extended **Period of Indemnity** (if any).
- d) Each **Named Assured** agrees, as soon as practicable, to use overtime, extra time and any other resource owned or controlled by such **Named Assured**, or obtainable by such **Named Assured** from other sources (including any other **Named Assured**), in order to continue its business and reduce its loss.
- e) Each **Named Assured** must act with due diligence and dispatch to repair or restore the **Computer System** to the same or equivalent operating conditions that existed prior to the damage in order to continue its business and to reduce loss.
- f) No loss or part of loss shall be paid hereunder to the extent a **Named Assured** has collected such loss or part of loss from an **Outsource Provider** or any other third party.

Commented [WC7]: Note: CCommunications is a member that provides ISP services; may have to endorse to extend coverage.

5. APPRAISAL

If any **Named Assured** and the POOL disagree on the amount of a **claim**, either may make a written demand for an appraisal of such a **claim**. If such demand is made, each party will select a competent and impartial appraiser. The appraisers will then jointly select an umpire. If the appraisers cannot agree on an umpire, they may request that selection be made by a judge of a court having jurisdiction. Each appraiser will separately state the amount of a claim. If they fail to agree, they will submit their differences to the umpire. A decision agreed to by any two of these three will be binding.

Formatted: No underline

Such **Named Assured** and the POOL will:

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

- a) pay their respective chosen appraiser; and
- b) bear the expenses of the umpire equally.

Any appraisal of a **claim** shall be calculated in accordance with all terms, conditions and exclusions of this Coverage Form.

6. EXCLUSIONS

In addition to the Common Exclusions, The POOL shall not be liable to make any payment:

- a) arising out of, based upon or attributable to any **System Failure, Security Failure** or related act thereto which has been reported, or in any circumstances of which notice has been given, under any Coverage Form of which this Network Interruption Coverage Section is a renewal or replacement or which it may succeed in time.
- b) arising out of, based upon or attributable to: (1) any liability to third-parties for whatever reason; (2) legal costs or legal expenses of any type; (3) unfavorable business conditions.
- c) arising out of, based upon or attributable to a **System Failure** caused by or resulting from electrical or mechanical failure of infrastructure; provided, however, for purposes of this exclusion a **Computer System** shall not be considered infrastructure.
- d) for any: (1) contractual penalties or consequential damages; (2) updating, upgrading, enhancing or replacing any **Computer System** to a level beyond that which existed prior to sustaining Loss; or (3) removal of software program errors or vulnerabilities.

POOL Executive Committee

	Re-election Term	Entity	Officers	Counties/Cities With Less Than 35,000 Population (Total 2)	Counties/Cities With 35,000 or More Population (Total 2)	School Districts (Total 2)	Special Districts (Total 1)
Cash Minor	2019-2021	Elko County	Chair		X		
Geof Stark	2019-2021	Churchill County		X			
Josh Foli	2019-2021	Lyon County	Vice Chair		X		
Dan Murphy	2019-2021	Pershing Co. School District				X	
VACANT	2018-2020			X			
Ann Cyr	2018-2020	Carson City School District				X	
Gerry Eick	2018-2020	Incline Village GID	Fiscal Officer				X

Voting Special Districts/Towns:

Bob Reed	Gardnerville Ranchos GID	X
Susan Severt or Garth Elliott	Sun Valley GID	X
Chris Mulkerns	Town of Tonopah	X
Gerry Eick or Steve Pinkerton	Incline Village GID	X
Ron Brugada	Southern Nevada Health District	X
Scott Baker	Tahoe Douglas Fire Protection District	X

PACT Executive Committee

	Term	Entity	Officers	Counties/Cities With Less Than 35,000 Population (Total 2)	Counties/Cities With 35,000 or More Population (Total 2)	School Districts (Total 1)	Special Districts (Total 1)	Hospitals (Total 1)
Mike Giles	2019-2021	City of Lovelock		X				
Josh Foli	2019-2021	Lyon County	Fiscal Officer		X			
Cash Minor	2019-2021	Elko County	Vice Chair		X			
Chris Mulkerns	2019-2021	Town of Tonopah					X	
Cindy Hixenbaugh	2018-2020	Pershing General Hospital						X
Elizabeth Francis	2018-2020	White Pine County		X				
Paul Johnson	2018-2020	White Pine Co. School District	Chair			X		

Voting Special Districts/Towns:

Tod Carlini	East Fork Fire Protection District	X
Gerry Eick	Incline Village GID	X
Chris Mulkerns	Town of Tonopah	X
Amy Hagan	Southern Nevada Health District	X
Scott Baker	Tahoe Douglas Fire Protection District	X

Voting Hospitals:

Linda Lauritzen or Nancy Lockridge	Battle Mountain General Hospital	X
Jason K. Bleak or Missie Rowe	Grover C Dils Hospital	X
Sandi Lehman or Rose Marie Green	Humboldt General Hospital	X
Jonalee Roberts or Greg Schumann	Mt Grant General Hospital	X
Patti Bianchi or Cindy Hixenbaugh	Pershing General Hospital	X



Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
Facsimile (775) 883-7398

**Notice of Meetings and Agendas for the Joint Meeting of
the Board of Directors and of the Executive Committees of
Nevada Public Agency Insurance Pool and
the Board of Trustees of
Public Agency Compensation Trust
Virtual Only**

Please click this URL to view meeting documents.

<https://zoom.us/j/458609986?pwd=em8zUlvMTVscVAyZ1BMZmNDemg4dz09>

Password: 930859

ALL AUDIO WILL BE TELEPHONE ONLY

DIAL:

US: +1 346 248 7799 or +1 669 900 6833 or +1 312 626 6799 or +1 929 205 6099 or +1 253 215 8782 or
+1 301 715 8592

MEETING ID: 458 609 986

Date: April 17, 2020 Time: 8:30 a.m.

JOINT BOARDS and EXECUTIVE COMMITTEES' AGENDA

April 17, 2020

Notices:

- 1. Items on the agenda may be taken out of order;**
- 2. Two or more items on the agenda may be combined for consideration**
- 3. Any item on the agenda may be removed or discussion may be delayed at any time**
- 4. The general Public Comment periods are limited to those items not listed on the agenda. Public Comment periods are devoted to comments by the general public, if any, and may include discussion of those comments; however, no action may be taken upon a matter raised under Public Comments until the matter itself has been included specifically on an agenda as an item upon which action may be taken.**
- 5. At the discretion of the Chair of the meeting, public comments on specific agenda items may be allowed, but must be limited to the specific agenda item.**

Lunch will be provided starting at 11:45 a.m. with the meeting starting at 1:00 p.m.

- 1. Introductions and Roll**
- 2. Public Comment**
- 3. For Possible Action: Consent Agenda: Approve as a Whole Unless Moved From Consent Agenda**
 - a. Approval of Minutes of Board:**
 - 1) Joint Board Meeting April 16, 2019 – April 17, 2019**

b. Acceptance of Minutes of Committee Meetings

- 1) Joint Executive Committee Meeting of August 20, 2018
- 2) Joint Executive Committee Meeting of November 5, 2018
- 3) Joint Executive Committee Meeting of February 19, 2019
- 4) Joint Executive Committee Meeting of March 11, 2019
- 5) Joint Executive Committee Meeting of April 6, 2020
- 6) Audit Committee Meeting of October 30, 2018
- 7) Human Resources Oversight Committee Meeting of September 28, 2018
- 8) Human Resources Oversight Committee Meeting of December 7, 2018
- 9) Human Resources Oversight Committee Meeting of March 1, 2019
- 10) Loss Control Committee Meeting of September 18, 2018
- 11) Loss Control Committee Meeting of December 17, 2018
- 12) Loss Control Committee Meeting of March 19, 2019

c. Acceptance of Reports:

- 1) Nevada Risk Pooling, Inc.
- 2) Executive Director
- 3) Chief Operations Officer
- 4) Chief Financial Officer
 - a. Public Risk Mutual Audit
 - b. Public Compensation Mutual Audit
 - c. PRI Financial Audit
 - d. Actuary Report
- 5) POOL/PACT HR Accomplishments
- 6) Risk Management and Loss Control Services
- 7) SpecialtyHealth Fit For Retirement Program and 24/7/365 Injury Call Service Report
- 8) Willis Re Pooling Stewardship Report
- 9) Davies Claims Solutions (formerly ASC) Claims Overview Reports

4. For Possible Action: Acceptance of Investment Reports and Action on Recommendations:

- a. NEAM Enterprise Risk Report
- b. NEAM Investment Manager Report
- c. Strategic Asset Alliance Investment Advisor Report

5. For Possible Action: Review and Approval of Investment Guidelines

- d. PACT Investment Guidelines
- e. POOL Investment Guidelines

6. For Possible Action: Employee Assistance Program Review and Approval of Joinder onto State of Nevada Contract with KEPRO

7. Public Comment

8. For Possible Action: Adjournment

This Agenda was posted at the following locations and on the State's Website notice.nv.gov:

N.P.A.I.P. / P.A.C.T.
201 S. Roop Street, Suite 102
Carson City, NV 89701

Carson City Courthouse
885 E. Musser Street
Carson City, NV 89701

Eureka County Courthouse
10 S. Main Street
Eureka, NV 89316

Churchill County Administration
155 North Taylor Street
Fallon, NV 89406

NOTICE TO PERSONS WITH DISABILITIES

Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to notify the Nevada Public Agency Insurance Pool or Public Agency Compensation Trust in writing at 201 S. Roop Street, Suite 102, Carson City, NV 89701, or by calling (775) 885-7475 at least three working days prior to the meeting.

DRAFT



Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
Facsimile (775) 883-7398

**Notice of Meetings and Agendas for the Meeting of
the Board of Directors and of the Executive Committee of
Nevada Public Agency Insurance Pool
Date: April 17, 2020**

Virtual Only

Please click this URL to view meeting documents.

<https://zoom.us/j/458609986?pwd=em8zUlvMTVscVAyZ1BMZmNDemg4dz09>

Password: 930859

ALL AUDIO WILL BE TELEPHONE ONLY

DIAL:

US: +1 346 248 7799 or +1 669 900 6833 or +1 312 626 6799 or +1 929 205 6099 or +1 253 215 8782 or
+1 301 715 8592

MEETING ID: 458 609 986

Date: April 17, 2020

Time: upon adjournment of Joint Board and Executive Committee Meeting,
which starts at 8:30am, and the Public Agency Compensation Trust meeting.

AGENDA

April 17, 2019

Notices:

- 1. Items on the agenda may be taken out of order;**
- 2. Two or more items on the agenda may be combined for consideration**
- 3. Any item on the agenda may be removed or discussion may be delayed at any time**
- 4. The general Public Comment periods are limited to those items not listed on the agenda. Public Comment periods are devoted to comments by the general public, if any, and may include discussion of those comments; however, no action may be taken upon a matter raised under Public Comments until the matter itself has been included specifically on an agenda as an item upon which action may be taken.**
- 5. At the discretion of the Chair of the meeting, public comments on specific agenda items may be allowed, but must be limited to the specific agenda item.**

- 1. Introductions and Roll**
- 2. Public Comment**
- 3. For Possible Action: Consent Agenda: Approve as a Whole Unless Moved From Consent Agenda**

- a. Approval of Minutes of Board Meeting of April 17, 2019
 - b. Acceptance of Interim Financial Statements
 - c. Actuarial Overview
4. **For Possible Action:** Acceptance of Audit for June 30, 2019
5. **For Possible Action:** Approval of Accounting Policy Expensing All Transfer of Net Contribution Surplus to PRM in the Year of Transfer
6. **For Possible Action:** Approval of Renewal Reinsurance and Insurance Proposals and Options
7. **For Possible Action:** Approval of Extension of Willis Pooling Service Contract to Expire July 1, 2026
8. **For Possible Action:** Approval of Budget for 2020-2021
9. **For Possible Action:** Action regarding these topics:
 - a. Review of financial condition of each member and prompt notification to the Members of any Member determined to be operating in a hazardous financial condition
 - b. Review of the loss experience of each Member of the association - Claims Experience Report Summary
 - c. Review for removal of Members with excessive loss experience or Members determined by the Board to be operating in a hazardous condition
10. **For Possible Action:** Approval of Changes to POOL Form
11. **For Possible Action:** Election of Executive Committee for Two Year Terms from 2020-2021
 - a. One Representative from Special Districts
 - b. One Representative from Counties and/or Cities with less than 35,000 Population
 - c. One Representative of School Districts
12. **For Possible Action:** Election of Chair and Vice Chair
13. Public Comment
14. **For Possible Action:** Adjournment

This Agenda was posted at the following locations and on the State's Website notice.nv.gov:

N.P.A.I.P. / P.A.C.T.
 201 S. Roop Street, Suite 102
 Carson City, NV 89701

Carson City Courthouse
 885 E. Musser Street
 Carson City, NV 89701

Eureka County Courthouse
 10 S. Main Street
 Eureka, NV 89316

Churchill County Administration
 155 North Taylor Street
 Fallon, NV 89406

NOTICE TO PERSONS WITH DISABILITIES

Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to notify the Nevada Public Agency Insurance Pool or Public Agency Compensation Trust in writing at 201 S. Roop Street, Suite 102, Carson City, NV 89701, or by calling (775) 885-7475 at least three working days prior to the meeting.

DRAFT



Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
Facsimile (775) 883-7398

**Notice of Meetings and Agendas for the Meeting of
the Board of Directors and of the Executive Committee of
Public Agency Compensation Trust**

Virtual Only

Please click this URL to view meeting documents.

<https://zoom.us/j/458609986?pwd=em8zUlvMTVscVAyZ1BMZmNDemg4dz09>

Password: 930859

ALL AUDIO WILL BE TELEPHONE ONLY

DIAL:

US: +1 346 248 7799 or +1 669 900 6833 or +1 312 626 6799 or +1 929 205 6099 or +1 253 215 8782 or
+1 301 715 8592

MEETING ID: 458 609 986

Date: April 17, 2020

Time: upon adjournment of Joint Board and Executive Committee Meeting
which starts at 8:30am

AGENDA

Notices:

1. Items on the agenda may be taken out of order;
2. Two or more items on the agenda may be combined for consideration
3. Any item on the agenda may be removed or discussion may be delayed at any time
4. The general Public Comment periods are limited to those items not listed on the agenda. Public Comment periods are devoted to comments by the general public, if any, and may include discussion of those comments; however, no action may be taken upon a matter raised under Public Comments until the matter itself has been included specifically on an agenda as an item upon which action may be taken.
5. At the discretion of the Chair of the meeting, public comments on specific agenda items may be allowed, but must be limited to the specific agenda item.

1. Introductions and Roll
2. Public Comment
3. **For Possible Action:** Consent Agenda: Approve as a Whole Unless Moved From Consent Agenda
 - a. Approval of Minutes of Board Meetings of April 17, 2019
 - b. Acceptance of Interim Financial Statements

4. **For Possible Action:** Acceptance of Audit for June 30, 2019
5. **For Possible Action:** Approval of Accounting Policy Expensing All Transfer of Net Contribution Surplus to PCM in the Year of Transfer
6. **For Possible Action:** Approval of PACT Retention Options and Renewal Reinsurance Proposals and Options
7. **For Possible Action:** Approval of Budget for 2020-2021
8. **For Possible Action:** Approval of Extension of Willis Pooling Service Contract to Expire July 1, 2026
9. **For Possible Action:** Action regarding these topics as required by Nevada Administrative Code:
 - a. Review of financial condition of each member and prompt notification to the Members of any Member determined to be operating in a hazardous financial condition
 - b. Review of the loss experience of each Member of the association - Claims Experience Report Summary
 - c. Review for removal of Members with excessive loss experience or Members determined by the Board to be operating in a hazardous condition
10. **For Possible Action:** Election of Executive Committee for Two Year Terms 2020-2022
 - a. One Representative from Counties and/or Cities with less than 35,000 Population
 - b. One Representative of School Districts
 - c. One Representative of Special Districts/Towns
11. **For Possible Action:** Election of Chair and Vice Chair
12. Public Comment
13. **For Possible Action:** Adjournment

This Agenda was posted at the following locations and on the State Website notice.nv.gov:

N.P.A.I.P. / P.A.C.T.
201 S. Roop Street, Suite 102
Carson City, NV 89701

Carson City Courthouse
885 E. Musser Street
Carson City, NV 89701

Eureka County Courthouse
10 S. Main Street
Eureka, NV 89316

Churchill County Administration
155 North Taylor Street
Fallon, NV 89406

NOTICE TO PERSONS WITH DISABILITIES

Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to notify the Nevada Public Agency Insurance Pool or Public Agency Compensation Trust in writing at 201 S. Roop Street, Suite 102, Carson City, NV 89701, or by calling (775) 885-7475 at least three working days prior to the meeting.