Nevada Risk Pooling, Inc.
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
Toll Free Phone (877) 883-7665
Telephone (775) 885-7475
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Agenda for
Meeting of the Board of Directors
Of Nevada Risk Pooling, Inc.
Date: Wednesday, March 11, 2020 8:30 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**

2. **Action Item: Approval of NRP Minutes for the meeting held on February 25, 2020.**

3. **Action Item: Approval of NRP's investment policy to include a process for waivers concerning the asset allocation guidelines.**

4. **Action Item: Approval of the Fiscal Year 2020-2021 budget to be recommended to the full board during the main annual meeting held on April 16-17, 2020.**

5. **Action Item: Ratification of corporate officers.**

6. **Action Item: Adjournment**

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Minutes for
Meeting of the Board of Directors
Of Nevada Risk Pooling, Inc.
Date: February 25, 2020 – 10:00am

1. **Roll**

   Board Members Present: Cash Minor, Gerry Eick, Paul Johnson, Josh Foli, Chris Mulkerns
   Others Present: Mike Rebaleati, Alan Kalt, Wayne Carlson
   A quorum being present, the meeting was called to order by Chairman Eick.

2. **Action Item: Approval of NRP Minutes for the meeting held on October 28, 2019.**
   On a motion by Cash Minor and second by Paul Johnson to approve the October 28, 2019 minutes, the motion carried.

3. **Discussion Item: Staff updates**
   Staff reports are attached to these minutes.

   a. **Investment Report**
      COO Michael Rebaleati reported to the board the current status of the new investment account with Vanguard. The NEAM management services were also changed to an accounting service only. This move will help save approximately $15,000 annually. The new investment account will be managed by NRP staff with the financial advice from Strategic Asset Alliance.
   b. **Financial Report**
      CFO Alan Kalt reported to the board the financial information as of January 30, 2020. The January 30, 2020 balance sheet and income sheet are attached.
   c. **IRS filing**
      C.O.O Michael Rebaleati reported to the board that the IRS application for a non-profit status was submitted and received by the IRS. The IRS has not responded as of February 25, 2020.
   d. **Business-related items.**
      There were no other business-related items.

4. **Action Item: Approve Initial Proposed Budget for FY 2020-2021**
   Chief Financial Officer, Alan Kalt, presented the initial proposed NRP budget for FY 2020-2021. The initial proposed budget for NRP's 2020-2021 fiscal year is attached. Discussion was held concerning the allocation of contributions from PRM and PCM, which supports the primary operating grant to NRP from POOL and PACT. Executive Director Wayne Carlson felt no need for a change in allocation is needed. CFO Alan

Kalt added that a financial model allocation is being used based on the size of investment portfolio. Chairman Eick stressed that the allocations should be based on asset allocation and be reasonable. Paul Johnson commented that it would be helpful to add two extra columns for comparative analysis. With the intent of improving materiality, two columns with dollar differences and two columns with the percent differences could be added. No action was taken since this item will be acted upon during the next NRP meeting held on March 11, 2019.

5. **Action Item: Adjournment**
   On motion by Paul Johnson and second by Josh Foli, the motion carried to adjourn the meeting.

NEVADA RISK POOLING, INC.

INVESTMENT GUIDELINES

1. Scope

This investment policy applies to all financial assets of the Nevada Risk Pooling, Inc. (NRP). NRP is a nonprofit risk pool administration, training and consultation organization serving the members of the Nevada Public Agency Insurance Pool, Public Agency Compensation Trust, Public Risk Mutual, Public Compensation Mutual, and Pooling Resource Inc. pursuant to a grant that renews on multi-year cycles. Grant funds and any earnings on them are accounted for in NRP 's annual financial report and any excess funds may revert to the grantor upon request.

2. Statement of Purpose

a. Operational Needs

1). Liquidity: To provide adequate liquidity to meet all operating obligations that reasonably may be anticipated. Grant revenues are received at the beginning of each month and operating expenses generally are stable each month. Major expenses for payroll are paid twice monthly. Thus, the investments must be liquid to meet these ongoing expenses for the majority of funds.

2). Safety of principal: 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 NRP 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. Reserves for Future Needs:

1). Income and Growth: 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 NRP.

3. Investment Strategy

a. NRP generally will adhere to the concept of matching amounts and maturities to uses of funds.

b. Prudent Investor Rules apply. The Prudent Investor Rules 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.

d. Investment strategy will conform to the provisions of Nevada Revised Statute 82 applicable to nonprofit organizations. NRP is a 501 (c) 3 tax exempt organization under the Internal Revenue Code. Any investments should reflect these constraints.

4. Investment Risk

a.It is the policy of the NRP that safety of principal is an important objective of the investment program and seeks to mitigate risks to the extent possible. Four types of risks and related mitigation strategies are recognized:

1. <u>Credit Risk</u> - is the risk that the issuer of a security will default on the principal and interest. NRP will not assume significant credit risk in an attempt to enhance return. Therefore, below investment grade securities shall not be utilized. Acceptable credit ratings for securities shall be AAA or AA as rated by Moody's or Standard & Poor's. In addition, NRP 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. <u>Liquidity Risk</u> - is the risk that an investment may not be converted into cash if a need for cash arises. NRP 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. NRP 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. NRP 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. The Board of Director's risk tolerance in the capital markets is low to low-moderate with infrequent losses over a market cycle (4 to5 years)

5. Investment Responsibility

a. Investment authority for NRP rests with the Board of Directors.

b. The Board of Directors or its designee may contract with investment advisor(s) to advise and manage the NRP '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 Board of Directors or its designee will monitor all investment activity as closely as is practicable.

d. The Board of Directors or its designee will direct managers regarding day-to-day investments. In all cases, the Board of Directors or its designee will:

1) Ensure that all investments are made in accordance with NRP policies;
2) Make recommendations to the Board of Directors concerning investment policy and strategy;
3) Inventory all securities held by NRP (This shall be done in conjunction with the annual CPA audit);
4) Provide quarterly reports to the Board of Directors 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;

e. The Board of Directors will review the investment report, and at the next available meeting shall make the review a matter of record in the minutes.

f. Officers 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 Treasurer 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 NRP.

g. 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

The following are eligible investments subject to asset allocation:

a. Fixed income securities:

1) U.S. Treasury Securities;
2) Federal Agency Securities;
3) Federal Funds;
4) Bank Certificates of Deposit insured by the FDIC;
5) Savings and Loan Certificates of Deposit insured by the FDIC;
6) Money Market Mutual Funds;
7) Commercial paper rated in the highest tier (A1,P1, F-1 or D-1 or higher) by a nationally recognized rating agency
8) Domestic bankers' acceptances
9) Corporate notes and bonds

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.

b. Equity securities and bonds:

1) Common stocks and preferred stocks
2) Convertible bonds and convertible preferred stocks
3) Stocks of Non-U.S. Companies (Ordinary Shares and/or ADRs).

Equity holdings in any one company should not exceed ten percent (10%) of the market value of the equity portfolio. Equity holdings in any one economic sector should not exceed twenty-five percent (25%) of the market value of the equity portfolio.

c. Real Estate investments:

1) Collateralized mortgage obligations collateralized by GNMAs, FNMAs or Freddie Macs

2) Asset-backed fixed income securities
3) Commercial mortgage-backed securities

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

e. 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 it 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.

f. Initial investment in equity securities must be approved by the Board or its designee. Equities should represent a long-term strategic portfolio investment. Equity allocation should target a broad exposure to the United States equity market.

g. Prohibited Transactions;

The following types of assets or transactions expressly are prohibited:
1) Options contracts: the purchase and sale of put and call options, except for the writing of covered call options for capital preservation purposes. This does not include fixed income securities that have a put or call feature.
2) Commodities or other commodity contracts
3) Private placements
4) Purchase of equity securities on margin
5) Short selling, except if part of a mutual fund
6) Interest-only (IO), Principal-only (PO), and CMO residuals
7) Transactions that would leverage investment positions except for securities lending operations
8) Off balance sheet derivatives
9) Limited partnerships
10) Venture capital investments
11) Direct mortgage lending or participation in direct mortgage loans
12) Letter stock and other unregistered securities

13) Securities lending, pledging or hypothecating securities
14) Investment in the equity securities of any company with a record of less than three years' continuous operations, including the operation of any predecessor, and investments for the purpose of exercising control of management.

7. Authorized Financial Dealers and Institutions

The Officers will maintain a list of financial institutions authorized by the Board to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Officers with the following evidence of qualifications:

1) audited financial statements
2) proof of National Association of Security Dealers certification
3) trading resolution
4) proof of Nevada registration
5) certification as having read NRP's Investment Guidelines and depository contracts
6) service auditor's reports (SAS 70 if available) regarding internal controls.

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

8. Investment Guidelines and Limitations

a. General Guidelines

1) Diversification. 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 diversification exists. NRP will diversify its investments by maturity, issuer and security type. Maturities selected shall provide for stability of income and reasonable liquidity.
2) 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
3) Positions in securities having potential default risk should be limited in size so that in case of default, the portfolio's annual investment income will exceed a loss on a single issuer's securities.
4) 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.
5) Allocation. The following asset allocation parameters for the total portfolio shall guide the investment manager:

Asset Class	Minimum	Maximum	Strategic Allocation
U.S. Equities	5%	20%	10%
International Equities in Developed Markets	0%	10%	5%
U.S. Domestic Corporate Bonds	5%	20%	10%
International Bonds in Developed Markets	0%	5%	0%
U.S. Government and Agency Securities	40%	100%	70%
Real Estate	0%	5%	0%
Cash and Equivalents	1%	100%	5%
TOTAL:			100%

The percentage allocation to each asset class may vary as much as plus or minus five percent (5%), depending upon market conditions. 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 variances. The NRP Board of Directors will be notified of any waiver(s) granted at the next regular board meeting. When necessary and/or available, cash inflows and outflows will be deployed in a manner consistent with the strategic asset allocation; otherwise the allocation will be reviewed quarterly. If the board determines that cash flows are insufficient to bring the allocations to within the minimum/maximum ranges, the board will determine whether to effect transactions to bring the strategic allocation within the threshold ranges.

a. Maximum Maturities. To the extent possible, NRP will attempt to match its investments with anticipated cash flow requirements.

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

c. Performance Standards: Fixed Income Portfolio. 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 to 5 year market cycle 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 market cycle by at least 200 basis points per year.

   3) Goal - to perform in line with the Lehman Intermediate Government Index (with three year average maturity) over a 4 to 5 year market cycle.

d. Performance Standards: Equities Portfolio. The investment portfolio total return results will be compared to reasonably comparable indexes reflective of the investment goals listed below:

1) Goal - to perform, over a 4 to 5 year market cycle, in line with the risk free return from short-term U.S. Treasury bills.

2) Goal - to outperform the Consumer Price Index over a 4 to 5 year market cycle

3) Goal – a) Large Cap - to perform in line with the S & P 500/Russell 1000 indexes, b) Small Cap - to perform in line with the Russell 2000/2500 or similar applicable indexes

e. Performance Standards: Real Estate Portfolio. The investment portfolio total return results will be compared to reasonably comparable indexes reflective of the investment goals listed below:

1) Goal – to perform in line with the NCREIF or NAREIT Equity Indices

f. Investments in corporate, municipal, mortgage backed and asset backed bonds shall conform to the following size limits as a percentage of adjusted capital per issuer:
1) Credit rating AAA – 3%
2) Credit rating AA - 2.5%
3) Credit rating A – 2.0%

9. Safekeeping and Custody

Securities purchased by NRP will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of NRP. 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 Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the Board of Directors and with the independent auditor. The controls shall be designed to prevent the loss of NRP 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 NRP.

10. Collateralization

Collateralization may be required on certain investments.

11. Selection and Performance Review of Investment Managers

The NRP Board of Directors will select appropriate investment managers to manage NRP 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 NRP.

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. Investment Policy Adoption

The NRP Board of Directors will adopt an investment policy. The Board of Directors will review the policy on a periodic basis and the Board must approve any modifications made thereto.

This investment policy was adopted on February 14, 2019 by the NRP Board of Directors.

Nevada Risk Pooling, Inc
Proposed Budget FY 20/21

Revenue	Budget 19-20	Budget 2020-2021	$ Change	% Change			
Sources							
POOL	525,000	$ 543,375	$ 18,375	3.50%			
PACT	675,000	$ 698,625	$ 23,625	3.50%			
PRM	75,000	$ 77,250	$ 2,250	3.00%			
PCM	225,000	$ 231,750	$ 6,750	3.00%			
PRI HR	25,000	$ 25,750	$ 750	3.00%			
NACO	12,000	$ 12,000	$ -	0.00%			
NLC	12,000	$ 12,000	$ -	0.00%			
POOL/PACT Expense reimbursements	100,000	$ 100,000	$ -	0.00%			
Total Revenues	**$ 1,649,000**	**$ 1,700,750**	**$ 51,750**	3.14%			
Expenses					Allocation		
Salaries	601,000	$ 625,500	24,500	4.08%	36.8%	$ 4,499	SUI
SEP	120,200	$ 125,100	4,900	4.08%	7.4%	$ 47,856	Fed tax
Payroll tax	50,481	$ 52,355	1,874	3.71%	3.1%	$ 52,355	Payroll Taxes
Other tax; licenses	10,265	$ 10,626	361	3.52%	0.6%	$ 9,226	MBT
Insurance WC,E&O,EPLI,Pkg, bond	40,000	$ 40,000	-	0.00%	2.4%		
Employee Benefits - Health Insurance	87,000	$ 119,308	32,308	37.14%	7.0%		
Travel and other reimbursable expense	100,000	$ 100,000	-	0.00%	5.9%		
Subscriptions/Dues	10,000	$ 10,000	-	0.00%	0.6%		
Bank charges	2,000	$ 2,000	-	0.00%	0.1%		
IT management	45,165	$ 54,450	9,285	20.56%	3.2%		
all other	25,000	$ 20,000	(5,000)	-20.00%	1.2%		
Rent	74,803	$ 52,767	(22,036)	-29.46%	3.1%		
Total Expenses	**$ 1,165,914**	**$ 1,212,106**	**46,192**	**3.96%**			
Net Income	483,086	$ 488,644	$ 5,558	1.15%	28.7%		
PARMS Contract	300,000	$ 309,000	$ 9,000	3.00%	18.2%		
Net Income after contract	**183,086**	**$ 179,644**	**$ (3,442)**	**-1.88%**	10.6%		

Notes:

Revenue increased based upon approved long-term contracts with entities.
Salary increases commenrence with the market
Employee Benefit increase due to more dependent lives and full year of HSA contributions
IT increased due to cost of technology
Rent reduction due to market analysis

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March 11, 2020

LIST OFNEVADA RISK POOLING, INC. CORPORATE OFFICER

President	-	Wayne Carlson
Vice President	-	Michael Rebaleati
Secretary	-	Marshall Smith
Treasurer	-	Alan Kalt

Agenda for
Public Risk Mutual

Date: Wednesday, March 11, 2020
Time: Immediately following the Nevada Risk Pooling, Inc. meeting
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

AGENDA

1. **Roll**

2. **Action Item: Approval of**

    a. **Minutes of Board Meeting December 2, 2019**

3. **Discussion Item: Review of PRM's 2019 draft audit report.**

4. **Action Item: Approval of PRM's investment policy to include a process for waivers concerning the asset allocation guidelines.**

5. **Discussion: Change in accounting policy relating to the transfer of capital from NAPIP (POOL) providing for 100% expense in the year of transfer.**

6. **Action Item: Ratification of corporate officers.**

7. **Action Item: Consideration of the date setting of the next Public Risk Mutual Board of Directors meeting.**

8. **Action Item: Adjournment**

Minutes
Public Risk Mutual
Place: POOL/PACT Building
201 S. Roop St., #102
Carson City, NV 89701
Date: December 2, 2019

1. **Roll** Members present were as follows: Chair Cash Minor, Gina Rackley, Josh Foli, Paul Johnson, and Gerald Eick. Also, present were Michael Rebaleati, Wayne Carlson, Marshall Smith, Alton Cogert from S.A.A. and Alan Kalt. With a quorum being present, Chair Cash Minor called the meeting to order.

2. **Action Item: Approval of Minutes of Board Meeting November 4, 2019**
   On motion by Gerald Eick and second by Josh Foli the Board approved the minutes of the November 4, 2019 PRM meeting.

3. **Discussion: PRM's investment status as of 10/31/2019 and financial update.**

   The 10/31/2019 comprehensive monthly investment review provided by NEAM was presented to the board. Additionally, Alton Cogert from Strategic Asset Alliance presented the 12/2/2019 PCM-PRM risk asset review.

4. **Action Item: Consideration of including bank loans to the mix of risk asset investments with the percentage set by board policy.**

   A detailed discussion concerning the consideration of including bank loans to PRM's risk asset investment. This discussion included 1) the view of using a percentage of surplus or a percentage of assets when referring to risk asset allocations; 2) total return of investment as a whole; 3) "leveling out" investment volatility: and 4) the long term approach when realizing yield. The issue of credit market tightening or loosening was also discussed and potential issues this may cause. The recommend from Strategic Asset Alliance was to add +10% of bank loans and reduce International Equity -10% to increase yield and reduce volatility. Motion was made by Gerald Eick and second by Cash Minor to include 10% of bank loans to the mix of risk assets investments. Vote was 4 in favor and 1 nay.

5. **Action Item: Consideration of the rebalancing of risk asset investments.**

   During the discussion concerning the rebalancing of PRM's risk asset investments, Alton Cogert identified that no action was needed since PRM's risk asset allocation was at 39.8%. 40% is the target pursuant to the PRM investment policy. There was clarification that the percentage of risk asset to surplus is the primary focus instead of risk asset to assets. Motion was made by Paul Johnson and second by Gerald Eick that no rebalancing was needed for PRM's risk asset investments. Vote was unanimously in favor of motion.

6. **<u>Discussion:</u> An initial discussion on the potential of increasing the Property Coverage from $500,000 to $1,000,000 will be held, as well as potential increase to liability retention levels.**

   Staff informed the Board that increasing the combined POOL and PRM property coverage retention to $1,000,000 from $500,000 will be considered. This concept is being considered as a response to the "hardening" of the property/casualty markets. This option may be used during negotiations with the Lloyd's of London syndicate if rate increases are too high.

7. **<u>Discussion:</u> An update to the board concerning coverage review and potential changes to the form.**

   Discussion was held on potential changes to the form that may be necessary due to possible issues with reinsurers. Coverage counsel is in the process of reviewing certain form issues.

8. **<u>Action Item:</u> Consideration of the date setting of the next Public Risk Mutual Board of Directors meeting.**

   Only discussion was held that the next meeting will be February 10, 2020 which is the same day as the next POOLPACT joint executive committee meeting.

9. **<u>Action Item:</u> Adjournment**

   Motion was made by Paul Johnson and second by Josh Foley. Motion carried unanimously. Meeting adjourned at 8:45 am.

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,

Michael Rebaleati

PRM President

PUBLIC RISK MUTUAL

DECEMBER 31, 2019 AND 2018

PUBLIC RISK MUTUAL
DECEMBER 31, 2019 AND 2018

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Casey Neilon, 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 Date Pending, 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.

Casey Neilan

Carson City, Nevada
DatePending

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

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

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
Net Cash Provided (Used) by Operating Activities	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)
Net Cash Provided (Used) by Investing Activities	(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, 2018 AND 2017

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.

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.

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.

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.

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:

		Fair Value measurement at reporting date using		
Description	December 31, 2019	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	6,006,376	-	6,006,376	-
Bonds	21,705,737	-	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	$ 46,172,633	$ 15,339,194	$ 30,833,439	$ -

		Fair Value measurement at reporting date using		
Description	December 31, 2018	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	5,217,983	-	5,217,983	-
Bonds	17,336,396	-	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	$ 41,224,003	$ 15,201,017	$ 26,022,986	$ -

There were no transfers between fair value levels during the year ended 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			
			Gross Unrealized	
	Cost	Estimated Fair Value	Gains	Losses
U.S. government obligations	$ 3,103,859	$ 3,121,326	$ 26,773	$ (9,306)
U.S. states and local authorities	5,910,745	6,006,376	122,806	(27,174)
Bonds	21,011,202	21,705,736	722,937	(28,403)
Total debt securities	30,025,806	30,833,438	872,516	(64,883)
Total available-for-sale securities	$ 30,025,806	$ 30,833,438	$ 872,516	$ (64,883)

NOTE 6 – INVESTMENTS (continued):

	December 31, 2018			
			Gross Unrealized	
	Cost	Estimated Fair Value	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)

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 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	$ 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.

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:

	Retention 1	Retention 2					
Fiscal Year	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		
7/1/17-7/1/18		30%	$2,500,000 excess of $500,000	25%	$7,000,000 excess of $3,000,000	25%	$2,500,000 excess of $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 $500,000
7/1/19-7/1/20		30%	$2,500,000 excess of $500,000	25%	$7,000,000 excess of $3,000,000		

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).

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 $3,954,668 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:

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

As a result of changes in estimates of incurred events in prior years, the provision for losses changed by $(65,893) 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.

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

	Years Ended December 31,										2019	
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	1,286.5	39.4	5
2016							582.8	1,398.2	1,426.3	1,222.5	148.5	6
2017								818.7	1,307.9	883.4	168.8	6
2018									1,207.6	2,306.8	978.5	1
2019										860.9	560.9	2
Total										**$ 7,749.6**		

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:

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	$	3,955.0

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	$	29,477,263

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.

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.

NOTE 10 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through Date Pending, which is the date the financial statements were available to be issued.

Casey Neilon, 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 (PRM), 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 Date Pending.

In planning and performing our audit of the GAAP basis financial statements of Public Risk Mutual (PRM) 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 PRM'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 PRM is subject and is not intended to be and should not be used by anyone other than these specified parties.

Casey Neilon

Carson City, Nevada
Date Pending

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 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.

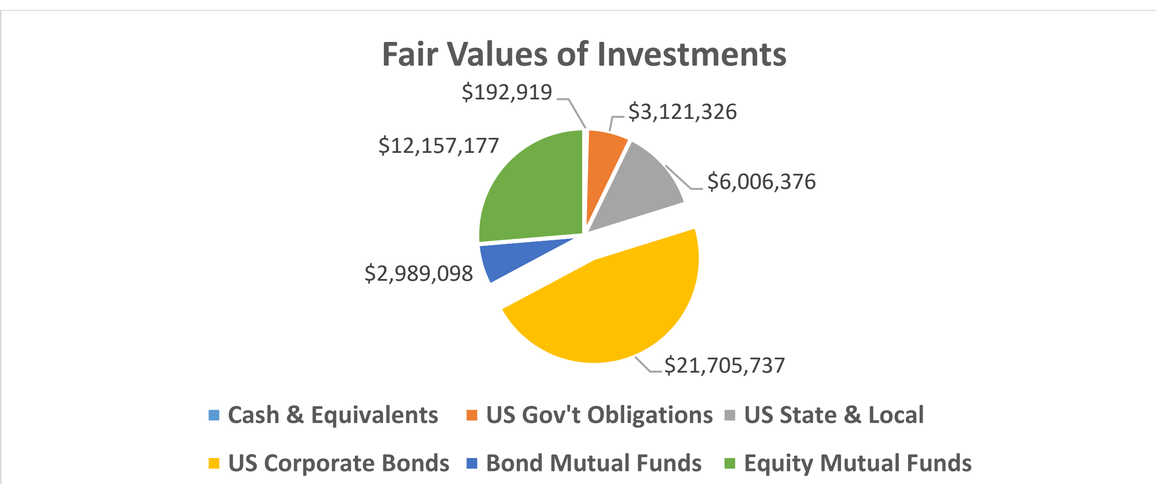
PRM has identified the estimates inherent in the valuation of investments and loss reserves (including reserves for unreported claims- IBNR) as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability. In developing these estimates, management makes 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.

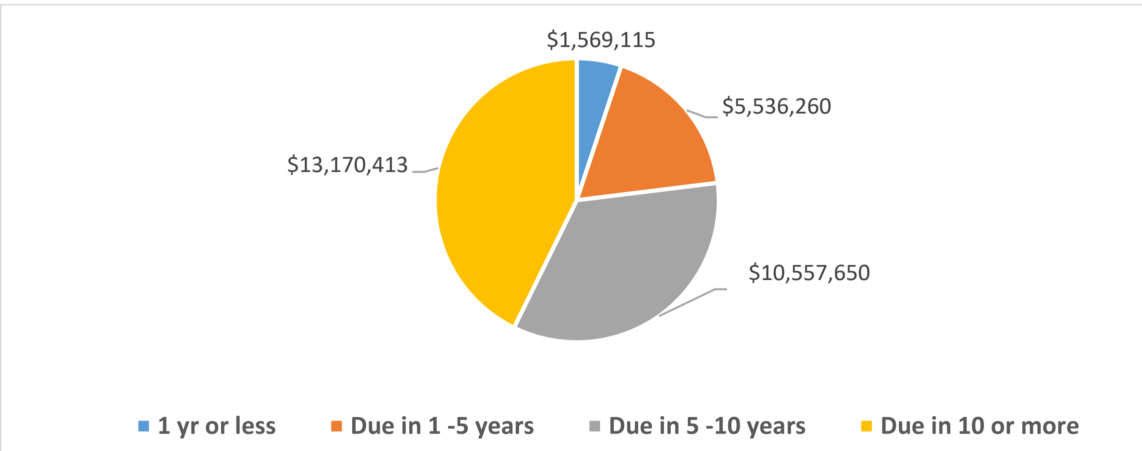
Cash and investments of $46,172,633 are available to meet current liabilities, including reserves for loss and loss adjustment expenses of $4,678,700. Total liabilities include accounts payable, reserves for loss and loss adjustment expenses and unearned premiums. This is a conservative measure of cash 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	
	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



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.

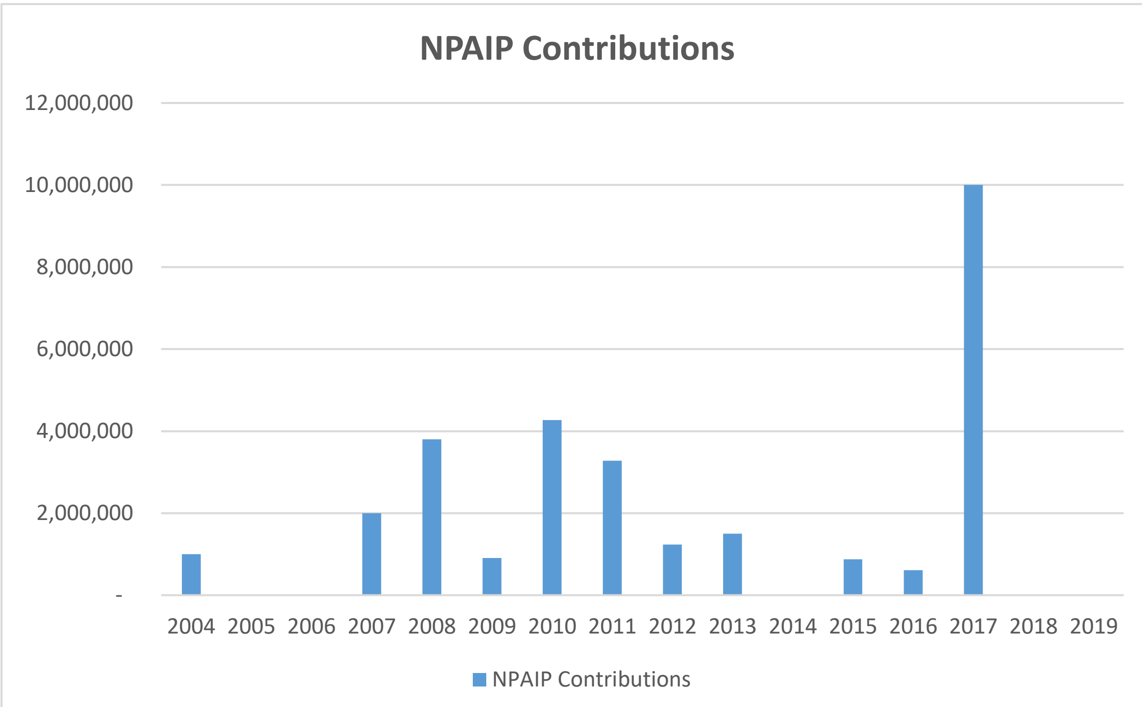
Reserves for loss and loss adjustment expenses increased from $3,591,000 to $3,955,000 at December 31, 2019 an increase of $364,000 or 10.1% during the year. This increase is due to the claim development in the current year and increases in prior year claims loss development.

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.

PUBLIC RISK MUTUAL

INVESTMENT GUIDELINES

1. Scope

This investment policy applies to all financial assets of Public Risk Mutual (PRM). These funds are accounted for in PRM's annual financial report.

2. Statement of Purpose

The purpose of the PRM Investment Guideline is to provide a general policy that will establish a framework that will be used to identify and define objectives, goals, standards and performance measurement of PRM investments. Within this general framework, PRM will structure an investment portfolio which is designed to attain a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints established by PRM, cash flow characteristics of the portfolio and operating demands.

Investment goals and objectives will be defined and established by the PRM Board on an annual basis with input from investment professionals and administrative staff.

The PRM investment portfolio will be designed following these key objectives:

- Liquidity - To provide adequate liquidity to meet all operating obligations that reasonably may be anticipated within the current operating cycle.

- Income and Growth - To structure an investment portfolio which is designed to attain a rate of return that is:
    - Competitive with portfolios with similar characteristics
    - Provides a balanced return of current income and modest growth of principal
    - Achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power

- Safety of Principal - Safety of principal is an important objective of the investment program. PRM seeks to preserve principal and achieve the maximum return possible given pre-determined risk constraints and liquidity demands. To attain this objective, diversification is required.

3. Investment Strategy:

The investment strategy is PRM’s plan of distributing assets among various investments, taking into consideration such factors as operating demands, goals, risk tolerance and horizon. Based on the investment goals and objectives, PRM will establish a balanced investment strategy which is a method of portfolio allocation designed to provide both income and capital appreciation while avoiding excessive risk. PRM will retain the services of qualified investment entities (investment managers) to provide professional advice, guidance, market information, trends, training and investment. Investments will be directed by the investment managers based on this investment guideline policy.

Investment strategy will conform to the provisions of Nevada Revised Statute 682A and regulations applicable to private, nonprofit captive mutual insurance companies.

Prudent Investor Rules apply. The Prudent Investor Rules 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

4. Investment Risk:

It is the policy of PRM to invest in a variety of investments including predominantly stocks, bonds, treasuries, cash and cash equivalents to provide both income and capital appreciation while avoiding excessive risk and preserving principal over time. Various types of risks and related mitigation strategies will be considered.

5. Investment Responsibility

A. Investment authority for PRM rests with the Board of Directors.

B. The Board of Directors or its designee may contract with investment advisor(s) to advise and manage the PRM'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 Board of Directors or its designee will monitor all investment activity as closely as is practicable. The Board of Directors or its designee will direct managers/advisors regarding day-to-day investments. In all cases, the Board of Directors or its designee will:

1. Ensure that all investments are made in accordance with PRM policies;

2. Consider the current status of investment policy and strategy;

3. Inventory all securities held by PRM (This shall be done in conjunction with the annual CPA audit);

4. Prepare and maintain monthly reports 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. Review the investment report at least annually, and at the next available meeting shall make the review a matter of record in the minutes;

6. Require that officers 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 Fiscal Officer 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 PRM;

7. 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, and will make modifications as deemed necessary;

8. Support periodic training with respect to investments and investment management.

6. Authorized Investments

Federal, state and other laws and regulations that govern captive mutual insurance companies stipulate eligible investments; such laws and regulations will supersede other viable investment alternatives that may be considered.

The following are eligible investments subject to asset allocation:

A. Fixed income securities, mutual funds and ETFs
B. Equity securities, mutual funds and ETFs
C. Cash and Cash Equivalents
D. Other securities

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

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. Transparency of strategy and results should be primary criteria for involvement in such pools/funds. The following general information should be considered by the manager as appropriate and addressed as necessary:

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 it 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.

Long-term, no more than 10% of assets should be held in any single mutual fund, exchange-traded fund, or similar vehicle. However, diversified money market funds approved by the NAIC (National Association of Insurance Commissioners) may exceed this amount.

7. **Prohibited Transactions**

The following types of assets or transactions expressly are prohibited, except where such transactions occur within a managed or mutual fund as an incidental strategy and such characteristics are noted as such and accepted by the Board:

1. Options contracts: the purchase and sale of put and call options, except for the writing of covered call options for capital preservation purposes. This does not include fixed income securities that have a put or call feature.
2. Commodities or other commodity contracts
3. Private placements
4. Purchase of equity securities on margin
5. Short selling
6. Interest-only (IO), Principal-only (PO), and CMO residuals
7. Transactions that would leverage investment positions except for securities lending operations
8. Off balance sheet derivatives

9. Limited partnerships
10. Venture capital investments
11. Direct mortgage lending or participation in direct mortgage loans
12. Letter stock and other unregistered securities
13. Securities lending, pledging or hypothecating securities
14. Investment in the equity securities of any company with a record of less than three years' continuous operations, including the operation of any predecessor, and investments for the purpose of exercising control of management.

8. Authorized Financial Dealers and Institutions

The Officers will maintain a list of financial institutions authorized by the Board to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Officers with the following evidence of qualifications:

A. audited financial statements (two years or more)
B. proof of National Association of Security Dealers certification
C. trading resolution
D. proof of Nevada registration
E. certification as having read PRM's Investment Guidelines and depository contracts
F. service auditors reports (SSAE 16 if available) regarding internal controls
G. Resumes and references.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Fiscal Officer or their designees. A current audited financial statement is required to be on file for each primary financial institution and broker/dealer with which PRM invests or transacts.

9. Selection and Performance Review of Investment Managers

The PRM Board of Directors will select appropriate investment managers to manage PRM 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 quarterly 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 PRM.

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 shall evaluate the portfolio(s) on an annual basis and 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.

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.

10. Investment Guidelines and Limitations

A. General Guidelines

- Diversification. 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 diversification exists.
- 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
- Positions in securities having potential default risk shall be limited in size so that in case of default, the portfolio's annual investment income should exceed a loss on a single issuer's securities.
- 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. Allocation. The Board will establish an asset allocation commensurate with the investment goals and objective and risk tolerance. The asset allocation will be based on the advice of qualified investment professionals and administrative staff.

The following guidelines shall serve for asset allocation (% of market value), subject to modification by the Board as noted herein:

Asset Allocation	Minimum	Maximum
Cash & Cash Equivalents	0%	100%
Core Fixed Income	50%	100%
Risk Assets	0%	50%
• Risk Assets as % of net assets based upon the most recent audited financial statements	0%	50%

Core Fixed Income Portfolio	Maximum
Cash & Cash Equivalents	100%
U.S. Government & Agency	100%
Structured Securities - MBS/CMO/CMBS/ABS	50%
• U.S. Agency MBS/CMO	50%
• CMBS	20%
• ABS	20%
Investment Grade Corporate/International Bonds (USD Only)	50%
• International Bonds	20%
Taxable Municipal	20%
BBB-Rated Instruments	25%

Issuer Limitation, By Quality	Maximum
AAA & AA rated	5%
A rated	3%
BBB rated	2%
Using Mid-Rating Methodology	

Risk Assets Portfolio – Mutual Fund/ETF	Maximum
U.S. Equity	100%
International Equity / Bonds	50%
High Yield / Bank Loan	50%
Real Estate	25%
Indicates the maximum allocation allowable as a percentage of the risk asset portfolio	

When necessary and/or available, cash inflows and outflows will be deployed in a manner consistent with the strategic asset allocation; otherwise the allocation will be reviewed quarterly. 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 variances. The PRM Board of Directors will be notified of any waiver(s) granted at the next regular board meeting. If the board determines that cash flows are insufficient to bring the allocations to within the minimum/maximum ranges, the board will determine whether to effect transactions to bring the strategic allocation within the threshold ranges.

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C. Maturities. To the extent possible, PRM will attempt to match its investments with anticipated cash flow requirements.

D. Return on Investment. PRM's investment portfolio will be designed with the objective of attaining a market rate of return taking into account PRM's investment risk constraints and the cash flow characteristics of the portfolio.

E. Performance Standards: Performance standards along with the general goals and objectives of PRM will be established by the Board in consultation with and the assistance of professional advisors and administrative staff and changes will be communicated to appropriate investment managers in writing as necessary.

11. Safekeeping and Custody

Securities purchased by PRM will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of PRM. If securities are purchased from outside dealers by an advisor, then securities 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 Fiscal Officer or their designees shall establish a system of internal controls, which shall be documented in writing. These controls must address online controls as well as traditional controls. The internal controls shall be reviewed by the Board of Directors and with the independent auditor. The controls shall be designed to prevent the loss of PRM 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 PRM.

No new custodial account will be established without the express approval of the Board of Directors.

13. Investment Policy Adoption

The Board of Directors will adopt PRM's investment policy. The Board of Directors will review the policy on at least an annual basis and the Board must approve any modifications made thereto.

____ Date____________
Signature of Chairman of Board Signifying Board Adoption

APPENDIX – GLOSSARY OF FINANCIAL TERMINOLOGY

- **Agency Debt** – is a security, usually a bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the government, but not guaranteed by the government since the agencies are private entities. Such agencies have been set up in order to allow certain groups of people to access low cost financing e.g. students and home buyers. Some prominent issuers of agency securities are Student Loan Marketing Association (Sallie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency securities are usually exempt from state and local taxes, but not federal tax. Agency debt is also called an agency security.

- **Agency Mortgage-Backed Securities** – Mortgage backed securities with payment of interest and principal guaranteed by FNMA, FHMC, or GNMA.

- **Amortized Value /Book Value -** The book value of the fixed income security is a function of both the original cost of the security purchased, the size of the premium or discount paid for a security and the amount of time between acquisition and the maturity date and/or call date of the security. Reflective of movement between cost and par.

- **Asset-Backed Securities (ABS) -** is a security whose value and income payments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

- **Barbell Strategy** – Concentrating the maturities or cash flows of a portfolio in a combination of short maturities and long maturities, while underweighting intermediate maturities, relative to a more laddered maturity distribution or benchmark.

- **Basis Point (Bps)** - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

- **Book Value** - The value at which an asset is carried on a balance sheet, before market value fluctuations. Typically equals the cost of the security plus or minus the unamortized premiums and discounts.

- **Book Yield** - This is the expected return over a fixed income security's expected life based on its cost. It incorporates both coupon income and accretion or amortization of premiums or discounts. When book yield is multiplied by book value, it represents a close approximation as to actual income to be earned over the near term.

- **Build America Securities (BABS)** - Taxable municipal security's introduced under the 2009 American Recovery and Reinvestment Act to assist municipalities in funding infrastructure projects. The higher taxable interest rate was offset by a 35% subsidy from the federal government. This program was discontinued December 31, 2010.

- **Bullet** – Concentrating the maturities or cash flows of a portfolio in the intermediate portion of a maturity distribution relative to a flatter or more laddered distribution or benchmark.

- **Call Price** - The price, specified at issuance, at which the issuer of a bond may retire part of the bond at a specified call date prior to final maturity.

- **Cash Equivalents -** Investment securities that are short-term, have high credit quality and are highly liquid.

- **Collateralized Mortgage Obligation (CMO)** – A security backed by mortgages (agency or non-agency) with the cash flows separated and directed into short, medium, and long term positions (tranches) as well as in to senior and subordinated tranches. CMO tranches can offer the investor less or more prepayment risk and volatility than the underlying mortgage collateral.

- **Commercial Mortgage Backed Securities (CMBS) -** Securities backed by principal and interest payments from a pool of commercial mortgages and collateralized by the underlying properties. . A CMBS can provide liquidity to real estate investors and to commercial lenders. Because they are not standardized, there are a lot of details associated CMBS that make them difficult to value. However, when compared to a residential mortgage-backed security (RMBS), a CMBS provides a lower degree of prepayment risk because commercial mortgages are most often set for a fixed term.

- **Corporate Securities-** Securities issued by United States and foreign domiciled corporations.
- **Credit support** – Protection from losses provided by other subordinate tranches in a CMO or CMBS structure which take losses first. These may include; excess spread, over collateralization, reserve accounts, surety bonds and wrapping programs.
- **DERIVATIVES**

  "Cap" means an agreement obligating the seller to make payments to the buyer, with each payment based on the amount by which a reference price or level or the performance or value of one or more underlying interests exceeds a predetermined number, sometimes called the strike rate or strike price.

  "Collar" means an agreement to receive payments as the buyer of an option, cap or floor and to make payments as the seller of a different option, cap or floor.

  "Counterparty exposure amount" means:

(A) The net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, qualified foreign exchange or cleared through a qualified clearinghouse. Such derivative instruments are hereinafter referred to as "over-the-counter derivative instruments." The amount of credit risk equals:

(i) The market value of the over-the-counter derivative instrument if the liquidation of the derivative instrument would result in a final cash payment to the insurer; or

(ii) Zero, if the liquidation of the derivative instrument would not result in a final cash payment to the insurer.

(B) If over-the-counter derivative instruments are entered into under a written master agreement which provides for netting of payments owed by the respective parties, and the domiciliary jurisdiction of the counterparty is either within the United States or, if not within the United States, within a foreign jurisdiction listed in the NAIC Purposes and Procedures of the Securities Valuation Office as eligible for netting, the net amount of credit risk shall be the greater of zero or the net sum of:

(i) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment to the insurer; and

(ii) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment by the insurer to the business entity.

(C) For open transactions, market value shall be determined at the end of the most recent quarter of the insurer's fiscal year, and shall be reduced by the market value of acceptable collateral held by the insurer or placed in escrow by one or both parties.

"Covered" means that an insurer owns or can immediately acquire, through the exercise of options, warrants or conversion rights already owned, the underlying interest in order to fulfill or secure its obligations under a call option, cap or floor it has written or has set aside under a custodial or escrow agreement cash or cash equivalents with a market value equal to the amount required to fulfill its obligations under a put option it has written, in an income generation transaction.

"Derivative instrument" means an agreement, option, instrument or a series or combination thereof:

(A) to make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests or to make a cash settlement in lieu thereof; or

(B) that has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests. Derivative instruments include options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures and any other agreements, options or instruments substantially similar thereto or any series or combination thereof and any agreements, options or instruments permitted under this chapter. Derivative instruments shall not include an investment authorized under subdivisions (1) through (14) and (16) through (29) of section 3463 of Title 8 of the Vermont Code.

"Derivative transaction" means a transaction involving the use of one or more derivative instruments.

"Floor" means an agreement obligating the seller to make payments to the buyer in which each payment is based on the amount by which a predetermined number, sometimes called the floor rate or price, exceeds a reference price, level, performance or value of one or more underlying interests.

"Hedging transaction" means a derivative transaction which is entered into and maintained to reduce:

(A) the risk of a change in the value, yield, price, cash flow or quantity of assets or liabilities which the insurer has acquired or incurred or anticipates acquiring or incurring; or

(B) the currency exchange rate risk or the degree of exposure as to assets or liabilities which an insurer has acquired or incurred or anticipates acquiring or incurring.

"Income generation transaction" means a derivative transaction involving the writing of covered call options, covered put options, covered caps or covered floors that is intended to generate income or enhance return.

"Option" means an agreement giving the buyer the right to buy or receive (a "call option"), sell or deliver (a "put option"), enter into, extend or terminate or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

“Potential exposure" means the amount determined in accordance with the NAIC Annual Statement Instructions, defined in the instructions of Schedule BDB, Part C, Section 1 as:

Potential Exposure = 0.5% x Notional Amount x Square Root of (Remaining Years to Maturity).

"Swap" means an agreement to exchange or to net payments at one or more times based on the actual or expected price, level, performance or value of one or more underlying interests.

"Underlying interest" means the assets, liabilities, other interests or a combination thereof underlying a derivative instrument, such as any one or more securities, currencies, rates, indices, commodities or derivative instruments.

- **Discount** - The excess of the par or face value of a fixed income security over the amount paid for the security, excluding purchased interest.

- **Discount Rate** - The interest rate used in discounted cash flow analysis to determine the present value of future cash flows.

- **Duration** - While duration has many definitions, for purposes of managing fixed-income portfolios, duration is defined as a measure of price volatility. Mathematically, duration is the weighted average time to maturity where the cash flows are present valued by the security's yield. As security calculations are generally done through the concept of present value (price) and discount rate (yield), in a duration calculation, the present values add up to the total purchase price. By weighting them based on when they are to be received, one can predict how the price of a security will change as its yield changes.

- **Effective Maturity /Average Life** - The weighted average amount of time it takes to get your principal (not interest) back. On a bullet (non-callable) security, effective maturity equals nominal maturity. On a callable security, effective maturity could be either the call date or the maturity date, depending on whether the security is trading at a premium or a discount to its call price. On amortizing securities (mortgage backed securities, asset backed securities, commercial mortgage backed security and securities with sinking funds) the effective maturity is the weighted average date of all principal payments, based on both scheduled and unscheduled (but projected) payments.

- **Emerging Markets** – are nations with social or business activity in the process of rapid growth and industrialization. The economies of China and India are considered to be the largest. According to "The Economist" many people find the term outdated, but no new term has yet to gain much traction. Emerging market hedge fund capital reached a record new level in the first quarter of 2011 of $121 billion. The eight largest emerging and developing economies by GDP are China, Brazil, Russia, India, Mexico, South Korea, Indonesia, and Turkey.

- **Excess Return** – A security's return minus the return of a comparable risk-free security. For most U.S. fixed income sectors, it is a security's return less the return of a comparable duration Treasury security.

- **Exchange Traded Fund (ETF)** – are securities that closely resemble index funds, but can be bought and sold during the day just like common stocks. These investment vehicles allow investors a convenient way to purchase a broad basket of securities in a single transaction. Essentially, ETFs offer the convenience of a stock along with the diversification of a mutual fund.

- **Factor** – The percentage of the original principal that is left to be distributed in a mortgage-backed security, as represented by a numerical factor that will be attached on periodic market quotes and other presentations of the MBS's price.

- **Final Maturity** - Final maturity refers to the date at which the last amount of principal is scheduled to be received.

- **Fixed Income Securities** - Marketable securities purchased primarily for their current yield rather than capital appreciation potential. These securities customarily have a stated interest

rate payable periodically. Examples: first mortgage bonds, treasury notes, municipal bonds and corporate notes. Specifically excluded from this classification are convertible bonds and preferred stock.
For fixed-income securities that have interim cash flows (coupons), total return is the difference between ending market value and beginning market value, plus the difference between ending and beginning accrued interest, plus coupons received, divided by beginning market value plus beginning accrued interest plus the time weighted cash flow for the period.

- **General Obligation Securities (G.O.)**- Debt obligations issued by states, counties, special districts, cities, towns, and school districts and usually secured by the unlimited taxing power of the issuer. Tax types vary; property, income, sales, special taxes. Where taxing authority is not unlimited, these are known as limited tax G.O.s. Issues supported by general taxing authority but special fees, charges, grants, etc, are known as double barrelled securities. These issues may be both taxable and non-taxable.
  - Generally speaking, a security's price and its yield move in an inverse relationship. So when yields decrease, prices increase and when yields increase, prices decrease. This is reflective of the present value (price) and discount rate (yield) applied to the future cash flows of a fixed income security.

- **Government Securities -** Securities issued by one of the U.S. Agencies, Government Sponsored Enterprises ("GSE"), such as the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Company (FHLMC), or the Federal Home Loan Bank (FHLB), dollar-denominated securities issued by foreign governments or their agencies, supranationals, and local authorities .
  - In practice, duration is the simplest measure of the amount of price sensitivity a security has to changes in interest rates.

- **Growth Stock** - is a stock of a company that generates substantial and sustainable positive cash flow and whose revenues and earnings are expected to increase at a faster rate than the average company within the same industry. A growth company typically has some sort of competitive advantage (a new product, a breakthrough patent, overseas expansion) that allows it to fend off competitors. Growth stocks usually pay smaller dividends, as the company typically reinvests retained earnings in capital projects.

- **High Yield Bond (non-investment grade, speculative or junk bonds)** – is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors. Bonds rated BBB− and higher are called investment grade bonds. Bonds rated lower than investment grade on their date of issue are called speculative grade bonds, or colloquially as "junk" bonds. The lower-rated debt typically offers a higher yield, making speculative bonds attractive investment vehicles for certain types of financial portfolios and strategies.

- **Investment Income** - For fixed-income securities, the components of investment income include income coming from coupon payments plus or minus the change in accrued interest from the beginning to the end of the period plus or minus the amortization or accretion of the cost basis to par value (this would equate to the change in book value) of the security.

- **Market Value** – often referred to as "fair value", these are indicative of the price at which the securities could be sold in an active market. The vast majority of prices are obtained from a third-party pricing vendor. These prices do not represent actual 'bids' for individual securities, but provide a close approximation of the true sales proceeds which could be generated if the portfolio were liquidated as of the date of the report.

- **Market Yield -** Yield to maturity (sometimes called "market yield" or simply "yield") is the rate of return if a security is held to maturity based on its current market price.

- **Master Limited Partnerships (MLPs) -** is a publicly traded limited partnership. Shares of ownership are referred to as units. MLPs generally operate in the natural resource, financial services, and real estate industries. Unlike a corporation, a master limited partnership is considered to be the aggregate of its partners rather than a separate entity. However, the most distinguishing characteristic of MLPs is that they combine the tax advantages of a partnership with the liquidity of a publicly traded stock.

- **Money Markets -** The money market is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames.

- **Mortgage-Backed Securities (MBS) -** Securities backed by principal and interest payments from a pool of residential mortgages; includes collateralized mortgage obligations (CMOs).

- **MORTGAGE RELATED SECURITIES**
  Special purpose trusts and corporate entities secured by residential or commercial real estate.

  a. Full Faith and Credit
  All pass-through securities guaranteed by the Government National Mortgage Association (GNMA) and certain other agencies that are backed by the full faith and credit of the United States.

  b. U.S. Agency Backed
  Mortgage related securities issued either as pass-throughs or as collateralized mortgage obligations (CMOs) of a U.S. government agency that are not backed by the full faith and credit of the United States.

  c. Non-U.S. Agency Backed ("private label")
  Non-U.S. agency mortgage related securities backed by residential or commercial mortgages. Without a GSE guarantee, greater credit risk is usually assumed by the buyer. These usually have higher yields than agency MBS in order to compensate for this and other risks.

-

- **Mutual Funds -** An investment vehicle that enables individual investors to pool their money together and benefit from key advantages not normally available to smaller investors. These include: professional day-to-day investment management, greater diversification, easy access to global financial markets and 'wholesale' discounts and interest rates.

- **Par value -** Stated value or face value of the fixed income security. The stated amount the issuer must repay when the security reaches maturity.

  - **Passive Management (also called passive investing) –** is a financial strategy in which an investor (or a fund manager) invests in accordance with a pre-determined strategy that doesn't entail any forecasting (e.g., any use of market timing or stock picking would not qualify as passive management). The idea is to minimize investing fees and to avoid the adverse consequences of failing to correctly anticipate the future. The most popular method is to mimic the performance of an externally specified index. Retail investors typically do this by buying one or more 'index funds'. By tracking an index, an investment portfolio typically gets good diversification, low turnover (good for keeping down internal transaction costs), and extremely low management fees. With low management fees, an investor in such a fund would have higher returns than a similar fund with similar investments but higher management fees and/or turnover/transaction costs. Passive management is most common on the equity market, where index funds track a stock market index, but it is becoming more common in other investment types, including bonds, commodities and hedge funds. Today, there is a plethora of market indices in the world, and thousands of different index funds tracking many of them.
  -

PREFERRED STOCKS

a. Redeemable / Limited Life (Under NAIC Guidelines)
Preferred stocks with an explicit limited life, for example: mandatory sinking fund preferred stocks, preferred stocks redeemable at the option of the investor, and preferred stocks with a non-cancelable call provisions are included in this section. Currently, NAIC guidelines allow these preferreds to be carried at amortized cost.

b. Other Limited Life
Preferred stocks with an expected, but not explicit limited life. Securities included here contain a mechanism designed to limit price volatility (exclusive of creditworthiness); for example, preferred stocks redeemable at the option of the issuer such as fixed rate adjustable preferred stocks (FRAPS). Currently, NAIC guidelines require these preferred to be carried at market value with no amortization.

Premium - The excess of the amount paid for a fixed income security, excluding purchased interest, over its par or face value.

- **Prepayments** – The repayment of mortgage principal prior to scheduled amortization, which shortens the average life of the security. Prepayments are influenced by many factors, including refinancing and housing turnover. Returns of premium priced (above par) securities may be reduced when prepayments increase. A decline in market interest rates can increase prepayment activity via increased refinancing, shortening the duration of the security. This can reduce portfolio returns as the mortgage prepayments must be reinvested at lower yields. Conversely, a rise in interest rates may slow prepayments from expected levels, reducing the cash flows available to invest at higher yields. The slowdown in principal payments will normally extend the duration of the security.

- **Present Value** - The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.

- **Redemption** - The return of an investor's principal in a fixed income security, such as a preferred stock or bond.

- **Residential Mortgage-Backed Security (RMBS)** – Security backed by an underlying pool of residential mortgages.

- **Revenue Bonds** – Securities issued for either project or enterprise financing and supported by the revenues from that project. Issues may also be supported by dedicated taxes. Common types include municipal utilities, airport, toll roads, hospital, college, gas tax. These issues may be both taxable and non-taxable.

- **RISK ASSETS**

  International and U.S. publicly traded common stocks, including real estate investment trusts, equity mutual funds and private placement common/commingled trusts. Also included are perpetual preferred stocks. Finally, this category includes convertible bonds and convertible preferred stocks with no quality limitations.

  Exposure to common stocks is typically measured at market price as a percent of the most recent year-end surplus. Any limit indicated in this investment policy statement has been established by translating this into a dollar amount.

  U.S. High Yield fixed income mutual funds/ETFs.

  International Fixed Income mutual funds/ETFs; including both sovereign and corporate debt issued in both USD and Local Currency.

- **Risk Free Security -** An asset which has a certain future return. Treasuries (especially T-bills) are considered to be risk-free because they are backed by the U.S. government.

- **Settlement Date** - The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

- **Short Term -** Money market instruments generally with less than 180 days to maturity from purchase, Money Market Funds.

SHORT-TERM INVESTMENTS
Short-term investments consist of cash and investment grade securities with an original

maturity at purchase of no more than one year.

a. U.S. Government Securities
U.S. Government securities backed by the full faith and credit of the United States or its agencies.

b. Money Market Funds
Includes bank sweep vehicles and other funds qualifying for Exempt or Class One treatment under NAIC rules.

c. Other Short-Term
Includes, but not limited to: repurchase agreements, commercial paper, bankers' acceptances, and certificates of deposit.

- **Spread** – Normally used to describe the incremental yield of a security over a comparable maturity or reference Treasury, in basis points. Calculations vary by asset class.

- **Subordinate Debt -** ranked behind that held by secured lenders in terms of the order in which the debt is repaid. "Subordinate" financing implies that the debt ranks behind the first secured lender, and means that the secured lenders will be paid back before subordinate debt holders.

- **Taxable Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is** subject to regular income tax. Barclays considers most taxable municipals as "Local Authority" issues in their Government index.

- **Tax-Exempt Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is not** subject to regular income tax.
  The main difference between income return and total return is that income returns are based on book value and income earned (which includes changes in book value as part of the calculation), while total return is based on market value and cash flow received.

- **Total Return** - As opposed to income return, which is an accounting based calculation, **total return** is an economic-based calculation. For securities with no interim cash flows, total return is the difference between the ending and beginning market value.

- **Trade Date** - The month, day and year that an order is executed in the market. The trade date is when an order to purchase, sell or otherwise acquire a security is performed.

- **Tranche -** Tranches are pieces, portions or slices of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards and maturities. For example, a collateralized mortgage obligation CMO offering a partitioned mortgage-backed securities MBS portfolio might have mortgage tranches with one-year, two-year, five-year and 20-year maturities, all with varying degrees of risk and returns.

- **Treasury -** Securities issued by the U.S. Treasury.

- **Treasury Inflation Protected Securities (TIPS) -** U.S. Treasury notes and bonds that have a fixed coupon rate and mature on a fixed date. However, the coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the Consumer Price Index (CPI).

- **Value Stock (also called value investing)** – is an investment paradigm that derives from the ideas on investment that Ben Graham and David Dodd began teaching at Columbia Business School in 1928 and subsequently developed in their 1934 text Security Analysis. Although value investing has taken many forms since its inception, it generally involves buying securities whose shares appear under-priced by some form of fundamental analysis. As examples, such securities may be stock in public companies that trade at discounts to book value or tangible book value, have high dividend yields, have low price-to-earning multiples or have low price-to-book ratios.
  - High-profile proponents of value investing, including Berkshire Hathaway chairman Warren Buffett, have argued that the essence of value investing is buying stocks at less than their intrinsic value. The discount of the market price to the intrinsic value is what Benjamin Graham called the "margin of safety". The intrinsic value is the discounted value of all future distributions. However, the future distributions and the appropriate discount rate can only be assumptions. Graham never recommended using future numbers, only past ones). For the last 25 years, Warren Buffett has taken the value investing concept even further with a focus on "finding an outstanding company at a sensible price" rather than generic companies at a bargain price.

- **Weighted average life** – The weighted average time to principal repayment in years, weighted by the amount of each principal payment.
  - While many assumptions built into the duration calculation, for small movements in interest rates, duration is a fairly good proxy of price sensitivity.

- **Yankee Bond** – A bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Due to the stringent regulations and standards that must be adhered to, it may take up to 14 weeks (or 3.5 months) for a Yankee bond to be offered to the public. Part of the process involves having debt-rating agencies evaluate the credit worthiness of the Yankee bond's underlying issuer. Foreign issuers tend to prefer issuing Yankee bonds when U.S. interest rates are low because this means lower interest payments for the foreign issuer.

- **Yield Curve Slope** – The spread between two points on the yield curve for similar assets. Most often used in discussing the Treasury curve, but is often used for comparing yields of comparable municipal and corporate securities across maturities.

Addendum #1 to Investment Guidelines

NEAM Enterprise Based Asset Allocation Summary – POOL/PRM

The following allocation targets (Relative Earnings Risk) will be used for the calendar year beginning January 1, 2017. The targets may be changed at the discretion of the Board, and will be reviewed and approved or amended at least annually.

Results	Current	Similar Total Return	Similar Earnings Risk	Similar T-VAR	Relative Earnings Risk	Maximum Total Return
Enterprise Statistics						
Total Return on Equity	4.66	4.66	5.27	5.37	5.81	5.96
Earnings Risk (Std Dev)	2.77	2.05	2.77	2.94	3.80	4.84
Capital Risk -10% VAR, t=1	0.00	0.00	0.00	0.00	0.01	0.17
99.50 VAR % Capital	4.06	2.36	3.70	4.05	5.96	8.59
99.50 T-VAR % Capital	4.68	2.74	4.28	4.68	6.83	9.76
Total Return on Assets	2.57	2.57	3.16	3.26	3.68	3.83
Investment Leverage	1.04	1.04	1.04	1.04	1.04	1.04
Product Leverage	0.17	0.17	0.17	0.17	0.17	0.17
Product Margin	11.94	11.94	11.94	11.94	11.94	11.94
Add. Return/Risk Metrics						
Total Return on Assets($)	1.62	1.62	1.99	2.06	2.32	2.41
Income Return on Assets($)	1.31	1.45	1.62	1.64	1.80	1.90
Duration (OAD)	3.6	2.7	3.7	3.9	5.0	5.0
Convexity (OAC)	0.01	(0.57)	(0.44)	(0.42)	(0.26)	(0.24)
Book Yield	1.94	2.24	2.52	2.57	2.86	2.94
Market Yield (OAY)	1.44	2.06	2.23	2.28	2.64	2.72
Default Loss ($)	0.05	0.08	0.07	0.07	0.08	0.07
NAIC RBC ($)	1.36	0.89	1.47	1.58	1.68	1.69
Average Rating	AA	AA-	AA-	AA-	AA-	AA-
BBB (%)	0.2	6.6	8.7	8.6	8.5	8.5
<BBB (%)	2.2	4.7	4.4	4.3	4.3	4.3
Non-FI (%)	12.6	6.4	12.7	13.8	15.0	15.0
Sector Distribution						
Short Term	1.9	0.0	0.0	0.0	0.0	0.0
US Govt_Agncy	47.3	20.7	31.5	30.9	21.5	21.5
Municipal	0.0	1.5	1.5	1.0	0.0	0.0
Muni-Tax	0.0	0.0	0.0	1.1	7.5	9.2
Invest Grd US Corp	10.3	17.1	14.2	13.2	16.0	14.3
High Yield	1.5	2.8	2.6	2.6	3.5	3.5
MBS/CMO	20.0	42.4	33.5	33.5	33.5	33.5
ABS	2.3	7.3	2.3	2.3	2.3	2.3
CMBS	3.5	0.0	0.0	0.0	0.0	0.0
Bank Loans	0.0	1.2	1.0	1.0	0.0	0.0
Foreign Debt	0.7	0.7	0.7	0.7	0.7	0.7
Preferred (DRD)	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Equity	12.0	6.4	10.4	10.9	6.9	0.0
Intl Equity	0.7	0.0	2.3	2.9	8.1	15.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Risk Assets (Equity+<BBB)% of Cptl	15.4	11.5	17.7	18.8	20.0	20.0

Addendum #2 to Investment Guidelines

NEAM Fixed Income Benchmarks – POOL

BofA ML Index Data as of 11/30/2016			
Sector	Index Ticker	Description	Benchmark Weights
MBS	M0A0	Mortgage Master Index	30
CORP	CV10	US CORPS A-AAA: 1-5 Yrs	10
GOV/AGY	G5A0	US Tsy/Agy: 1-10 Yrs	60
		TOTAL	100

Benchmark Characteristics

- Duration (OAD): 3.96 years
- Average Rating (Lowest): AA+

NEAM Fixed Income Benchmarks – PRM

BofA ML Index Data as of 11/30/2016			
Sector	Index Ticker	Description	Benchmark Weights
ABS	R0A1	ABS Master Index AAA	5
CMBS	CB10	CMBS Fix Rate AAA	5
MBS	M0A0	Mortgage Master Index	30
CORP	C010	CORP AAA-A	40
CORP	C5A4	US CORPS BBB 1-10Yrs	10
GOV/AGY	G0A0	US Tsy/Agy	10
		TOTAL	100

Benchmark Characteristics

- Duration (OAD): 5.59 years
- Average Rating (Lowest): A+

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

Proposed Change in Amortization of Capitalization of Funds to the Captives
March 2020

Purpose:

NPAIP and PACT have formed member-owned nonprofit captive mutual insurance companies and have contributed to the surplus of the company and became excess insurer for NPAIP and PACT. The captives were formed to reduce the cost of insurance, to obtain direct access to reinsurance, to provide broader coverage for policyholders, to broaden investment opportunities and to build equity to enable provision of coverage not obtainable elsewhere.

As a condition of providing surplus contributions, but without any expectation that the funds will be returned, NPAIP and PACT required that prior to any distributions, the contributed surplus must be repaid to NPAIP and PACT. Management considers the contributed surplus costs a development cost than can provide lower operating costs in the future and estimates that the savings in reinsurance costs to NPAIP and PACT will recoup the startup capital. ***Therefore, it has been the policy to amortize the transfer of contributed surplus to PRM and PCM over a 10-year period. (emphasis added)***

This 10-year amortization period has created net decrease in net position from operations due to the annual amortization amounts. For example, in FYE 6-30-2019, NPAIP and PACT amortization amounts were $2,295,226 and $4,321,761 respectively. NPAIP and PACT Net Position decreased by $1,558,723 and $5,919,265 in FYE 6-30-2019. This accounting has created confusion with the members and those who do not understanding the accounting treatment of the transfer of surplus capital. Accounting standards allow entities to expense 100% in the year of the transfer or amortize over a period of years.

Proposal:

Based on discussions with our independent auditor, it is recommended to change the amortization policy from 10 years to expensing 100% of the amount of the contributed surplus to the captives in the year of the transfer. This will increase the expense in the year of the transfer and eliminate the other asset: Contributed Surplus PRM and PCM net on the NPAIP and PACT financial statements. This change will have an impact on our financial benchmarks and make us more comparable with our peers in years without a transfer.

Fiscal Impacts:

Public Risk Mutual: Contributed surplus from NPAIP since September 1, 2004 is $29,477,263.
As of June 30, 2019, NPAIP had amortized $18,125,819 of the transfer for a Net Contributed Surplus to PRM of $11,351,444 on the Statement of Net Position. See Note 9 of the June 30, 2019 Financial Statements for more details. The Total Surplus for PRM as of December 31, 2019 is $41,702,381 which exceeds the NPAIP contributions by $12,225,118. See audits for more details.

Public Compensation Mutual: Contributed surplus from PACT since May 2007 is $53,700,939.
As of June 30, 2019, PACT had amortized $30,966,968 of the transfer for a Net Contribution Surplus to PCM of $22,733,971 on the Statement of Net Position. See Note 13 of the PACT Financial Statements for more details. The Total Surplus for PCM as of December 31, 2019 is $77,854,824 which exceeds the PACT contributions by $24,153,885. See audits for more details.

Recommended Board Action:

A motion to change the accounting policy relating to transfer of surplus capital to the PRM and PCM captives providing for 100% expense in the year of transfer effective retroactively to July 1, 2019 noting that the unamortized balances will be noted in the beginning balances.

Public Risk Mutual

201 S. Roop Street, Suite 102
Carson City, NV 89701-4790
775-885-7475

March 11, 2020

PUBLIC RISK MUTUAL CORPORATE OFFICERS

President	-	Michael Rebaleat
Vice President	-	Wayne Carlson
Secretary	-	Marshall Smith
Treasurer	-	Alan Kalt

Public
Compensation
Mutual

PUBLIC COMPENSATION MUTUAL

201 South Roop Street, Suite 102
Carson City NV 89701
Phone: (775) 885-7475
Fax (775) 883-7398

Agenda for
Public Compensation Mutual
Time: Immediately following Public Risk Mutual Meeting
Date: Wednesday, March 11, 2020   8:30 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

AGENDA

1. **Roll**

2. **Action Item: Approval of Minutes of Board Meeting December 2, 2019**

3. **Discussion: Review of PCM's 2019 annual audit report.**

4. **Action Item: Approval of PCM's investment policy to include a process for waivers concerning the asset allocation guidelines.**

5. **Action Item: Change in accounting policy relating to the transfer of capital from PACT providing for 100% expense in the year of transfer.**

6. **Action Item: Ratification of corporate officers**

7. **Action Item: Consideration of the date setting of the next Public Compensation Mutual Board of Directors meeting.**

8. **Action Item: Adjournment**

Public Compensation Mutual

PUBLIC COMPENSATION MUTUAL

201 South Roop Street, Suite 102
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Fax (775) 883-7398

Minutes
Public Compensation Mutual
Place: Pool/Pact Building
201 S. Roop St., #102
Carson City, NV 89701
Time: Immediately following Public Risk Mutual Meeting
Date: December 2, 2019

1. **Roll** Members present were as follows: Chair Paul Johnson, Gina Rackley, Josh Foli, Cash Minor, and Gerald Eick. Also, present were Michael Rebaleati, Wayne Carlson, Marshall Smith, Alton Cogert from Strategic Asset Alliance (S.A.A,) and Alan Kalt. With a quorum being present, Chair Paul Johnson called the meeting to order

2. **<u>Action Item</u>: Approval of Minutes of Board Meeting November 4, 2019**

   On motion by Paul Johnson and second by Josh Foli the Board approved the minutes of the November 4 PCM meeting. Motion passed unanimously.

3. **<u>Discussion:</u> PCM's investment status as of 10/31/2019 and financial update.**

   The 10/31/2019 comprehensive monthly investment review provided by NEAM was presented to the board. Additionally, Alton Cogert from Strategic Asset Alliance presented the 12/2/2019 PCM-PRM risk asset review.

4. **<u>Action Item:</u> Consideration of including bank loans to the mix of risk asset investments with the percentage set by board policy.**

   A detailed discussion concerning the consideration of including bank loans to PCM's risk asset investment. This discussion included 1) the view of using a percentage of surplus or a percentage of assets when referring to risk asset allocations; 2) total return of investment as a whole; 3) "leveling out" investment

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volatility: 4) the long term approach when realizing yield; and 5) the risk tolerance of the board and its members. The issue of credit market tightening or loosening was also discussed and potential issues this may cause. The recommend from Strategic Asset Alliance was to add +10% of bank loans and reduce International Equity -10% to increase yield and reduce volatility. Motion was made by Gerald Eick and second by Cash Minor to include 10% of bank loans to the mix of risk assets investments. Motion passed with 4 in favor and 1 nay.

5. <u>Action Item</u>: Consideration of the rebalancing of risk asset investments.

During the discussion concerning the rebalancing of PCM's risk asset investments, it was identified that action was needed to bring PCM's risk asset allocation 40%. At the time of this discussion 34.1% of PCM's surplus was invested in risk assets. 40% is the target pursuant to the PCM investment policy. There was clarification that the percentage of risk asset to surplus is the primary focus instead of risk asset to assets. Motion was made by Gerald Eick and second by Cash Minor to rebalance PCM's risk asset investments. Four million dollars will be raised by selling fixed income investments to generate these funds to invest in bank loans and to bring PCM's risk asset investment to 40% of surplus. Vote was unanimously in favor of motion.

6. <u>Action Item:</u> Consideration of the date setting of the next Public Compensation Mutual Board of Directors meeting.

Only discussion was held that the next meeting will be February 10, 2020 which is the same day as the next POOL/PACT joint executive committee meeting.

7. <u>Action Item:</u> Adjournment

Motion was made by Josh Foley and second by Cash Minor. Motion carried unanimously. Meeting adjourned at 8:57 am.

PUBLIC COMPENSATION MUTUAL

DECEMBER 31, 2019 AND 2018

PUBLIC COMPENSATION MUTUAL
DECEMBER 31, 2019 AND 2018

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Casey Neilon, 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 *DATE PENDING*, 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.

Casey, Neilan

Carson City, Nevada
DATE PENDING

PUBLIC COMPENSATION MUTUAL
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
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
Total Assets	$ 84,764,024	$ 74,083,390
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
Total Liabilities	6,909,200	5,383,300
Surplus	76,408,184	70,595,348
Accumulated other comprehensive income (loss)	1,446,640	(1,895,258)
Total Surplus	77,854,824	68,700,090
Total Liabilities and Surplus	$ 84,764,024	$ 74,083,390

See accompanying notes

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

	2019	2018
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)
Total Income	8,211,126	3,908,137
EXPENSES		
Administrative fees	549,853	172,829
Loss and loss adjustment expenses	1,748,999	1,467,002
Total Expenses	2,298,852	1,639,831
Net Income Before Income Taxes	5,912,274	2,268,306
Provision for income taxes	-	-
Net Income	$ 5,912,274	$ 2,268,306
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
Other Comprehensive Income (Loss)	3,242,460	(3,341,043)
Comprehensive Income (Loss)	$ 9,154,734	$ (1,072,737)

See accompanying notes

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

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

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 (Decrease) 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.

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.

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.

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.

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:

		Fair Value measurement at reporting date using		
Description	December 31, 2019	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	$ -

		Fair Value measurement at reporting date using		
Description	December 31, 2018	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.

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			
		Estimated Fair	Gross Unrealized	
	Cost	Value	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	56,312,276	57,758,916	1,562,674	(116,034)
Total available-for-sale securities	$ 56,312,276	$ 57,758,916	$ 1,562,674	$ (116,034)

NOTE 5 – INVESTMENTS (continued):

	December 31, 2018			
	Cost	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized 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)

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	-

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. 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.

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:

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

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%.

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

	Years Ended December 31,										2019	
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.

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	$	5,756.6

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	$	53,700,939

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.

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.

Management company related party information?

NOTE 9 - SUBSEQUENT EVENTS:

Management has evaluated subsequent events through *DATE PENDING,* which is the date the financial statements were available to be issued.

Casey Neilon, 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 (PCM), 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 *DATE PENDING*.

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 PCM'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 PCM is subject and is not intended to be and should not be used by anyone other than these specified parties.

Casey, Neilon

Carson City, Nevada
DATE PENDING

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.

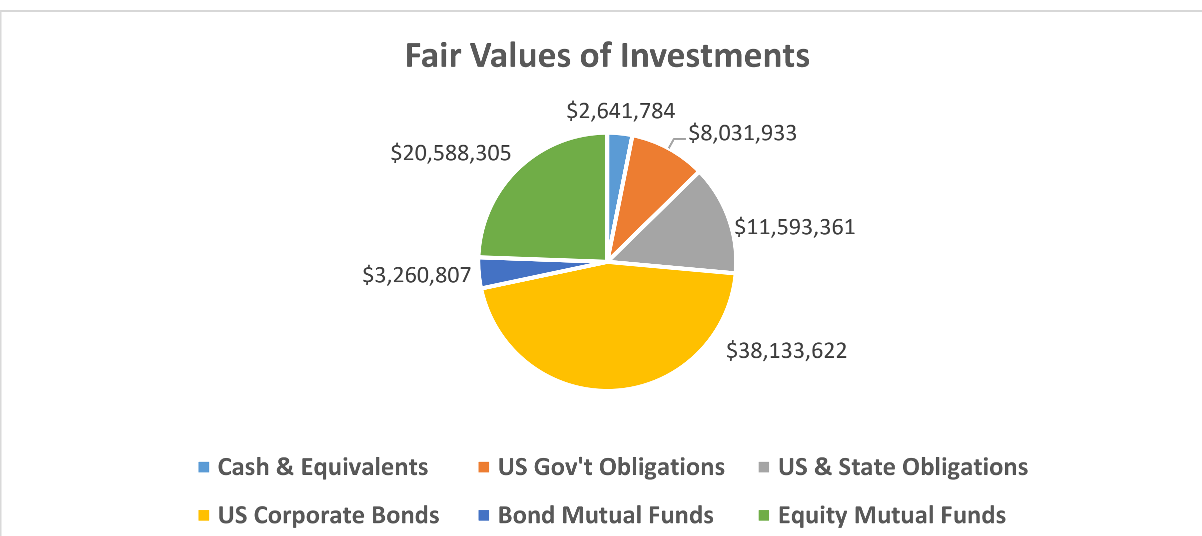
Investments
One significant estimate inherent in the valuation of investments is the evaluation of fair value and other than temporary impairment (OTTI). Fair value requires management judgement on the

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.

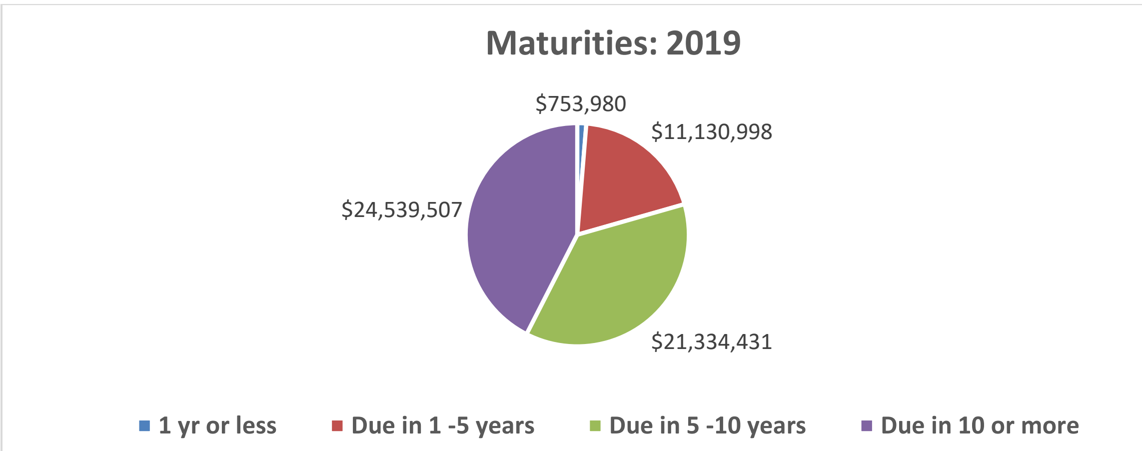
Cash and investments of $84,249,812 are available to meet current liabilities, including reserves for loss and loss adjustment expenses of $6,909,200. Total liabilities include accounts payable, reserves for loss and loss adjustment expenses and unearned assessments. This is a conservative measure of 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	
	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	9,828,939
Total Investment in debt securities	$57,758,916	$53,680,851



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.

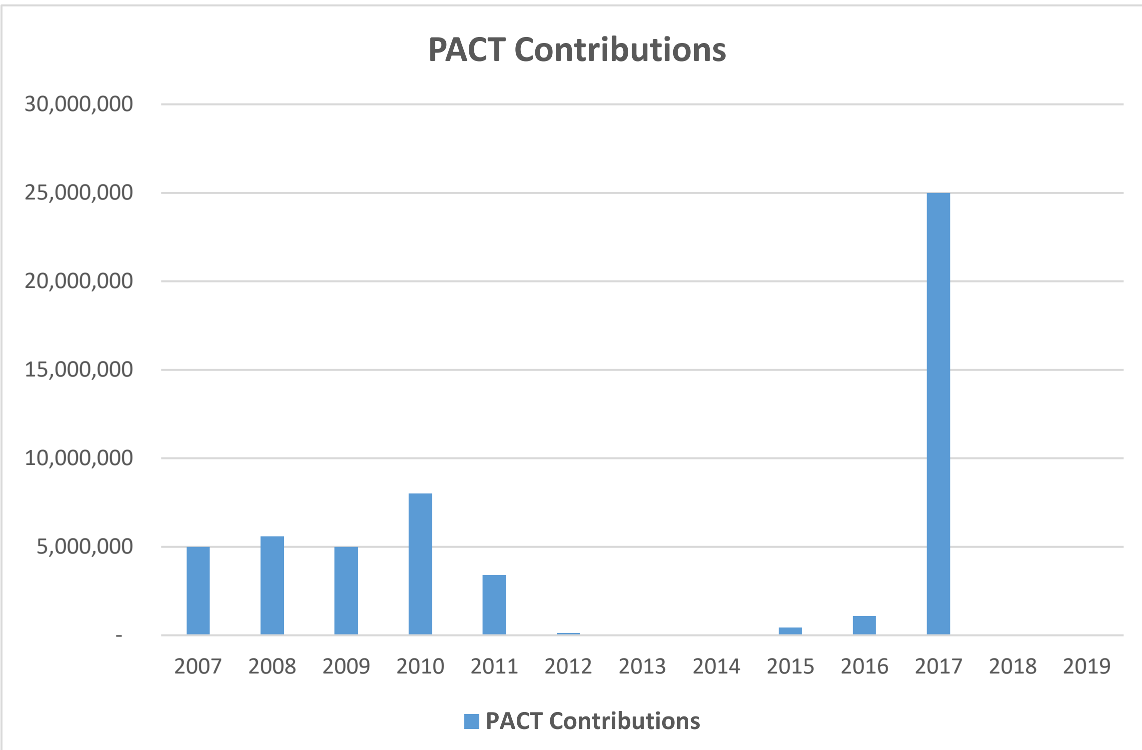
Reserves for loss and loss adjustment expenses increased from $4,549,000 to $5,756,600 at December 31, 2019 an increase of $1,207,600 or 26.5% during the year due to case reserve increases on a couple of severe loss claims incurred during the year.

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. Furthermore, PCM paid $287,500 to PACT for risk management services for the membership in 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		8,211,126	3,908,137		4,302,989	110.1%
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		2,298,852	1,639,831		659,021	40.2%
Net Income Before Income Taxes		5,912,274	2,268,306		3,643,968	160.6%
Provision for Income Taxes		-	-		-	
Net Income	$	5,912,274	$ 2,268,306		3,643,968	160.6%
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)		3,242,460	(3,341,043)		6,583,503	197.0%
Comprehensive Income (Loss)	$	9,154,734	$ (1,072,737)	$	10,227,471	953.4%

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.

PUBLIC COMPENSATION MUTUAL

INVESTMENT GUIDELINES

1. Scope

This investment policy applies to all financial assets of Public Compensation Mutual (PCM). These funds are accounted for in PCM's annual financial report.

2. Statement of Purpose

The purpose of the PCM Investment Guideline is to provide a general policy that will establish a framework that will be used to identify and define objectives, goals, standards and performance measurement of PCM investments. Within this general framework, PCM will structure an investment portfolio which is designed to attain a rate of return throughout budgetary and economic cycles commensurate with the investment risk constraints established by PCM, cash flow characteristics of the portfolio and operating demands.

Investment goals and objectives will be defined and established by the PCM Board on an annual basis with input from investment professionals and administrative staff.

The PCM investment portfolio will be designed following these key objectives:

- Liquidity - To provide adequate liquidity to meet all operating obligations that reasonably may be anticipated within the current operating cycle.

- Income and Growth - To structure an investment portfolio which is designed to attain a rate of return that is:
    - Competitive with portfolios with similar characteristics
    - Provides a balanced return of current income and modest growth of principal
    - Achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power

- Safety of Principal - Safety of principal is an important objective of the investment program. PCM seeks to preserve principal and achieve the maximum return possible given pre-determined risk constraints and liquidity demands. To attain this objective, diversification is required.

3. Investment Strategy:

The investment strategy is PCM's plan of distributing assets among various investments, taking into consideration such factors as operating demands, goals, risk tolerance and horizon. Based on the investment goals and objectives, PCM will establish a balanced investment strategy which is a method of portfolio allocation designed to provide both income and capital appreciation while avoiding excessive risk. PCM will retain the services of qualified investment entities (investment managers) to provide professional advice, guidance, market information, trends, training and investment. Investments will be directed by the investment managers based on this investment guideline policy.

Investment strategy will conform to the provisions of Nevada Revised Statute 682A and regulations applicable to private, nonprofit captive mutual insurance companies.

Prudent Investor Rules apply. The Prudent Investor Rules 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

4. Investment Risk:

It is the policy of PCM to invest in a variety of investments including predominantly stocks, bonds, treasuries, cash and cash equivalents to provide both income and capital appreciation while avoiding excessive risk and preserving principal over time. Various types of risks and related mitigation strategies will be considered.

5. Investment Responsibility

A. Investment authority for PCM rests with the Board of Directors.

B. The Board of Directors or its designee may contract with investment advisor(s) to advise and manage the PCM'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 Board of Directors or its designee will monitor all investment activity as closely as is practicable. The Board of Directors or its designee will direct managers/advisors regarding day-to-day investments. In all cases, the Board of Directors or its designee will:

1. Ensure that all investments are made in accordance with PCM policies;

2. Make recommendations to the Board of Directors concerning investment policy and strategy;

3. Inventory all securities held by PCM (This shall be done in conjunction with the annual CPA audit);

4. Prepare and maintain monthly reports 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. Review the investment report at least annually, and at the next available meeting shall make the review a matter of record in the minutes;

6. Require that officers 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 Fiscal Officer 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 PCM;

7. 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, and will make modifications as deemed necessary;

8. Support periodic training with respect to investments and investment management.

6. Authorized Investments

Federal, state and other laws and regulations that govern captive mutual insurance companies stipulate eligible investments; such laws and regulations will supersede other viable investment alternatives that may be considered.

The following are eligible investments subject to asset allocation:

A. Fixed income securities, mutual funds and ETFs
B. Equity securities, mutual funds, and ETFs
C. Cash and Cash Equivalents
D. Other securities

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

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. Transparency of strategy and results should be primary criteria for involvement in such pools/funds. The following general information should be considered by the manager as appropriate and addressed as necessary:

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 it 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.

Long-term, no more than 10% of assets should be held in any single mutual fund, exchange-traded fund, or similar vehicle. However, diversified money market funds approved by the NAIC (National Association of Insurance Commissioners) may exceed this amount.

7. Prohibited Transactions

The following types of assets or transactions expressly are prohibited, except where such transactions occur within a managed or mutual fund as an incidental strategy and such characteristics are noted as such and accepted by the Board:

1. Options contracts: the purchase and sale of put and call options, except for the writing of covered call options for capital preservation purposes. This does not include fixed income securities that have a put or call feature.
2. Commodities or other commodity contracts
3. Private placements
4. Purchase of equity securities on margin
5. Short selling
6. Interest-only (IO), Principal-only (PO), and CMO residuals
7. Transactions that would leverage investment positions except for securities lending operations
8. Off balance sheet derivatives
9. Limited partnerships

10. Venture capital investments
11. Direct mortgage lending or participation in direct mortgage loans
12. Letter stock and other unregistered securities
13. Securities lending, pledging or hypothecating securities
14. Investment in the equity securities of any company with a record of less than three years' continuous operations, including the operation of any predecessor, and investments for the purpose of exercising control of management.

8. Authorized Financial Dealers and Institutions

The Officers will maintain a list of financial institutions authorized by the Board to provide investment services. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Officers with the following evidence of qualifications:

A. audited financial statements (two years or more)
B. proof of National Association of Security Dealers certification
C. trading resolution
D. proof of Nevada registration
E. certification as having read PCM's Investment Guidelines and depository contracts
F. service auditors reports (SSAE 16 if available) regarding internal controls
G. Resumes and references.

An annual review of the financial condition and registrations of qualified bidders will be conducted by the Fiscal Officer or their designees. A current audited financial statement is required to be on file for each primary financial institution and broker/dealer with which PCM invests or transacts.

9. Selection and Performance Review of Investment Managers

The PCM Board of Directors will select appropriate investment managers to manage PCM 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 quarterly 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 PCM.

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 shall evaluate the portfolio(s) on an annual basis and 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.

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.

10. Investment Guidelines and Limitations

A. General Guidelines

- Diversification. 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 diversification exists.
- 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
- Positions in securities having potential default risk shall be limited in size so that in case of default, the portfolio's annual investment income should exceed a loss on a single issuer's securities.
- 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. Allocation. The Board will establish an asset allocation commensurate with the investment goals and objective and risk tolerance. The asset allocation will be based on the advice of qualified investment professionals and administrative staff.

The following guidelines shall serve for asset allocation (% of market value), subject to modification by the Board as noted herein:

Asset Allocation	**Minimum**	**Maximum**
Cash & Cash Equivalents	0%	100%
Core Fixed Income	50%	100%
Risk Assets	0%	50%
• Risk Assets as % of net assets upon the most recent audited financial statements	0%	50%

Core Fixed Income Portfolio	**Maximum**
Cash & Cash Equivalents	100%
U.S. Government & Agency	100%
Structured Securities - MBS/CMO/CMBS/ABS	50%
• U.S. Agency MBS/CMO	50%
• CMBS	20%
• ABS	20%
Investment Grade Corporate/International Bonds (USD Only)	50%
• International Bonds	20%
Taxable Municipal	20%
BBB-Rated Instruments	25%

Issuer Limitation, By Quality	**Maximum**
AAA & AA rated	5%
A rated	3%
BBB rated	2%
Using Mid-Rating Methodology	

Risk Assets Portfolio – Mutual Fund/ETF	**Maximum**
U.S. Equity	100%
International Equity / Bonds	50%
High Yield / Bank Loan	50%
Real Estate	25%
Indicates the maximum allocation allowable as a percentage of the risk asset portfolio	

When necessary and/or available, cash inflows and outflows will be deployed in a manner consistent with the strategic asset allocation; otherwise the allocation will be reviewed quarterly. . 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 variances. The PCM Board of Directors will be notified of any waiver(s) granted at the next regular board meeting. If the board determines that cash flows are insufficient to bring the allocations to within the minimum/maximum ranges, the board will determine whether to effect transactions to bring the strategic allocation within the threshold ranges.

C. Maturities. To the extent possible, PCM will attempt to match its investments with anticipated cash flow requirements.

D. Return on Investment. PCM's investment portfolio will be designed with the objective of attaining a market rate of return taking into account PCM's investment risk constraints and the cash flow characteristics of the portfolio.

E. Performance Standards: Performance standards along with the general goals and objectives of PCM will be established by the Board in consultation with and the assistance of professional advisors and administrative staff and changes will be communicated to appropriate investment managers in writing as necessary.

11. Safekeeping and Custody

Securities purchased by PCM will be held by a professionally qualified institution that has the necessary specialization to provide accurate and timely safekeeping of the assets of PCM. If securities are purchased from outside dealers by an advisor, then securities 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 Fiscal Officer or their designees shall establish a system of internal controls, which shall be documented in writing. These controls must address online controls as well as traditional controls. The internal controls shall be reviewed by the Board of Directors and with the independent auditor. The controls shall be designed to prevent the loss of PCM 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 PCM.

No new custodial account will be established without the express approval of the Board of Directors.

13. Investment Policy Adoption

The Board of Directors will adopt PCM's investment policy. The Board of Directors will review the policy on at least an annual basis and the Board must approve any modifications made thereto.

____ Date____________

Signature of Chairman of Board Signifying Board Adoption

APPENDIX – GLOSSARY OF FINANCIAL TERMINOLOGY

- **Agency Debt** – is a security, usually a bond, issued by a U.S. government-sponsored agency. The offerings of these agencies are backed by the government, but not guaranteed by the government since the agencies are private entities. Such agencies have been set up in order to allow certain groups of people to access low cost financing e.g. students and home buyers. Some prominent issuers of agency securities are Student Loan Marketing Association (Sallie Mae), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Agency securities are usually exempt from state and local taxes, but not federal tax. Agency debt is also called an agency security.

- **Agency Mortgage-Backed Securities** – Mortgage backed securities with payment of interest and principal guaranteed by FNMA, FHMC, or GNMA.

- **Amortized Value /Book Value -** The book value of the fixed income security is a function of both the original cost of the security purchased, the size of the premium or discount paid for a security and the amount of time between acquisition and the maturity date and/or call date of the security. Reflective of movement between cost and par.

- **Asset-Backed Securities (ABS) -** is a security whose value and incomepayments are derived from and collateralized (or "backed") by a specified pool of underlying assets. The pool of assets is typically a group of small and illiquid assets that are unable to be sold individually. Pooling the assets into financial instruments allows them to be sold to general investors, a process called securitization, and allows the risk of investing in the underlying assets to be diversified because each security will represent a fraction of the total value of the diverse pool of underlying assets. The pools of underlying assets can include common payments from credit cards, auto loans, and mortgage loans, to esoteric cash flows from aircraft leases, royalty payments and movie revenues.

- **Barbell Strategy** – Concentrating the maturities or cash flows of a portfolio in a combination of short maturities and long maturities, while underweighting intermediate maturities, relative to a more laddered maturity distribution or benchmark.

- **Basis Point (Bps)** - A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

- **Book Value** - The value at which an asset is carried on a balance sheet, before market value fluctuations. Typically equals the cost of the security plus or minus the unamortized premiums and discounts.

- **Book Yield** - This is the expected return over a fixed income security's expected life based on its cost. It incorporates both coupon income and accretion or amortization of premiums or discounts. When book yield is multiplied by book value, it represents a close approximation as to actual income to be earned over the near term.

- **Build America Securities (BABS)** - Taxable municipal securities introduced under the 2009 American Recovery and Reinvestment Act to assist municipalities in funding infrastructure projects. The higher taxable interest rate was offset by a 35% subsidy from the federal government. This program was discontinued December 31, 2010.

- **Bullet** – Concentrating the maturities or cash flows of a portfolio in the intermediate portion of a maturity distribution relative to a flatter or more laddered distribution or benchmark.

- **Call Price** - The price, specified at issuance, at which the issuer of a bond may retire part of the bond at a specified call date prior to final maturity.

- **Cash Equivalents -** Investment securities that are short-term, have high credit quality and are highly liquid.

- **Collateralized Mortgage Obligation (CMO)** – A security backed by mortgages (agency or non-agency) with the cash flows separated and directed into short, medium, and long term positions (tranches) as well as in to senior and subordinated tranches. CMO tranches can offer the investor less or more prepayment risk and volatility than the underlying mortgage collateral.

- **Commercial Mortgage Backed Securities (CMBS) -** Securities backed by principal and interest payments from a pool of commercial mortgages and collateralized by the underlying properties. . A CMBS can provide liquidity to real estate investors and to commercial lenders. Because they are not standardized, there are a lot of details associated CMBS that make them difficult to value. However, when compared to a residential mortgage-backed security (RMBS), a CMBS provides a lower degree of prepayment risk because commercial mortgages are most often set for a fixed term.

- **Corporate Securities-** Securities issued by United States and foreign domiciled corporations.
- **Credit support** – Protection from losses provided by other subordinate tranches in a CMO or CMBS structure which take losses first. These may include; excess spread, over collateralization, reserve accounts, surety bonds and wrapping programs.
- **DERIVATIVES**

  "Cap" means an agreement obligating the seller to make payments to the buyer, with each payment based on the amount by which a reference price or level or the performance or value of one or more underlying interests exceeds a predetermined number, sometimes called the strike rate or strike price.

  "Collar" means an agreement to receive payments as the buyer of an option, cap or floor and to make payments as the seller of a different option, cap or floor.

  "Counterparty exposure amount" means:

(A) The net amount of credit risk attributable to a derivative instrument entered into with a business entity other than through a qualified exchange, qualified foreign exchange or cleared through a qualified clearinghouse. Such derivative instruments are hereinafter referred to as "over-the-counter derivative instruments." The amount of credit risk equals:

(i) The market value of the over-the-counter derivative instrument if the liquidation of the derivative instrument would result in a final cash payment to the insurer; or

(ii) Zero, if the liquidation of the derivative instrument would not result in a final cash payment to the insurer.

(B) If over-the-counter derivative instruments are entered into under a written master agreement which provides for netting of payments owed by the respective parties, and the domiciliary jurisdiction of the counterparty is either within the United States or, if not within the United States, within a foreign jurisdiction listed in the NAIC Purposes and Procedures of the Securities Valuation Office as eligible for netting, the net amount of credit risk shall be the greater of zero or the net sum of:

(i) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment to the insurer; and

(ii) The market value of the over-the-counter derivative instruments entered into under the agreement, the liquidation of which would result in a final cash payment by the insurer to the business entity.

(C) For open transactions, market value shall be determined at the end of the most recent quarter of the insurer's fiscal year, and shall be reduced by the market value of acceptable collateral held by the insurer or placed in escrow by one or both parties.

"Covered" means that an insurer owns or can immediately acquire, through the exercise of options, warrants or conversion rights already owned, the underlying interest in order to fulfill or secure its obligations under a call option, cap or floor it has written or has set aside under a custodial or escrow agreement cash or cash equivalents with a market value equal to the amount required to fulfill its obligations under a put option it has written, in an income generation transaction.

"Derivative instrument" means an agreement, option, instrument or a series or combination thereof:

(A) to make or take delivery of, or assume or relinquish, a specified amount of one or more underlying interests or to make a cash settlement in lieu thereof; or

(B) that has a price, performance, value or cash flow based primarily upon the actual or expected price, level, performance, value or cash flow of one or more underlying interests. Derivative instruments include options, warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, futures and any other agreements, options or instruments substantially similar thereto or any series or combination thereof and any agreements, options or instruments permitted under this chapter. Derivative instruments shall not include an investment authorized under subdivisions (1) through (14) and (16) through (29) of section 3463 of Title 8 of the Vermont Code.

"Derivative transaction" means a transaction involving the use of one or more derivative instruments.

"Floor" means an agreement obligating the seller to make payments to the buyer in which each payment is based on the amount by which a predetermined number, sometimes called the floor rate or price, exceeds a reference price, level, performance or value of one or more underlying interests.

"Hedging transaction" means a derivative transaction which is entered into and maintained to reduce:

(A) the risk of a change in the value, yield, price, cash flow or quantity of assets or liabilities which the insurer has acquired or incurred or anticipates acquiring or incurring; or

(B) the currency exchange rate risk or the degree of exposure as to assets or liabilities which an insurer has acquired or incurred or anticipates acquiring or incurring.

"Income generation transaction" means a derivative transaction involving the writing of covered call options, covered put options, covered caps or covered floors that is intended to generate income or enhance return.

"Option" means an agreement giving the buyer the right to buy or receive (a "call option"), sell or deliver (a "put option"), enter into, extend or terminate or effect a cash settlement based on the actual or expected price, level, performance or value of one or more underlying interests.

“Potential exposure" means the amount determined in accordance with the NAIC Annual Statement Instructions, defined in the instructions of Schedule BDB, Part C, Section 1 as:

Potential Exposure = 0.5% x Notional Amount x Square Root of (Remaining Years to Maturity).

"Swap" means an agreement to exchange or to net payments at one or more times based on the actual or expected price, level, performance or value of one or more underlying interests.

"Underlying interest" means the assets, liabilities, other interests or a combination thereof underlying a derivative instrument, such as any one or more securities, currencies, rates, indices, commodities or derivative instruments.

- **Discount** - The excess of the par or face value of a fixed income security over the amount paid for the security, excluding purchased interest.

- **Discount Rate** - The interest rate used in discounted cash flow analysis to determine the present value of future cash flows.

- **Duration** - While duration has many definitions, for purposes of managing fixed-income portfolios, duration is defined as a measure of price volatility. Mathematically, duration is the weighted average time to maturity where the cash flows are present valued by the security's yield. As security calculations are generally done through the concept of present value (price) and discount rate (yield), in a duration calculation, the present values add up to the total purchase price. By weighting them based on when they are to be received, one can predict how the price of a security will change as its yield changes.

- **Effective Maturity /Average Life** - The weighted average amount of time it takes to get your principal (not interest) back. On a bullet (non-callable) security, effective maturity equals nominal maturity. On a callable security, effective maturity could be either the call date or the maturity date, depending on whether the security is trading at a premium or a discount to its call price. On amortizing securities (mortgage backed securities, asset backed securities, commercial mortgage backed security and securities with sinking funds) the effective maturity is the weighted average date of all principal payments, based on both scheduled and unscheduled (but projected) payments.

- **Emerging Markets** – are nations with social or business activity in the process of rapid growth and industrialization. The economies of China and India are considered to be the largest. According to "The Economist" many people find the term outdated, but no new term has yet to gain much traction. Emerging market hedge fund capital reached a record new level in the first quarter of 2011 of $121 billion. The eight largest emerging and developing economies by GDP are China, Brazil, Russia, India, Mexico, South Korea, Indonesia, and Turkey.

- **Excess Return** – A security's return minus the return of a comparable risk-free security. For most U.S. fixed income sectors, it is a security's return less the return of a comparable duration Treasury security.

- **Exchange Traded Fund (ETF)** – are securities that closely resemble index funds, but can be bought and sold during the day just like common stocks. These investment vehicles allow investors a convenient way to purchase a broad basket of securities in a single transaction. Essentially, ETFs offer the convenience of a stock along with the diversification of a mutual fund.

- **Factor** – The percentage of the original principal that is left to be distributed in a mortgage-backed security, as represented by a numerical factor that will be attached on periodic market quotes and other presentations of the MBS's price.

- **Final Maturity** - Final maturity refers to the date at which the last amount of principal is scheduled to be received.

- **Fixed Income Securities** - Marketable securities purchased primarily for their current yield rather than capital appreciation potential. These securities customarily have a stated interest

rate payable periodically. Examples: first mortgage bonds, treasury notes, municipal bonds and corporate notes. Specifically excluded from this classification are convertible bonds and preferred stock.
For fixed-income securities that have interim cash flows (coupons), total return is the difference between ending market value and beginning market value, plus the difference between ending and beginning accrued interest, plus coupons received, divided by beginning market value plus beginning accrued interest plus the time weighted cash flow for the period.

- **General Obligation Securities (G.O.)**- Debt obligations issued by states, counties, special districts, cities, towns, and school districts and usually secured by the unlimited taxing power of the issuer. Tax types vary; property, income, sales, special taxes. Where taxing authority is not unlimited, these are known as limited tax G.O.s. Issues supported by general taxing authority but special fees, charges, grants, etc, are known as double barrelled securities. These issues may be both taxable and non-taxable.
  - Generally speaking, a security's price and its yield move in an inverse relationship. So when yields decrease, prices increase and when yields increase, prices decrease. This is reflective of the present value (price) and discount rate (yield) applied to the future cash flows of a fixed income security.

- **Government Securities -** Securities issued by one of the U.S. Agencies, Government Sponsored Enterprises ("GSE"), such as the Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Company (FHLMC), or the Federal Home Loan Bank (FHLB), dollar-denominated securities issued by foreign governments or their agencies, supranationals, and local authorities .
  - In practice, duration is the simplest measure of the amount of price sensitivity a security has to changes in interest rates.

- **Growth Stock** - is a stock of a company that generates substantial and sustainable positive cash flow and whose revenues and earnings are expected to increase at a faster rate than the average company within the same industry. A growth company typically has some sort of competitive advantage (a new product, a breakthrough patent, overseas expansion) that allows it to fend off competitors. Growth stocks usually pay smaller dividends, as the company typically reinvests retained earnings in capital projects.

- **High Yield Bond (non-investment grade, speculative or junk bonds)** – is a bond that is rated below investment grade. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors. Bonds rated BBB− and higher are called investment grade bonds. Bonds rated lower than investment grade on their date of issue are called speculative grade bonds, or colloquially as "junk" bonds. The lower-rated debt typically offers a higher yield, making speculative bonds attractive investment vehicles for certain types of financial portfolios and strategies.

- **Investment Income** - For fixed-income securities, the components of investment income include income coming from coupon payments plus or minus the change in accrued interest from the beginning to the end of the period plus or minus the amortization or accretion of the cost basis to par value (this would equate to the change in book value) of the security.

- **Market Value** – often referred to as "fair value", these are indicative of the price at which the securities could be sold in an active market. The vast majority of prices are obtained from a third-party pricing vendor. These prices do not represent actual 'bids' for individual securities, but provide a close approximation of the true sales proceeds which could be generated if the portfolio were liquidated as of the date of the report.

- **Market Yield -** Yield to maturity (sometimes called "market yield" or simply "yield") is the rate of return if a security is held to maturity based on its current market price.

- **Master Limited Partnerships (MLPs) -** is a publicly traded limited partnership. Shares of ownership are referred to as units. MLPs generally operate in the natural resource, financial services, and real estate industries. Unlike a corporation, a master limited partnership is considered to be the aggregate of its partners rather than a separate entity. However, the most distinguishing characteristic of MLPs is that they combine the tax advantages of a partnership with the liquidity of a publicly traded stock.

- **Money Markets -** The money market is a component of the financial markets for assets involved in short-term borrowing and lending with original maturities of one year or shorter time frames.

- **Mortgage-Backed Securities (MBS) -** Securities backed by principal and interest payments from a pool of residential mortgages; includes collateralized mortgage obligations (CMOs).

- **MORTGAGE RELATED SECURITIES**
  Special purpose trusts and corporate entities secured by residential or commercial real estate.

  a. Full Faith and Credit
  All pass-through securities guaranteed by the Government National Mortgage Association (GNMA) and certain other agencies that are backed by the full faith and credit of the United States.

  b. U.S. Agency Backed
  Mortgage related securities issued either as pass-throughs or as collateralized mortgage obligations (CMOs) of a U.S. government agency that are not backed by the full faith and credit of the United States.

  c. Non-U.S. Agency Backed ("private label")
  Non-U.S. agency mortgage related securities backed by residential or commercial mortgages. Without a GSE guarantee, greater credit risk is usually assumed by the buyer. These usually have higher yields than agency MBS in order to compensate for this and other risks.

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- **Mutual Funds -** An investment vehicle that enables individual investors to pool their money together and benefit from key advantages not normally available to smaller investors. These include: professional day-to-day investment management, greater diversification, easy access to global financial markets and 'wholesale' discounts and interest rates.

- **Par value -** Stated value or face value of the fixed income security. The stated amount the issuer must repay when the security reaches maturity.

  - **Passive Management (also called passive investing) –** is a financial strategy in which an investor (or a fund manager) invests in accordance with a pre-determined strategy that doesn't entail any forecasting (e.g., any use of market timing or stock picking would not qualify as passive management). The idea is to minimize investing fees and to avoid the adverse consequences of failing to correctly anticipate the future. The most popular method is to mimic the performance of an externally specified index. Retail investors typically do this by buying one or more 'index funds'. By tracking an index, an investment portfolio typically gets good diversification, low turnover (good for keeping down internal transaction costs), and extremely low management fees. With low management fees, an investor in such a fund would have higher returns than a similar fund with similar investments but higher management fees and/or turnover/transaction costs. Passive management is most common on the equity market, where index funds track a stock market index, but it is becoming more common in other investment types, including bonds, commodities and hedge funds. Today, there is a plethora of market indices in the world, and thousands of different index funds tracking many of them.
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PREFERRED STOCKS

a. Redeemable / Limited Life (Under NAIC Guidelines)
Preferred stocks with an explicit limited life, for example: mandatory sinking fund preferred stocks, preferred stocks redeemable at the option of the investor, and preferred stocks with a non-cancelable call provisions are included in this section. Currently, NAIC guidelines allow these preferreds to be carried at amortized cost.

b. Other Limited Life
Preferred stocks with an expected, but not explicit limited life. Securities included here contain a mechanism designed to limit price volatility (exclusive of creditworthiness); for example, preferred stocks redeemable at the option of the issuer such as fixed rate adjustable preferred stocks (FRAPS). Currently, NAIC guidelines require these preferred to be carried at market value with no amortization.

Premium - The excess of the amount paid for a fixed income security, excluding purchased interest, over its par or face value.

- **Prepayments** – The repayment of mortgage principal prior to scheduled amortization, which shortens the average life of the security. Prepayments are influenced by many factors, including refinancing and housing turnover. Returns of premium priced (above par) securities may be reduced when prepayments increase. A decline in market interest rates can increase prepayment activity via increased refinancing, shortening the duration of the security. This can reduce portfolio returns as the mortgage prepayments must be reinvested at lower yields. Conversely, a rise in interest rates may slow prepayments from expected levels, reducing the cash flows available to invest at higher yields. The slowdown in principal payments will normally extend the duration of the security.

- **Present Value** - The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.

- **Redemption** - The return of an investor's principal in a fixed income security, such as a preferred stock or bond.

- **Residential Mortgage-Backed Security (RMBS)** – Security backed by an underlying pool of residential mortgages.

- **Revenue Bonds** – Securities issued for either project or enterprise financing and supported by the revenues from that project. Issues may also be supported by dedicated taxes. Common types include municipal utilities, airport, toll roads, hospital, college, gas tax. These issues may be both taxable and non-taxable.

- **RISK ASSETS**

  International and U.S. publicly traded common stocks, including real estate investment trusts, equity mutual funds and private placement common/commingled trusts. Also included are perpetual preferred stocks. Finally, this category includes convertible bonds and convertible preferred stocks with no quality limitations.

  Exposure to common stocks is typically measured at market price as a percent of the most recent year-end surplus. Any limit indicated in this investment policy statement has been established by translating this into a dollar amount.

  U.S. High Yield fixed income mutual funds/ETFs.

  International Fixed Income mutual funds/ETFs; including both sovereign and corporate debt issued in both USD and Local Currency.
- **Risk Free Security -** An asset which has a certain future return. Treasuries (especially T-bills) are considered to be risk-free because they are backed by the U.S. government.

- **Settlement Date** - The date by which an executed security trade must be settled. That is, the date by which a buyer must pay for the securities delivered by the seller.

- **Short Term -** Money market instruments generally with less than 180 days to maturity from purchase, Money Market Funds.

  SHORT-TERM INVESTMENTS

Short-term investments consist of cash and investment grade securities with an original maturity at purchase of no more than one year.

a. U.S. Government Securities
U.S. Government securities backed by the full faith and credit of the United States or its agencies.

b. Money Market Funds
Includes bank sweep vehicles and other funds qualifying for Exempt or Class One treatment under NAIC rules.

c. Other Short-Term
Includes, but not limited to: repurchase agreements, commercial paper, bankers' acceptances, and certificates of deposit.

- **Spread** – Normally used to describe the incremental yield of a security over a comparable maturity or reference Treasury, in basis points. Calculations vary by asset class.

- **Subordinate Debt -** ranked behind that held by secured lenders in terms of the order in which the debt is repaid. "Subordinate" financing implies that the debt ranks behind the first secured lender, and means that the secured lenders will be paid back before subordinate debt holders.

- **Taxable Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is** subject to regular income tax. Barclays considers most taxable municipals as "Local Authority" issues in their Government index.

- **Tax-Exempt Municipal Securities -** Securities issued by a state, municipality or other political subdivision which are backed by a pledge of a specific revenue type or ad valorem taxing authority, whose income **is not** subject to regular income tax.
  The main difference between income return and total return is that income returns are based on book value and income earned (which includes changes in book value as part of the calculation), while total return is based on market value and cash flow received.

- **Total Return** - As opposed to income return, which is an accounting based calculation, **total return** is an economic-based calculation. For securities with no interim cash flows, total return is the difference between the ending and beginning market value.

- **Trade Date** - The month, day and year that an order is executed in the market. The trade date is when an order to purchase, sell or otherwise acquire a security is performed.

- **Tranche -** Tranches are pieces, portions or slices of debt or structured financing. Each portion, or tranche, is one of several related securities offered at the same time but with different risks, rewards and maturities. For example, a collateralized mortgage obligation CMO offering a partitioned mortgage-backed securities MBS portfolio might have mortgage tranches with one-year, two-year, five-year and 20-year maturities, all with varying degrees of risk and returns.

- **Treasury -** Securities issued by the U.S. Treasury.

- **Treasury Inflation Protected Securities (TIPS) -** U.S. Treasury notes and bonds that have a fixed coupon rate and mature on a fixed date. However, the coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the Consumer Price Index (CPI).

- **Value Stock (also called value investing)** – is an investment paradigm that derives from the ideas on investment that Ben Graham and David Dodd began teaching at Columbia Business School in 1928 and subsequently developed in their 1934 text Security Analysis. Although value investing has taken many forms since its inception, it generally involves buying securities whose shares appear under-priced by some form of fundamental analysis. As examples, such securities may be stock in public companies that trade at discounts to book value or tangible book value, have high dividend yields, have low price-to-earning multiples or have low price-to-book ratios.
    - High-profile proponents of value investing, including Berkshire Hathaway chairman Warren Buffett, have argued that the essence of value investing is buying stocks at less than their intrinsic value. The discount of the market price to the intrinsic value is what Benjamin Graham called the "margin of safety". The intrinsic value is the discounted value of all future distributions. However, the future distributions and the appropriate discount rate can only be assumptions. Graham never recommended using future numbers, only past ones). For the last 25 years, Warren Buffett has taken the value investing concept even further with a focus on "finding an outstanding company at a sensible price" rather than generic companies at a bargain price.

- **Weighted average life** – The weighted average time to principal repayment in years, weighted by the amount of each principal payment.
    - While many assumptions built into the duration calculation, for small movements in interest rates, duration is a fairly good proxy of price sensitivity.

- **Yankee Bond** – A bond denominated in U.S. dollars that is publicly issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Due to the stringent regulations and standards that must be adhered to, it may take up to 14 weeks (or 3.5 months) for a Yankee bond to be offered to the public. Part of the process involves having debt-rating agencies evaluate the credit worthiness of the Yankee bond's underlying issuer. Foreign issuers tend to prefer issuing Yankee bonds when U.S. interest rates are low because this means lower interest payments for the foreign issuer.

- **Yield Curve Slope** – The spread between two points on the yield curve for similar assets. Most often used in discussing the Treasury curve, but is often used for comparing yields of comparable municipal and corporate securities across maturities.

Addendum #1 to Investment Guidelines

NEAM Enterprise Based Asset Allocation Summary – PACT/PCM

The following allocation targets (Relative Earning Risk) will be used for the calendar year beginning January 1, 2017. The targets may be changed at the discretion of the Board, and will be reviewed and approved or amended at least annually.

Results	Current	Similar Total Return	Similar Earnings Risk	Similar T-VAR	Relative Earnings Risk	Maximum Total Return
Enterprise Statistics						
Total Return on Equity	7.36	7.36	8.02	8.14	8.97	9.23
Earnings Risk (Std Dev)	2.77	2.33	2.77	2.91	4.30	5.71
Capital Risk -10% VAR, t=1	0.00	0.00	0.00	0.00	0.00	0.20
99.50 VAR % Capital	2.76	1.96	2.54	2.76	5.33	8.64
99.50 T-VAR % Capital	3.22	2.29	2.97	3.22	6.18	9.92
Total Return on Assets	2.23	2.23	2.71	2.79	3.39	3.58
Investment Leverage	1.38	1.38	1.38	1.38	1.38	1.38
Product Leverage	0.19	0.19	0.19	0.19	0.19	0.19
Product Margin	22.30	22.30	22.30	22.30	22.30	22.30
Add. Return/Risk Metrics						
Total Return on Assets($)	2.61	2.61	3.17	3.27	3.97	4.19
Income Return on Assets($)	2.15	2.33	2.70	2.75	3.13	3.38
Duration (OAD)	2.4	2.4	2.9	3.0	4.5	5.9
Convexity (OAC)	(0.12)	(0.44)	(0.53)	(0.50)	(0.38)	(0.04)
Book Yield	1.71	1.96	2.29	2.34	2.70	2.83
Market Yield (OAY)	1.38	1.75	2.05	2.08	2.45	2.64
Default Loss ($)	0.06	0.11	0.14	0.13	0.12	0.11
NAIC RBC ($)	1.98	1.21	1.93	2.07	2.60	2.57
Average Rating	AA+	AA	AA-	AA-	AA-	AA-
BBB (%)	0.0	0.0	9.2	9.1	8.8	8.8
<BBB (%)	1.8	4.8	4.6	4.6	4.4	4.4
Non-FI (%)	10.0	4.6	8.2	9.0	12.0	12.0
Sector Distribution						
Short Term	24.8	2.0	2.0	2.0	0.2	0.0
US Govt_Agncy	37.0	37.6	28.6	30.7	29.5	42.0
Municipal	0.0	9.9	0.0	0.0	0.0	0.0
Muni-Tax	0.0	0.0	0.0	0.0	7.0	7.5
Invest Grd US Corp	0.0	10.0	16.5	15.5	8.8	10.1
High Yield	1.2	2.4	2.3	2.3	3.8	3.8
MBS/CMO	21.4	26.5	35.4	33.4	36.3	24.0
ABS	1.8	4.8	4.8	4.9	1.8	0.0
CMBS	3.3	0.0	0.0	0.0	0.0	0.0
Bank Loans	0.0	1.9	1.7	1.7	0.0	0.0
Foreign Debt	0.6	0.5	0.6	0.6	0.6	0.6
Preferred (DRD)	0.0	0.0	0.0	0.0	0.0	0.0
U.S. Equity	9.5	4.6	8.2	8.8	7.2	0.0
Intl Equity	0.5	0.0	0.0	0.2	4.8	12.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Risk Asset (Equity+<BBB)% of Cptl	16.2	12.9	17.6	18.8	22.6	22.6

Addendum #2 to Investment Guidelines

NEAM Fixed Income Benchmarks – POOL

BofA ML Index Data as of 11/30/2016			
Sector	Index Ticker	Description	Benchmark Weights
MBS	M0A0	Mortgage Master Index	30
CORP	CV10	US CORPS A-AAA: 1-5 Yrs	10
GOV/AGY	G5A0	US Tsy/Agy: 1-10 Yrs	60
		TOTAL	100

Benchmark Characteristics

- Duration (OAD): 3.96 years
- Average Rating (Lowest): AA+

NEAM Fixed Income Benchmarks – PRM

BofA ML Index Data as of 11/30/2016			
Sector	Index Ticker	Description	Benchmark Weights
ABS	R0A1	ABS Master Index AAA	5
CMBS	CB10	CMBS Fix Rate AAA	5
MBS	M0A0	Mortgage Master Index	30
CORP	C010	CORP AAA-A	40
CORP	C5A4	US CORPS BBB 1-10Yrs	10
GOV/AGY	G0A0	US Tsy/Agy	10
		TOTAL	100

Benchmark Characteristics

- Duration (OAD): 5.59 years
- Average Rating (Lowest): A+

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Proposed Change in Amortization of Capitalization of Funds to the Captives
March 2020

Purpose:

NPAIP and PACT have formed member-owned nonprofit captive mutual insurance companies and have contributed to the surplus of the company and became excess insurer for NPAIP and PACT. The captives were formed to reduce the cost of insurance, to obtain direct access to reinsurance, to provide broader coverage for policyholders, to broaden investment opportunities and to build equity to enable provision of coverage not obtainable elsewhere.

As a condition of providing surplus contributions, but without any expectation that the funds will be returned, NPAIP and PACT required that prior to any distributions, the contributed surplus must be repaid to NPAIP and PACT. Management considers the contributed surplus costs a development cost than can provide lower operating costs in the future and estimates that the savings in reinsurance costs to NPAIP and PACT will recoup the startup capital. ***Therefore, it has been the policy to amortize the transfer of contributed surplus to PRM and PCM over a 10-year period. (emphasis added)***

This 10-year amortization period has created net decrease in net position from operations due to the annual amortization amounts. For example, in FYE 6-30-2019, NPAIP and PACT amortization amounts were $2,295,226 and $4,321,761 respectively. NPAIP and PACT Net Position decreased by $1,558,723 and $5,919,265 in FYE 6-30-2019. This accounting has created confusion with the members and those who do not understanding the accounting treatment of the transfer of surplus capital. Accounting standards allow entities to expense 100% in the year of the transfer or amortize over a period of years.

Proposal:

Based on discussions with our independent auditor, it is recommended to change the amortization policy from 10 years to expensing 100% of the amount of the contributed surplus to the captives in the year of the transfer. This will increase the expense in the year of the transfer and eliminate the other asset: Contributed Surplus PRM and PCM net on the NPAIP and PACT financial statements. This change will have an impact on our financial benchmarks and make us more comparable with our peers in years without a transfer.

Fiscal Impacts:

Public Risk Mutual: Contributed surplus from NPAIP since September 1, 2004 is $29,477,263.
As of June 30, 2019, NPAIP had amortized $18,125,819 of the transfer for a Net Contributed Surplus to PRM of $11,351,444 on the Statement of Net Position. See Note 9 of the June 30, 2019 Financial Statements for more details. The Total Surplus for PRM as of December 31, 2019 is $41,702,381 which exceeds the NPAIP contributions by $12,225,118. See audits for more details.

Public Compensation Mutual: Contributed surplus from PACT since May 2007 is $53,700,939.
As of June 30, 2019, PACT had amortized $30,966,968 of the transfer for a Net Contribution Surplus to PCM of $22,733,971 on the Statement of Net Position. See Note 13 of the PACT Financial Statements for more details. The Total Surplus for PCM as of December 31, 2019 is $77,854,824 which exceeds the PACT contributions by $24,153,885. See audits for more details.

Recommended Board Action:

A motion to change the accounting policy relating to transfer of surplus capital to the PRM and PCM captives providing for 100% expense in the year of transfer effective retroactively to July 1, 2019 noting that the unamortized balances will be noted in the beginning balances.

Public Compensation Mutual

March 11, 2020

PUBLIC COMPENSATION TRUST

President	-	Michael Rebaleati
Vice President	-	Wayne Carlson
Secretary	-	Marshall Smith
Treasurer	-	Alan Kalt

Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779
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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: 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

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 make 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 November 4, 2019.**

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

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.**

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.**

7. **<u>For Possible Action:</u> Review and determine the voting status of the Town of Pahrump.**

8. **<u>For Possible Action:</u> 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. **Davis Claims Solutions (Formerly ASC).**
    g. **E-Learning/Web Master.**
        i. **POOL/PACT LMS Programs.**
        ii. **Transition from Torch LMS to Absorb LMS.**

9. **<u>For Possible Action:</u> 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.**

    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.**

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

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

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

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

12. **<u>For Possible Action:</u> 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.**

13. **Public Comment**

14. 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 Courthouse
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
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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: Monday, November 4, 2019
Time: 8:30 A.M.
Place: at 201 S. Roop Street, Carson City, NV 89701
Conference Call-In Phone No: 1-800-593-9034; Passcode: 150420
WEBEX Connection
https://poolpact.my.webex.com/poolpact.my/j.php?MTID=mba567be6d1f4a9f3ba94511fe1ac1442
Meeting number: 294 193 381
Password: POOLPACT!

AMENDED AGENDA

1. **Roll**

Members Present: Cash Minor, Paul Johnson, Josh Foli, Chris Mulkerns, Cindy Hixenbaugh, Gerry Eick, Geof Stark, Elizabeth Frances, Dan Murphy
Members Absent: Mike Giles, Ann Cyr
Others Present: Mike Rebaleati, Alan Kalt, Wayne Carlson, Debra Connally, Stacy Norbeck, Mike Van Houten, Alton Cogert, Steve Balkenbush, Andrew Halsall, Kelly Sullivan, Donna Squires, Mike Livermore, Margaret Malzahn, Stephen Romero, Mary Wray, Lorena Dellinger, Glenn Backus, Courtney Giesseman

A quorum being present, Chair Minor called the meeting to order.

2. **Public Comment**

Gerry Eick commented on the committee packet being very helpful to him to understand the issues to be discussed.

3. **For Possible Action:**
   a. **Approval of Minutes of Joint Executive Committee Meeting of September 6, 2019.**
   b. **Approval of Minutes of POOL Executive Committee Meeting of September 13, 2019.**
   c. **Acceptance of unaudited Financial Reports as of September 30, 2019 for POOL, PACT, PRM, & PCM**

Chair Minor opened items 3 a. and 3.b. On motion and second to approve the minutes, the motion carried.

Chair Minor opened item 3 c. On motion and second to accept the unaudited financial reports as of September 30, 2019 for POOL, PACT, PRM and PCM, the motion carried.

4. **For Possible Action: Alternative Service Concepts, LLC. Report of Corporate Changes.**

Glenn Backus, President of ASC, discussed the acquisition of ASC by the Davies Group, a London based large corporation. He said the Davies Group sought a presence in the U.S. via purchase of a firm with a strong management team. He indicated that they would very protective of the status quo for employees and management. He indicated that Davies Group brought robust, enhanced capabilities for adjusters, particularly in the data security and claims services delivery. He responded to questions.

On motion and second to accept the report, the motion carried.

5. For Discussion: Reinsurance update from GEM CEO Andrew Halsall.

Andrew Halsall presented an overview of GEM and its Members. He described the reinsurance structure GEM offers and the current market conditions noting that GEM intends to remain a stable provider particularly when the commercial reinsurance market is tightening. He reviewed the GEM strategic goals.

6. **For Possible Action: Investments**

   a. **Report from SAA on risk assets. This discussion will also address options related to Bank Loans.**
   b. **Report from NEAM on fixed income markets and results.**
   c. **Discussion on fixed income portfolio benchmarks and tolerance for tracking error in pursuit of investment objectives.**

6. a. Alton Cogert, Present of Strategic Asset Alliance (SAA), reviewed the opportunity for investment in bank loans as an option within the fixed income space. He described the bank loan market, noting that it was nearly equal in size to the high yield bond market. He noted the structure of corporate debt by order of priority in the event of bankruptcy: 1) bank loans, 2) high yield bonds, 3) stockholders. Thus, with a higher priority, bank loans present a diversification opportunity with less or comparable risk and return to high yield bonds. He reviewed the correlation to treasuries which showed bank loans were negatively correlated to treasuries. He commented on the long-term return performance of bank loans and their risk-adjusted returns (Sharpe ratio). He commented that unlike bonds, bank loans have certain covenants requiring maintenance of key financial ratios. He responded to questions.

Gerry Eick noted that the explanation was helpful to understanding this option versus high yield bonds. He asked for a risk/reward discussion about bank loans versus other fixed income investments. Alton explained the risk components as including duration risk, credit risk and liquidity risk. Bank loans have short duration, credit risk is higher than treasuries but about the same level as high yield bonds, and liquidity is like an over the counter type market because the banks do not want uncollectible loans. Alan Kalt asked about bank loan fund manager quality and Alton responded that Eaton Vance or NEAM both were high quality. Josh Foli expressed his concerns about increased corporate debt decisions that may reduce their bond rating. Alton said that corporate treasurers were very astute and sometimes were willing to take a slight bond rating downgrade in order to take advantage of options. Josh Foli asked about performance in up and down markets. Discussion ensued about the likely corporations which were in this space. Wayne Carlson noted that this investment option was an opportunity for the captives, but not for the pools. Gerry Eick asked about the portfolio allocation for this option as a diversification tool. Kelly Sullivan indicated that future reports from NEAM would be able to include a discussion of this topic.

b. and c. Kelly Sullivan of NEAM, provided an overview of how the benchmarks were established for the captives and pools. She said they tied the benchmarks to the investment goals of the programs. Key elements were stability over time. Gerry Eick commented about whether the performance relative to benchmarks was inconsistent with our practices. He indicated that the benchmarks seemed to focus on price return while the NEAM strategy focused on income return. He indicated that he was satisfied with the performance but wondered whether the benchmark should be a measurement of the income return. Kelly indicated that book return was likely the best performance indicator over time. Paul Johnson questioned whether there may be multiple benchmarks that may show a clearer picture for the unsophisticated reader. Alton Cogert suggested that the GASB accounting rules makes the pricing volatility show up in the financial statements, but these rules should not govern the strategy. Book yield is a more stable indicator of performance. Kelly Sullivan noted that her presentation slide addressed this differential of price volatility compared to income stability. Mike Rebaleati suggested showing two benchmarks that reflect both price and income performance. Kelly agreed that this may help and could be incorporated into future reports.

No action was taken on these items.

7. **<u>For Possible Action:</u> Acceptance of fiscal year 2018-2019 Financial Audits of**
   - **a. NPAIP.**
   - **b. PACT.**

a. Alan Kalt presented an overview of the NPAIP audit and the key financial ratios results. Michael Bertrand reviewed his communications to the board noting no significant adverse findings although he did have a few suggestions for enhancing internal operations.
On motion and second to accept the audit, the motion carried.

b. Alan Kalt presented an overview of the PACT audit and the key financial ratios results. Michael Bertrand reviewed his communications to the board noting no significant adverse findings although he did have a few suggestions for enhancing internal operations. He also complimented staff, particularly Debra Connally, for having no exceptions to the assessments reconciliation for the first time. Overall, he said improvements continued to happen.
On motion and second to accept the audit, the motion carried.

Alan commented that a future item for discussion would be the amortization policy in consideration of the substantial effect amortization on the contributed net position to the captives have on the financial statements. He indicated that a restatement of the financials writing off the capitalization from the pools to the captives would cleanup the issues and better reflect actual performance in the future.

8. **<u>For Possible Action:</u> Review and determine the voting status of the Town of Pahrump.**

Mike Rebaleati introduced the topic noting that Lorena Dellinger of Nye County, Jared Rossi the agent for Nye County, and General Counsel Steve Balkenbush were present regarding this issue. The issue arose from the Town of Pahrump having had voting status until an election dissolved the separate town board to being an advisory board governed by the county commissioners in which case, voting status ceased. The question revolves around interpretation of the interlocal cooperation agreement as to Member status versus voting Member status. Lorena said that the commissioners were the town board members, not an advisory board, per NRS 269 which gives the commissioners the option to be the town board.

Discussion ensued about the issue. Wayne Carlson reviewed the history of the town's membership in NPAIP and how it petitioned for and was granted voting status. When the town board was dissolved by an election, it appeared that there no longer was voting status. Others commented that counties had multiple board for which the county commissioners served as the governing board and that granting such separate voting status would increase the number of votes dramatically. Discussion about options ensued.
On motion and second to direct staff to work with legal counsel for further interpretation of status and whether any modifications to the Interlocal Cooperation Agreement were needed to address the issues, motion carried.

9. <u>For Possible Action:</u> Approval of Prospective Members.

- **a. PACT - Nye County Hospital District.**
- **b. NPAIP - Nevada Association of School Superintendents (501c3).**
- **c. NPAIP – Tonopah Development Corporation (501c3).**

a. Wayne Carlson commented that Nye County Hospital District presently is a member of NPAIP as the owner of the hospital building which they lease to Renown. They hired a part time clerical person to support to the board operations. On motion and second to approve for membership, the motion carried.

b. Wayne Carlson reviewed the formation of NASS as an organization for superintendents. They have an independent contractor Executive Director who oversees operations. He noted their purpose and function is to train superintendents and to provide legislative review and lobbying efforts similar to the Nevada Association of School Boards. He responded to questions. On motion and second to approve for nonvoting membership, the motion carried.

c. Wayne Carlson discussed an email inquiry from Ken Eason, the agent, who described the organization's history and purpose, noting that the Town of Tonopah is housing them and provides some funding for their operation. Chris Mulkerns commented on the relationship to the town. Their purpose is to promote development of the town's center. On motion and second to table pending receipt of an application for review.

10. <u>For Possible Action:</u> Acceptance of Reports:

- **a. Executive Director.**
- **b. Operations Manager Report.**
  - **i. NPAIP building roof project.**
  - **ii. NRP updates.**
- **c. Chief Financial Officer Report.**
  - **i. Actuarial Update – POOL.**
  - **ii. Actuarial Update – PACT.**
- **d. Risk Manager Report.**
- **e. Willis Pooling.**
  - **i. State of the Market.**
  - **ii. Elearning Demo for Renewal Application Process.**
- **f. Human Resources.**
- **g. ASC – Claim status.**
- **h. E-Learning/Web Master on the POOL/PACT LMS programs.**

a. Wayne Carlson provided a brief synopsis of his written report noting the trends in reinsurance market that may require consideration of adjusting the pools and captives' retentions on renewal. He noted that the annual meeting location had been confirmed at the

Whitney Peak Hotel in Reno. Nevada Risk Pooling, Inc. has been established as directed pending formal IRS approval. Wayne added that the EAP agreement renews in 2020. Also, the lease with State Risk Management is pending final approval by the Board of Examiners and the CCMSI lease renews in January 2020.

b. Mike Rebaleati commented about the ongoing roof replacement status and costs of about $250,000 with an anticipated completion in a couple of weeks. He discussed the possibility of having an office mapping consultant analyze our operations to identify potential issues based upon discussions he had at a recent GEM meeting with other pool directors. He reviewed the success of the HVA assessments in helping our school districts secure major grants to funding improvements in the districts. He commented that a future contract with Jeff Kaye may be needed to assist the districts. The Cyber Summit on November 7th has an estimated 80 attendees. He then discussed enhancements to the Clearsight Stars Enterprise claims system with it's an acquisition by Riskonnect which has numerous optional applications that may be worth consideration in the future.

c. Alan Kalt presented a review of key actuarial report exhibits and described how they tie into the financial audits for both NPAIP and PACT. He described the historical results over 10-year cycles and year over year estimates to actual results. He discussed the confidence level indications and that the pools use 75%. Alan noted that there was a reduction in the discount rate from 3% to 1.5% for PACT reserves and that the plan was to eliminate the discount for the current fiscal year. He responded to questions.

d. Mike Rebaleati provided the risk manager report on behalf of Marshall Smith. He will distribute the EAP utilization report soon. He showed the utilization report for Target Solutions and noted that it is being rolled out to additional volunteer fire departments. The Fit For Retirement E-Learning courses has been released and well received. Swimming pool inspections continue successfully. Law enforcement policies and jail audits are being well received. The Cops and Prosecutors training in Elko was well-received and valuable. Passive Network Assessments are nearly completed and efforts are being made to follow-up on implementation of recommendations. He noted that replacement of the respirator fit testing equipment is underway.

e. Mary Wray of Willis Re Pooling reviewed the adverse trends in reinsurance capacity and pricing, particularly in property but also in large liability losses. Increasing the statute of limitations for sexual abuse liability likely will put pressure on availability of limits and pricing for that coverage. Cyber liability trends indicate increasing frequency and severity of claims, particular on public sector. She indicated that continued vigilance is necessary in working with markets and providing the pool services. She responded to questions noting that we likely will face certain market conditions over which we will not have control as the reinsurers have their own difficulties. Our pre-planning efforts will help especially consideration of retention and quota-share options for the pools and captives.

Mike Rebaleati, Mike Van Houten and Courtney Giesseman reviewed the E-Learning module that has been developed to help agents and members to understand how to complete the renewal applications. The module provides what and where are the sources of information available to assist with completion. This was designed to highlight key elements, how to interpret questions, what responses are expected. They demonstrated the property section module.

f. Stacy Norbeck of POOL/PACT HR reviewed the extensive accomplishments from 2018 and thus far in 2019 noting the number of training classes, bulletins, alerts, legislative tracking and policy updates they have achieved for the members. She highlighted the success of the HR Summit.

g. Donna Squires of ASC introduced Mike Livermore. Mike explained that he plans to retire on April 30, 2020. Margaret Malzahn is his designated claims supervisor successor and they will be hiring another adjustor to replace Margaret's position. Donna then reviewed the large POOL claims (over $300,000) noting that 7 of the 12 listed will be closing out in the next 60 days. She commented on individual claims status and responded to questions. Mike Livermore then reviewed the large PACT claims commenting that unlike the POOL, these claims do not close until the death of the claimant which can be years. He highlighted that most large losses were due to heart disease.

h. Mike Van Houten reviewed the progress of the E-Learning program describing some new courses and utilization. He highlighted that with the merger of Torch Enterprise into Absorb LMS, we gained a more robust LMS platform. Members are being enrolled in the new system and are now able to import their own courses into our LMS system in addition to assigning our courses. He is rolling it out after having initiated Boulder City as the pilot in the new system. The system has the ability to upload and test courses such as law enforcement training. Mike also reviewed what he learned from a conference about Boosted Learning that reinforce the course learning by follow-up mini courses that enhance knowledge retention substantially. In addition, he said the technology is evolving rapidly and may upend current E-Learning practices by making the course data independent of the LMS platform which will enable the ability to combine the results from multiple platforms into a single records storage system.

11. **<u>For Possible Action:</u> Review and determine the structure of the existing audit committee to encompass PRI, NRP, PRM and PCM. Currently the audit committee only reviews NPAIP and PACT.**

Mike Rebaleati introduced this subject with a goal of utilizing the financial expertise of the existing POOL and PACT Audit Committee members to facilitate the same review for the other organizations. Committee members expressed interest in this approach. Wayne Carlson noted that certain legal issues would need to be addressed because each organization is separate and its board should appoint their own audit committee perhaps requiring some contractual arrangement. In addition, POOL and PACT are public entities, but the other organizations are not, so public records laws may apply and should be addressed.

On motion and second to direct staff to work with legal counsel for a way to accomplish this, the motion carried.

12. **<u>For Possible Action:</u> Risk Management Programs and Insurance/Reinsurance Coverages.**

   a. **Overview of POOL/PACT all insurance/reinsurance coverages and risk management programs to determine what coverages and programs to retain for 2020/2021.**
   b. **Review EnVision Enterprise Risk Model for Captives to Evaluate Potential Retention Decisions for the pools.**

a. Mike Rebaleati indicated that due to previous discussion at this meeting no additional discussion on this item was needed until the February 2020 meeting.

b. Mary Wray introduced the EnVision model and provided a demonstration about how it helps to visually see the impact of various financial and risk decision components. She said there is a tool for PRM and for PCM and future versions for POOL and PACT. The outputs of the model include financial benchmark measures that can be tested live to see the impact on the financial results and performance indicators.

13. **<u>For Possible Action</u>: Approval of Proposed POOL Form Amendments/Endorsements for Fiscal Year 2020-2021 for Adoption by the POOL Board at its Annual Meeting.**

Wayne Carlson said there was no formal draft of possible changes, but highlighted a couple of potential changes to enhance the coverage for building replacement coverage to include environmental improvements similar to an option within the equipment breakdown extension. Another continuing issue is replacement cost coverage for vehicles in addition to the public safety vehicles. He said that he asked Donna Squires and her staff to review and advise where clarifications might be needed to resolve claims confusion. Donna noted one potential area regards the sexual abuse sublimit in light of cases and upcoming reinsurance market changes. Wayne said that change to the data security coverage likely would be necessary because CRL is working on changes to its reinsurance form and that may affect our coverage provisions. He also noted that the claims trend in the market was adverse. Coverage analysis should be discussed in context of loss prevention. Discussion ensued. Questions arose about statute of limitations extensions on sexual abuse having an impact. No action was deemed needed at this time as formal proposals will be provided in February.

14. **<u>For Possible Action</u>: Ratify the appointment of Small City/County Representative on NPAIP Executive Committee to Replace Beverly Connally.**

Mike Rebaleati indicated this item may be tabled until the annual meeting if desired although suggested names are being received. On motion and second to table, this item was tabled.

15. **<u>For Possible Action</u>: Approval of the next Joint Executive Committee meeting being scheduled for February 10, 2019 and the Annual Meeting to be held on April 16-17 (Thursday-Friday), 2020 at the Whitney Peak Hotel, Reno.**

Mike Rebaleati indicated that the date was a placeholder and likely another meeting in March would be necessary to finalize the recommendations to the board at the annual meeting. Cash Minor noted that the proposed date should read 2020.

16. **Public Comment.**

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

17. **<u>For Possible Action</u>: Adjournment.**

On motion and second to adjourn, the meeting was adjourned.

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

PCM CAPTIVE AUDIT OVERVIEW

Year Ending December 31, 2019

KEY SECTIONS OF THE AUDIT REPORT

- President's Letter
- Management Discussion and Analysis
- Independent Auditors Report
- Financial Statements:
    - Balance Sheets
    - Statements of Income & Comprehensive Income
    - Statements of Changes in Surplus
    - Statements of Cash Flows
- Compliance Section
    - Report on Internal Controls and NAC 694C.210

KEY PLAYERS

Wayne Carlson, Executive Director POOL/PACT

Mike Rebaleati, Captive President, COO

Alan Kalt, CFO

Deb Connally, Controller

Cash Minor, Chair PRM, Director PCM

Paul Johnson, Chair PCM, Director PRM

Josh Foli, Director, Audit Committee Member

Gerry Eick, Vice Chair PCM, , Audit Committee

Niki Neilon: Casey, Neilon & Associates: Audit Firm

Steve Balkenbush, General Counsel

Willis Towers Watson, Brokers

Derek Burkhalter, Actuary

PUBLIC COMPENSATION MUTUAL
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
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
Total Assets	$ 84,764,024	$ 74,083,390
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
Total Liabilities	6,909,200	5,383,300
Surplus	76,408,184	70,595,348
Accumulated other comprehensive income (loss)	1,446,640	(1,895,258)
Total Surplus	77,854,824	68,700,090
Total Liabilities and Surplus	$ 84,764,024	$ 74,083,390

Public Compensation Mutual

PUBLIC COMPENSATION MUTUAL

PUBLIC COMPENSATION MUTUAL

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

	2019	2018
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)
Total Income	8,211,126	3,908,137
EXPENSES		
Administrative fees	549,853	172,829
Loss and loss adjustment expenses	1,748,999	1,467,002
Total Expenses	2,298,852	1,639,831
Net Income Before Income Taxes	5,912,274	2,268,306
Provision for income taxes	-	-
Net Income	$ 5,912,274	$ 2,268,306
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
Other Comprehensive Income (Loss)	3,242,460	(3,341,043)
Comprehensive Income (Loss)	$ 9,154,734	$ (1,072,737)

PUBLIC COMPENSATION MUTUAL

NPAIP PACT

Total Capital Contributions From PCM	$53,700,939
Investment Balance at 12-31-2019	$81,608,028
Reserves for losses and loss adjustments	$ 5,756,600
Net Investment Income for 2019	$ 6,288,776
Unrealized Gains (losses) on investments	$ 3,221,033
Surplus Balance at 12-31-2019	$77,854,824

See detailed financial statements and notes for more details.

PUBLIC COMPENSATION MUTUAL

PUBLIC COMPENSATION MUTUAL

KEY FINANCIAL BENCHMARKS

Six Year Benchmark Data 2014-2019

	2014	2015	2016	2017	2018	2019
Total Assets/Total Liabilities						
Ratio	15.0	13.0	12.0	18.1	13.8	12.3
Change In Net Surplus						
Ratio	4.2%	3.3%	8.3%	75.8%	-1.5%	13.3
Reserve Leverage (Claims Reserves/Total Surplus)						
Ratio	5.5%	6.7%	7.5%	4.4%	6.6%	7.4%
Loss Ratios (Losses/Premiums)						
Ratio	76.1%	42.7%	41.6%	7.7%	82.9%	90.1%
Expense Ratio (Total Expenses/Premiums)						
Ratio	7.0%	5.6%	5.5%	4.3%	9.8%	28.6%

QUESTIONS & ANSWERS

Thanks for your support!

Public Risk Mutual

PRM CAPTIVE AUDIT OVERVIEW

Year Ending December 31, 2019

KEY SECTIONS OF THE AUDIT REPORT

- President’s Letter
- Management Discussion and Analysis
- Independent Auditors Report
- Financial Statements:
  - Balance Sheets
  - Statements of Income & Comprehensive Income
  - Statements of Changes in Surplus
  - Statements of Cash Flows
- Compliance Section
  - Report on Internal Controls and NAC 694C.210

KEY PLAYERS

- Wayne Carlson, Executive Director POOL/PACT
- Mike Rebaleati, Captive President, COO
- Alan Kalt, CFO
- Deb Connally, Controller
- Cash Minor, Chair PRM, Director PCM
- Paul Johnson, Chair PCM, Director PRM
- Josh Foli, Director, Audit Committee Member
- Gerry Eick, Vice Chair PCM, , Audit Committee
- Niki Neilon: Casey, Neilon & Associates: Audit Firm
- Steve Balkenbush, General Counsel
- Willis Towers Watson, Brokers
- Derek Burkhalter, Actuary

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

Public Risk Mutual

PUBLIC RISK MUTUAL

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)

Public Risk Mutual

PUBLIC RISK MUTUAL

Public Risk Mutual

Total Capital Contributions From POOL	$29,477,263
Investment Balance at 12-31-2019	$45,979,714
Reserves for losses and loss adjustments	$ 3,955,000
Net Investment Income for 2019	$ 4,018,039
Unrealized Gains (losses) on investments	$ 1,465,783
Membership Services Expense (Cyber)	$ 274,600
Surplus Balance at 12-31-2019	$41,702,381

See detailed financial statements and notes for more details.

PUBLIC RISK MUTUAL

KEY FINANCIAL FIGURES

Five Year Benchmark Data 2014-2018

	2014	2015	2016	2017	2018	2019
Total Assets/Total Liabilities						
Ratio	15.1	13.3	12.6	13.6	9.9	9.9
Change In Net Surplus						
Ratio	11.7%	5.5%	9.0%	39.9%	-5.8%	12.1%
Reserve Leverage (Claims Reserves/Total Surplus)						
Ratio	1.9%	1.8%	6.8%	6.3%	9.7%	9.5%
Loss Ratios (Losses/Premiums)						
Ratio	-162.7%	48.8%	49.4%	171.4%	175.8%	129.5%
Expense Ratio (Total Expenses/Premiums)						
Ratio	10.3%	8.0%	7.5%	31.5%	46.4%	49.2%
Surplus to Retention Ratio (Surplus/Blended Retentions)						
			10.3	13.9	13.9	15.4

Public Risk Mutual

PUBLIC RISK MUTUAL

KEY FINANCIAL BENCHMARKS

NPAIP PACT

QUESTIONS & ANSWERS

Thanks for your support!

NEAM New England Asset Management

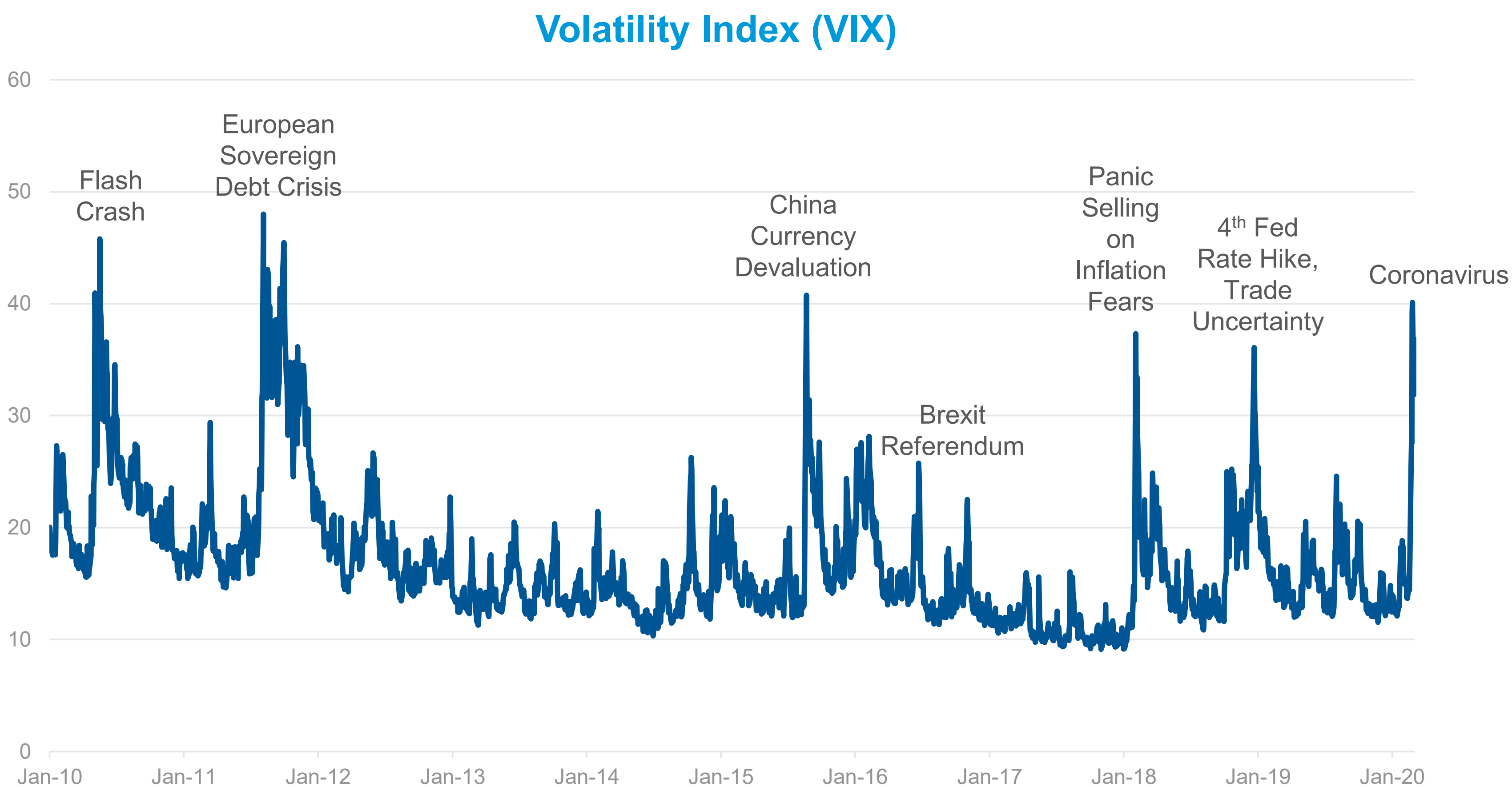
POOL/PACT Joint Executive Committee Meeting

Economic Update & Fixed Income Portfolio Review

POOL PACT

March 11, 2020

Increased Volatility



Source: Bloomberg, NEAM

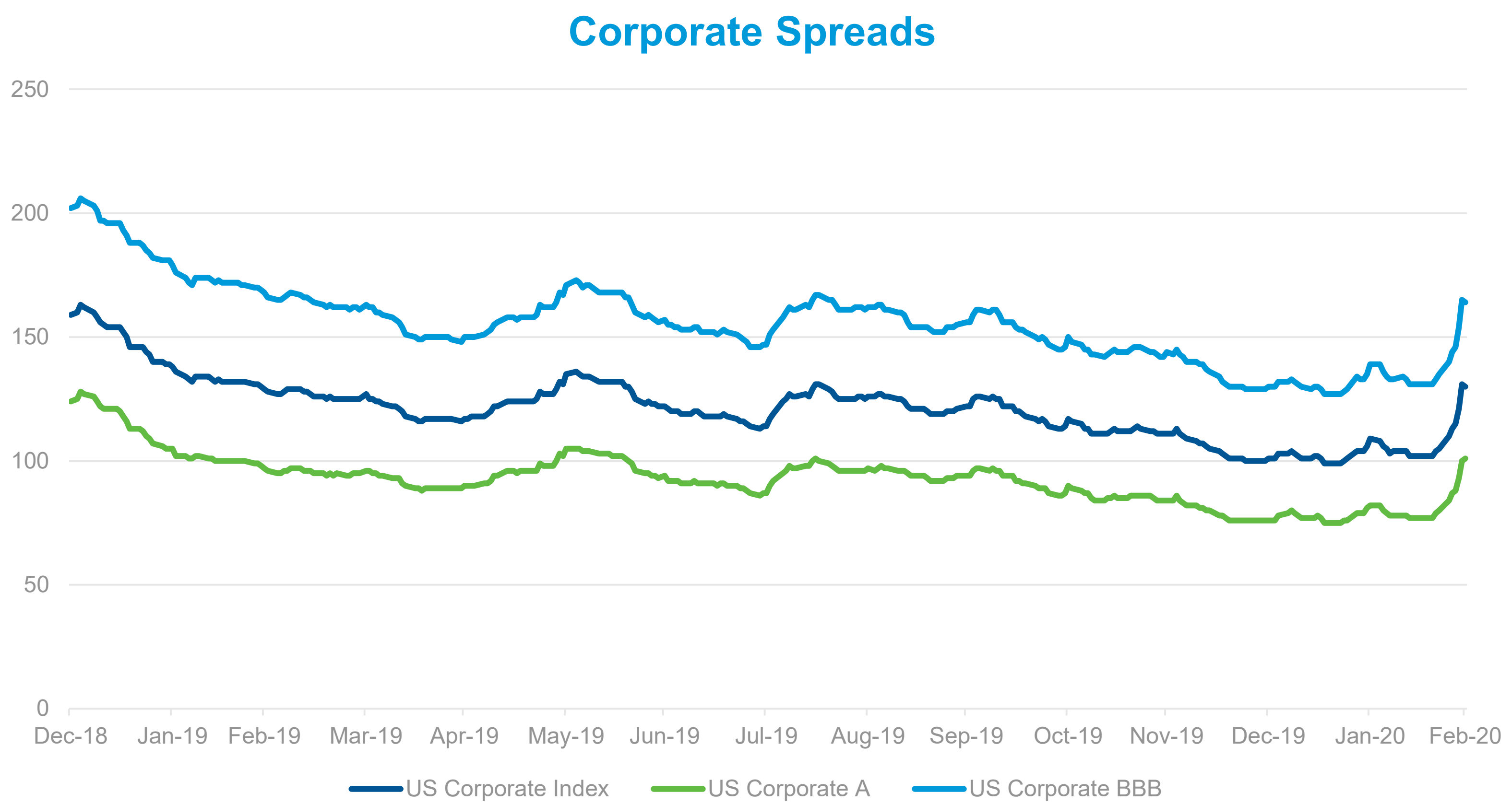
How Have Markets Responded? – *Equities*

Source: Bloomberg, NEAM

How Have Markets Responded? – *Treasuries*

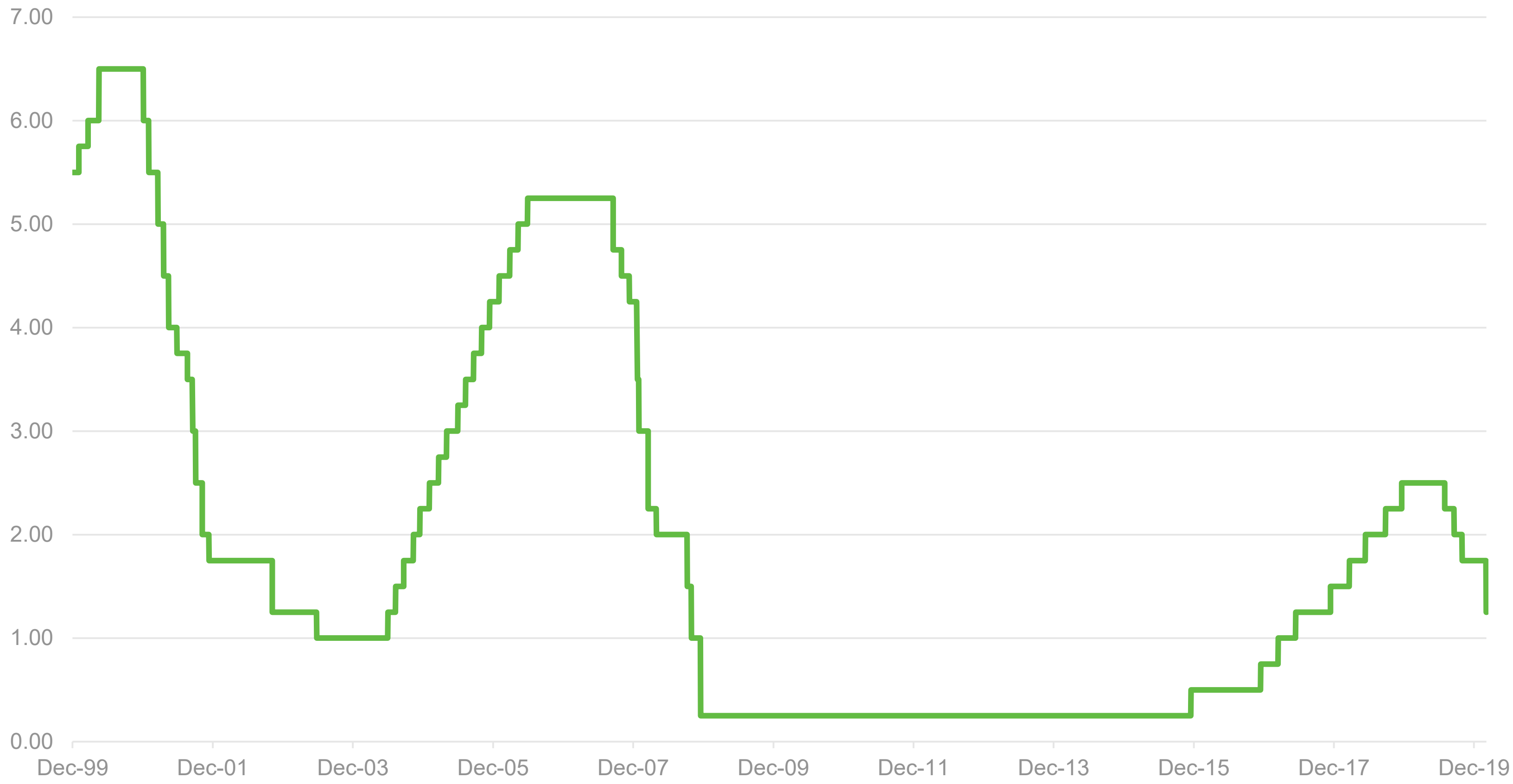
Source: Bloomberg, NEAM

How Have Markets Responded? – *Spread Product*



Source: Bloomberg, NEAM

Fed Funds Rate



Source: Bloomberg, NEAM

POOL/PACT Portfolio Review

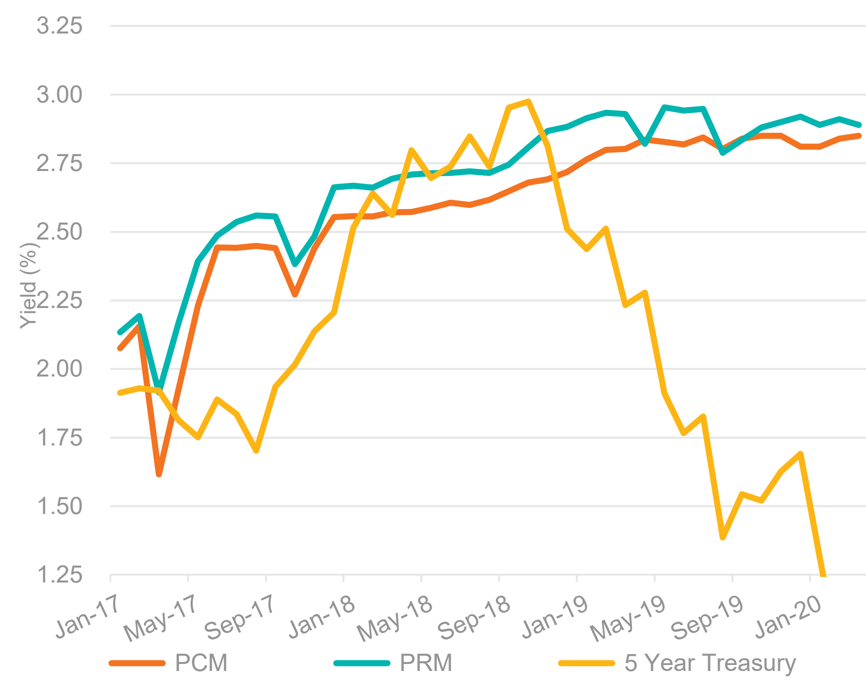
As of 3/3/2020

	PACT	POOL	Pooling Total
Market Value	59.4mm	24.7mm	84.1mm
Unrl. Gain/(Loss)	1.4mm	659k	2.1mm
Annualized Income	1.34mm	580k	1.92mm
Book Yield	2.31%	2.42%	2.34%
Market Yield	1.45%	1.52%	1.47%

3 Year Treasury 0.66%

	PCM	PRM	Captive Total
Market Value	60.6mm	31.9mm	92.5mm
Unrl. Gain/(Loss)	3.6mm	1.9mm	5.6mm
Annualized Income	1.62mm	865k	2.5mm
Book Yield	2.85%	2.89%	2.86%
Market Yield	1.68%	1.69%	1.69%

5 Year Treasury 0.72%



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
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Proposed Change in Amortization of Capitalization of Funds to the Captives
March 2020

Purpose:
NPAIP and PACT have formed member-owned nonprofit captive mutual insurance companies and have contributed to the surplus of the company and became excess insurer for NPAIP and PACT. The captives were formed to reduce the cost of insurance, to obtain direct access to reinsurance, to provide broader coverage for policyholders, to broaden investment opportunities and to build equity to enable provision of coverage not obtainable elsewhere.

As a condition of providing surplus contributions, but without any expectation that the funds will be returned, NPAIP and PACT required that prior to any distributions, the contributed surplus must be repaid to NPAIP and PACT. Management considers the contributed surplus costs a development cost than can provide lower operating costs in the future and estimates that the savings in reinsurance costs to NPAIP and PACT will recoup the startup capital. ***Therefore, it has been the policy to amortize the transfer of contributed surplus to PRM and PCM over a 10-year period. (emphasis added)***

This 10-year amortization period has created net decrease in net position from operations due to the annual amortization amounts. For example, in FYE 6-30-2019, NPAIP and PACT amortization amounts were $2,295,226 and $4,321,761 respectively. NPAIP and PACT Net Position decreased by $1,558,723 and $5,919,265 in FYE 6-30-2019. This accounting has created confusion with the members and those who do not understanding the accounting treatment of the transfer of surplus capital. Accounting standards allow entities to expense 100% in the year of the transfer or amortize over a period of years.

Proposal:
Based on discussions with our independent auditor, it is recommended to change the amortization policy from 10 years to expensing 100% of the amount of the contributed surplus to the captives in the year of the transfer. This will increase the expense in the year of the transfer and eliminate the other asset: Contributed Surplus PRM and PCM net on the NPAIP and PACT financial statements. This change will have an impact on our financial benchmarks and make us more comparable with our peers in years without a transfer.

Fiscal Impacts:

Public Risk Mutual: Contributed surplus from NPAIP since September 1, 2004 is $29,477,263.
As of June 30, 2019, NPAIP had amortized $18,125,819 of the transfer for a Net Contributed Surplus to PRM of $11,351,444 on the Statement of Net Position. See Note 9 of the June 30, 2019 Financial Statements for more details. The Total Surplus for PRM as of December 31, 2019 is $41,702,381 which exceeds the NPAIP contributions by $12,225,118. See audits for more details.

Public Compensation Mutual: Contributed surplus from PACT since May 2007 is $53,700,939.
As of June 30, 2019, PACT had amortized $30,966,968 of the transfer for a Net Contribution Surplus to PCM of $22,733,971 on the Statement of Net Position. See Note 13 of the PACT Financial Statements for more details. The Total Surplus for PCM as of December 31, 2019 is $77,854,824 which exceeds the PACT contributions by $24,153,885. See audits for more details.

Recommended Board Action:

A motion to change the accounting policy relating to transfer of surplus capital to the PRM and PCM captives providing for 100% expense in the year of transfer effective retroactively to July 1, 2019 noting that the unamortized balances will be noted in the beginning balances.

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JAMES G. ARMSTRONG
STEPHEN C. BALKENBUSH
PAUL F. EISINGER
CHARLES L. BURCHAM
BRIAN K. TERRY
ROBERT F. BALKENBUSH
PHILIP GOODHART
KATHERINE F. PARKS
KEVIN R. DIAMOND
MICHAEL C. HETEY
GREGORY M. SCHULMAN
MEGHAN M. GOODWIN

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THIERRY V. BARKLEY*
JOHN D. HOOKS
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Retired Former Shareholder

JAMES J. JACKSON
(1958-2014)

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RENO OFFICE

March 3, 2020

Joint Executive Committee for NPAIP/PACT
201 S. Roop Street, Suite 102
Carson City, NV 89701-4779

Re: Town of Pahrump

Dear Committee:

A question has been posed as to whether the Town of Pahrump has voting status as a member of the Nevada Public Agency Insurance Pool ("NPAIP") or Public Agency Compensation Trust ("PACT"). The short answer is no. The Town of Pahrump has no voting status with respect to NPAIP or PACT. An overview of the history of the relationship between Nye County and the Town of Pahrump may prove helpful.

In 2012, the Nye County Board of Commissioners voted to place an issue on the ballot at the general election for 2012 concerning whether the Town of Pahrump should continue to be served by a town board form of government. *See* NRS 269.022. The voters decided the Town of Pahrump would no longer be served by a town board form of government. This issue was then litigated both through the District Court and the Nevada Supreme Court. The Nevada Supreme Court upheld the decision of the Nye County Board of Commissioners to place this issue on the ballot at the 2012 general election which resulted in the removal of the town form of government for the Town of Pahrump. *Town of Pahrump v. Nye County*, 2014 Nev. Unpub. LEXIS 687; 2014 WL 1877902 (May 8, 2014). Accordingly, it is my understanding that the Town of Pahrump is now served by a Citizen's Advisory Council consistent with the provisions of NRS 269.024. Further, it is my understanding that the Citizen's Advisory Council acts in an advisory liaison capacity with respect to governing the affairs of the Town of Pahrump. NRS 269.024.

Insofar as the Town Board of Pahrump no longer exists nor does the town board form of government exist in the Town of Pahrump, Nye County is the only entity having voting status pertaining to NPAIP and PACT. *See* Nevada Public Agency Insurance Pool Interlocal Cooperation Agreement, Article I, Section 8, Article III, Section 2; Public Agency Compensation Trust Interlocal Cooperation Agreement, Article I, Section 9; and NRS 277.055(3)(a). Although the Town of Pahrump was previously considered a separate voting member in NPAIP and PACT, Nye County has assumed the governing authority of the town of Pahrump. Accordingly, the Town of Pahrump has no separate voting status in either NPAIP or PACT. *See* NRS 277.055 (3)(a).

It is the opinion of this office that it would be contrary to controlling legal authority for the Board of Directors of NPAIP or PACT to grant voting rights to the Town of Pahrump.

Should you have any questions regarding this matter, please do not hesitate to contact me.

Very truly yours,

Stephen C. Balkenbush

STEPHEN C. BALKENBUSH

SCB/rla

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
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Facsimile (775) 883-7398

Executive Director's Report to Board
March 2020

POOL and PACT Budgets:

PACT: Ratable exposures usually increase by 3.5% each renewal. It is anticipated that medical inflation will continue, and recent court decisions coupled with regulatory changes will increase costs (see below). Reinsurance rates likely will remain stable.

As a result of Legislation that increased benefits, the post-employment heart-lung rate for FY 2019-2020 was increased by $1.00 to $3.85. Staff proposes to allocate some of the previously unallocated costs of the SpecialtyHealth Cardiac Wellness program.

A notable Nevada Supreme Court decision on one of PACT's claims resulting in upholding that the Last Injurious Exposure Rule. This decision reduces the long-term risk of a claim covered by a previous insurer becoming a PACT claim.

For POOL: Property reinsurance rates effective July 1, 2019 increased by 5% after a change of lead underwriter at Lloyds. For the 2020 renewal, indications are that reinsurance rates likely will increase again by 10% or more due to difficult market conditions overall. We negotiate at the London meetings based upon our profitable long-term loss history for a lesser increase, but final results are yet unknown. Property values usually increase by about 4% due to appraisals. Liability rates likely will see a significant increase for renewal due to exposure changes and several large adverse claims results from multiple types of members.

For POOL and PACT: Amortization of contributions to the captives continues to reduce results from operating income. Staff is recommending expensing the remaining amortization in the current fiscal year and on a go forward basis. The captives have more investment flexibility and opportunities for gains that inure to the benefit of the overall pool and captives long term strategies. Both POOL and PACT, this policy decision will result in a current significant deficit but both have accumulated substantial reserves from positive years, thus overall financial standing remains adequate.

Both program budgets rely on a 70% actuarial funding confidence level to generate sufficient margin for contingencies. The draft budget will need further revision following receipt of quotes prior to and at the annual board meeting after renewal decisions are reached.

Renewal Strategies:

POOL:

The property coverage program is placed by Willis Re Pooling in various syndicates at Lloyds of London. Renewal negotiations in London occurred the week of February 17th, 2020. Mike Rebaleati, Mary Wray and Stephen Romero of Willis Pooling met with the various syndicates. The reinsurance markets remain hard as a result of Named Storms, Earthquakes and Fire catastrophes around the US and the world. The Lloyds market also is firming its financial controls and limiting certain syndicates capacity to stabilize the market. POOL Members were hit with a 12.5% property rate increase in 2018 followed by an additional 5% in 2019. We were advised to expect another rate increase in the amount of 10% or more. We are considering retaining our current $500,000 retention but also considering even higher retentions up to $1,000,000 using quota share with our captives. We plan to retain the $150 million of earthquake and flood aggregates.

Public Risk Mutual will offer a liability renewal at current terms in which it takes a 25% quota share of $7,000,000 excess of $3,000,000 POOL retention as well as 30% (other than schools) of the $2,500,000 liability limit above POOL's retention of $500,000. Due to large settlements, we anticipate liability rate increases.

County Reinsurance, Ltd. (CRL), a member owned captive insurance company in which NPAIP placed a substantial capital contribution, reinsures the liability layer of $2,500,000 above the POOL retention of $500,000 on an 70% quota share basis with PRM bearing 30%. CRL preliminary indications are for a rate increase possibly of 20% due to the large losses in our experience base.

United Educators, a member owned risk retention group in which NPAIP placed a substantial capital contribution, writes a liability limit of $2,500,000 excess of the POOL's $500,000 retention. UE bears 100% of this layer. Given recent large settlements, we anticipate a rate increase of 20% or so.

Government Entities Mutual (GEM), a member owned captive insurance company in which NPAIP placed a substantial capital contribution, reinsures 35% quota share of the layer of $7,000,000 above the POOL retention of $3,000,000. Mike Rebaleati was elected to the GEM governing board in 2017 and will provide insights on GEM. GEM quoted options in 2019 but the options were not accepted but could be considered again. POOL has not had losses in the GEM layer. Likely GEM will have an increase in the neighborhood of 15%.

Brit provides 40% quota share of liability limits of $7,000,000 excess of POOL's $3,000,000 retention. POOL has not had losses in the Brit layer. We will evaluate this along with other layers.

Our equipment breakdown reinsurer is Travelers Boiler Re which provides a $100,000,000 limit with various sub-limits. Since their limits and pricing have been stable for several years now, we anticipate renewal with them as our best option. We have received a profit-sharing distribution in recent years which we apply toward our loss control programs.

<u>NOTICES OF INTENT TO WITHDRAW:</u>
We received notices of intent to withdraw from: (none as of 3/8/2020)

PACT:

Public Compensation Mutual (PCM) bears $700,000 excess of PACT's $300,000 retention plus a quota share of 25% of the next $2,000,000 excess of $1,000,000. CRL bears 75%. PCM is beginning to see some loss activity due to its attachment at a lower PACT retention level, thus a rate increase is expected.

Safety National attaches above a $3,000,000 retention and covers to statutory limits. Both PCM and Safety National provide 50% quota-share of the $3,000,000 aggregate limit that attaches above a high aggregate retention along with PCM.

<u>NOTICES OF INTENT TO WITHDRAW:</u>
We received notices of intent to withdraw from: (none as of 3/8/2020)

POOL Form:

Staff reviewed proposed changes to the POOL form with coverage counsel Jack Angaran and his associate Brandon Wright. Most of the changes needed were clarifications and formatting. However, one major change discussed was revising the POOL Form to carve out all Data Security coverage from both the property section and the liability section into a standalone coverage form. We reviewed sample policy forms to update current language including suggested language from CRL, our reinsurer for data security liability coverage. CRL plans to separate its coverage form into a standalone policy as well because that appears to be an industry trend.

Nevada Public Agency Insurance Pool
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Operation Officer Report March 11, 2020

Custodial Banking Change

The POOL/PACT/PRM/PCM custodial services for the investments is in the process of being switched from Wells Fargo bank to US Bank. The basic banking services, such as checks, deposits, etc,, will remain with Wells Fargo. Several months ago, Wells Fargo sold their Institutional Retirement Trust (custodial services) to the Principal Financial Group. Staff took the time to evaluate this sale and explored other options. After taking prudent steps in making this decision, which included consultations with Strategic Asset Alliance (SAA), staff decided that US Bank custodial services are better suited to meet our needs for our insurance related investments. The fund transfer is scheduled to be complete on March 30, 2020. This date was selected with the goal of keeping the financial reporting clean between fiscal quarters and to help in the annual audit process.

Internal IT and RMIS

At the November 2019 meeting, I provided a report to the Board summarizing potential software analysis tools (Risk Management Information Systems) that are now available. It is my opinion that we currently cannot efficiently utilize our claims data to understand past and current claim trends. We need to make significant improvements in this process. A robust RMIS system will decrease costs by providing the ability to nearly instantaneously examine current claims, as well as direct attention and risk mitigation programs were needed. Such a quantitative and qualitative claims analysis process will save time and money by identifying areas of need, as well as illustrating which programs and services are working (based upon reduction in claims). I want to establish a staff study group to perform an analysis of our current systems and to make recommendations relating to the feasibility and costs of a new RMIS.

CYBER

The Cyber Summit attendees exceeded 70. This summit was extremely well received. There is strong interest in holding a 2nd cyber security summit this fall. The dates have not been selected but it might take place mid-November. Our cyber security consultant, Tony Rucci, put together the first POOL/PACT cyber security webcast on February 28, 2020. The second webcast is scheduled for March 27, 2020. We will be coordinating with Shaun Rahmeyer, who is the director of the State of Nevada Office of Cyber Defense and Coordination Office. We also will be working with Shaun on the future developments on the new cyber security regulations.

POOL building roof repair

The POOL building roof repair is complete. When you visit our offices, you will notice a completely new roof, new snow guards, concrete gutters and drains. Lumos and Associates did great job monitoring and managing the contract work. Despite some delays, Alpine Roofing did a great job as well. They lived up to all the conditions of the contract. We ended up with more installed roofing material than originally planned at no additional costs. The total cost, which includes the engineering and architectural fees, was $ 218,991.

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KnowBe4 availability

I want to thank the Loss Control committee for approving a grant that will provide the KnowBe4 email security training and phishing testing for all POOL members. We have two school districts already signed up and one member currently being enrolled. If a member does not have the staff time to help run and monitor this service, we can do it for the member. It takes a little bit of time to initially set it up but once the active directory of the respective domain it is very easy to deploy trainings and phishing tests. A permission form will be required by all entities. A template of this form is attached in the information packet and it will be available on our website. This is a three-year agreement with KnowBe4 but the sooner we can all members on the service the greater the benefit. Those members who already are using the KnowBe4 service can switch to our service when their contract expires if they choose to.

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

Chief Financial Officer Report 3-11-2020

Financial Benchmarking Analysis:
Completed the NPAIP and PACT Financial Benchmarking Analysis in December 2019. These reports looked at financial data for the past 7 years as well as using data obtained from the AGRIP Financial Benchmarking Initiative. This analysis will be updated and kept current to assist the POOLs in understanding our financial strengths/weaknesses.

POOL Renewal Application Tutorial:
Worked with Courtney at Willis and Mike Van Houten to develop an e-learning session on how to complete the annual renewal application. The was a webinar for the agents to launch the e-learning class. Training will be updated based on feedback from members and agents.

PACT Payroll Audit Guidelines:
Worked with Ken Boley and Debbie Connally to develop a webinar that was a tutorial to assist in making the PACT payroll audit process go smoothly. Great participation on the training. Ken is conducting the audits and has commented that the training has assisted members in their preparation. Still have some issues as members deal with software conversion issues.

PACT DOI Regulatory 3 Year Review:
Completed the required Department of Insurance regulatory review of PACT that is required every three years. No findings or recommendations were noted in the review.

Fraud Prevention and Awareness / Local Government Training Sessions:
Completed a Fraud Prevention and Awareness / Local Government Training Session in Carson City, Elko, Pahrump, Caliente, and Boulder City. Willing to modify and give training to other members as deemed necessary.

PRM / PCM Audit Preparation Fiscal Year Ending December 31, 2019
Completing the independent audits for the captives. Comprehensive Income for PRM and PCM for the year is $4,158,816 and $9,154,734 respectively. Unrealized gains on available for sale securities arising during the period was a significant portion of the income. See statements for more details.

Miscellaneous Items:
Attending meetings with members, investment advisors, training and continuing education. Taught Local Budget Class at NACO and NLC. Assisted NACO in developing new investment policy and selection of new investment advisor. Assisting NLC on budget and financial oversight.

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Annual Report: POOL/PACT Risk Management

March 11, 2020
Marshall Smith, Risk Manager

Below is a summary of POOL/PACT Risk Management programs and services over the past year.

1. **Law Enforcement**
   - Update of all Jail and Road Operations policies by Legal Liability Risk Management Institute.
   - Continuation of the *Jail/Detention High Risk Critical Tasks Review*, in coordination with LLRMI. Audit consists of a comprehensive two day (on-site) assessment of jail/detention facility policies/procedures, training in best practices, and five (4) POST certified credits for all attending detention staff.

     Completed Review (initial with follow up reviews pending)
     - Humboldt County (April 2019)
     - Eureka County (May 2019)
     - Esmeralda County (5/7/2019)
     - Elko County (5/15/2019)
     - Churchill County (8/23/2019)
     - Douglas County (12/17/2019)
     - Storey County (12/6/2019)

     Scheduled:
     - Lander County (3/30/20)
     - Pershing County (4/1/20)
   - POOL/PACT Cop/Prosecutor Seminar Series "Critical Report Writing Skills" (October 2019) in Elko. Awarded Credits: CLE: 70, POST: 97

2. **On-Line Training Platforms**
   - TargetSolutions (fire/EMS training): deployed and used by 26 departments;
   - MSDSonline (SDS Control) deployed and used by 7 member entities.

3. **School District Hazard Vulnerability Assessments**
   - Jeff Kaye and his team are continuing to update the completed HVAs for our School District members.
   - With Jeff's assistance, we developed the *Nevada Rural School District Collaborative*, a group of our member districts which will serve as the applicants for a 2021 BJA Stop Grant Program.

4. **Swimming Pool Inspection Schedule**
   - 2019 inspections included Winnemucca, Battle Mountain, City of Elko, Jackpot, Wells, and West Wendover facilities. The 2020 inspections will be completed in June, which will include Lovelock, Fernley, Storey County, IVGID, Yerington, Minden, and Hawthorne.
   - POOL/PACT is sponsored an Aquatic Risk Management seminar with the *Nevada Recreation & Park Society* in April and presented the ARM it to our members on June 16, 2019vin Elko.
   - The 2020 ARM location is pending.

5. **Fit For Retirement Wellness Program**
   - POOL/PACT developed and produced the "Fit For Retirement" Wellness e-Learning course entitled *Myth Buster's Edition*. The objective of the course is to inform firefighters and police officers about this Heart/Lung Occupational Disease program and importantly to dispel myths associated with it. The course was operational in June 2019.

6. **Nevada State Firefighters Association Conference**
   - POOL/PACT sponsored a portion of this conference and presented information regarding TargetSolutions, *HR You need to know*, the Risk Management Grant Program, and Fit For Retirement Program

7. **POOL/PACT Loss Control Committee**
   - The LCC has been very active, holding four meetings during the past year. It has carefully reviewed and approved over $242,676.84 in Risk Management Grant funding. The LCC continues its mission to encourage and develop the most effective risk management/ mitigation programs available.

8. **24-7-365 Worker's Comp Nurse Triage Program**
   - 2020 is the third year for this program. We have updated the program to make it easier and more effective for our PACT members. Utilization of this program has been low, and continuation of this program should be discussed.

9. **POOL/PACT Litigation Strategy Conference**

   The Litigation Strategy Conference, held on July 19, 2019, is an annual event designed to gather litigation counsel associated with POOL/PACT to discuss topics of interest to our members from a litigation standpoint: Topics: Open Meeting Law Legislative Changes; Ethics Law Changes for Public Officials, Jail Audits, Policies, Training, POOL/PACT Cop/Prosecutor Seminar Series Legislative, Changes to Tort Cap, Elected Officials Personal Liability, Public Records Challenges, Education Legislation and Liability Impact, Employment Practices Legislation, Case Review Roundtable.

10. **Emergency Medical Dispatcher Seminar**
    - POOL/PACT partnered with Eureka County Sheriff's Office to present a 3-day course for emergency medical dispatch certification for regional agencies on October 2-4, 2019.

POOL/PACT HUMAN RESOURCES

BEGAN OPERATIONS JULY 1996

POOLING RESOURCES, INC. FORMED 2006

2019/2020 YTD ACCOMPLISHMENTS BY THE NUMBERS

- 2 new on-line courses developed
- 1 new facilitator-led course developed
- 6 courses revised
- 7 regional trainings conducted
- 2 regional trainings conducted by outside resources
- 3 new HR Briefings developed; 13 updated
- 4 New HR Briefing videos developed
- 4 webinars hosted
- 7 Alerts issued
- 100 training sessions conducted (1700 participants)
- 8 FRISK sessions conducted (117 participants)
- 12 HR Briefings presented (395 participants)
- 6 new Phase I Assessments in process
- 1 new Phase II Assessment in process
- 5 new HR Scholarships awarded
- 71 HR Conference participants

2020

POOL/PACT

HR LEADERSHIP CONFERENCE

CONNECT + COLLABORATE + LEARN

OCTOBER 21-22, 2020

ATLANTIS CASINO RESORT SPA

LOOK FOR YOUR REGISTRATION EMAIL IN APRIL

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
Develop two new instructor-led or online courses annually		
Taking Control of Conflict eLearning	6/28/2019	100%
Customer Service in the Public Sector eLearning	7/03/2019	100%
Influential Leadership	6/30/2020	75%
Update and revise three instructor-led training courses annually		
Human Resources Representative Certificate Program - Session One	7/15/2019	100%
Human Resources Representative Certificate Program - Session Three	7/19/2019	100%
Essential Management Skills Certificate Program - Session Three	7/23/2019	100%
Safe and Sober Workplace	7/24/2019	100%
Essential Management Skills Certificate Program - Session Two	8/01/2019	100%
Taking Control of Conflict	9/04/2019	100%
Offer six regional training courses throughout the state		
Essential Management Skills Certificate Program (Pahrump)	**7/25/2019**	**100%**
Session 1 - The Foundation of Effective Management	7/10/2019	100%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	7/11/2019	100%
Session 3 - Preparing to Effectively Manage Others	7/24/2019	100%
Session 4 - Managing and Leading Others to Success	7/25/2019	100%
Essential Management Skills Certificate Program (Hawthorne)	**8/22/2019**	**100%**
Session 1 - The Foundation of Effective Management	8/07/2019	100%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	8/08/2019	100%
Session 3 - Preparing to Effectively Manage Others	8/21/2019	100%
Session 4 - Managing and Leading Others to Success	8/22/2019	100%
Essential Management Skills Certificate Program (Carson City)	**9/26/2019**	**100%**
Session 1 - The Foundation of Effective Management	9/11/2019	100%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	9/12/2019	100%
Session 3 - Preparing to Effectively Manage Others	9/25/2019	100%
Session 4 - Managing and Leading Others to Success	9/26/2019	100%
Essential Management Skills Certificate Program (Elko)	**11/21/2019**	**100%**
Session 1 - The Foundation of Effective Management	11/06/2019	100%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	11/07/2019	100%
Session 3 - Preparing to Effectively Manage Others	11/20/2019	100%
Session 4 - Managing and Leading Others to Success	11/21/2019	100%
Advanced Essential Management Skills Certificate Program (Carson City)	**11/14/2019**	**100%**
Day 1	11/13/2019	100%
Day 2	11/14/2019	100%

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
Essential Management Skills Certificate Program (Ely)	**1/30/2020**	**100%**
Session 1 - The Foundation of Effective Management	1/15/2020	100%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	1/16/2020	100%
Session 3 - Preparing to Effectively Manage Others	1/29/2020	100%
Session 4 - Managing and Leading Others to Success	1/30/2020	100%
Human Resources Representative Certificate Program (Carson City)	**2/27/2020**	**100%**
Session 1- Fundamentals of HR	2/11/2020	100%
Session 2 - People are People	2/12/2020	100%
Session 3 - It's About Time, Off and Paid	2/13/2020	100%
Session 4 - Band-Aids and Welcome Mats	2/26/2020	100%
Session 5 - Working with People	2/27/2020	100%
Essential Management Skills Certificate Program (Carson City)	**3/26/2020**	**0%**
Session 1 - The Foundation of Effective Management	3/11/2020	0%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	3/12/2020	0%
Session 3 - Preparing to Effectively Manage Others	3/25/2020	0%
Session 4 - Managing and Leading Others to Success	3/26/2020	0%
Advanced Human Resources Representative Certificate Program (Carson City)	**4/02/2020**	**0%**
Day 1	4/01/2020	0%
Day 2	4/02/2020	0%
Advanced Essential Management Skills Certificate Program (Carson City)	**4/16/2020**	**0%**
Day 1	4/15/2020	0%
Day 2	4/16/2020	0%
So, You Want to be a Supervisor? (Carson City)	**4/29/2020**	**0%**
Essential Management Skills Certificate Program (Elko)	**5/21/2020**	**0%**
Session 1 - The Foundation of Effective Management	**5/06/2020**	0%
Session 2 - Be Part of Organizational Effectiveness: Legal Compliance, Management Challenges, & Resources	**5/07/2020**	0%
Session 3 - Preparing to Effectively Manage Others	**5/20/2020**	0%
Session 4 - Managing and Leading Others to Success	**5/21/2020**	0%
Influential Leadership	**6/04/2020**	**0%**
Provide Regional Training Workshops Utilizing Outside Resources		
Negotiations - Allison Mackenzie attorneys (Boulder City) (canceled due to low enrollment)	9/17/2019	0%
Negotiations - Allison Mackenzie attorneys (Carson City)	9/19/2019	100%
Negotiations - Allison Mackenzie attorneys (Elko)	9/20/2019	100%

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
Develop New Briefings as Needed		
New Employee Orientation (NEO)	7/25/2019	100%
Drugs and Alcohol in the Workplace	7/25/2019	100%
Marijuana in the Workplace	2/03/2020	100%
Review/Update Ten Briefings Annually		
Bullying in the Workplace	1/09/2020	100%
COBRA	1/09/2020	100%
Employee Assistance Program for Employees	7/02/2019	100%
Employee Assistance Program for Managers and Supervisors	7/12/2019	100%
Employing Minors	1/09/2020	100%
Exempt Employees	1/01/2020	100%
Fair Labor Standard Act (FLSA)	8/08/2019	100%
I-9 Process	1/09/2020	100%
Managing the Disability Triangle	6/30/2020	75%
Non-exempt Employees and Overtime	2/05/2020	100%
Performance Management	6/30/2020	0%
Public Sector Internships	1/09/2020	100%
Reasonable Suspicion Testing	6/30/2020	0%
Stay Interviews	7/02/2019	100%
Succession Planning, Part I Establishing a Plan	6/30/2020	0%
Succession Planning, Part II Workplace Mentoring	6/30/2020	0%
Volunteer Programs	1/09/2020	100%
Workers' Compensation Part I, Understanding the Process	6/30/2020	0%
HR Briefing Videos		
Ethics	8/1/2019	100%
Job Descriptions	9/18/2019	100%
Meeting Management	7/29/2019	100%
Time Management	7/10/2019	100%
Webinars		
Creating a Positive Workplace (EAP)	9/04/2019	100%
Managing the Difficult Interaction (EAP)	11/13/2019	100%
Mental Health (EAP)	2/05/2020	100%
Coping with Organizational Change (EAP)	5/06/2020	0%
Negotiations, Overtime and Legislation (Livestream from Carson City)	9/19/2019	100%

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
Post Member Pay Plan/Scale on Website	6/30/2020	75%
Sample Personnel Policy Annual Update		
CDL Policies	6/30/2020	0%
Large Organization Sample Personnel Policies	6/30/2020	0%
School District Sample Personnel Policies and Administrative Regulations	6/30/2020	0%
Small Organization Sample Personnel Policies (15 or more employees)	6/30/2020	0%
Small Organization Sample Personnel Policies (Less than 15 employees)	6/30/2020	0%
Coaching and Problem Solving	6/30/2020	75%
Issue Alerts as Needed	**6/30/2020**	**0%**
US Supreme Court Rules ADEA Applies to All Public-Sector Employees	7/09/2019	100%
Form I-9 Update	8/28/2019	100%
DOL Issues New Final Overtime Rule	9/24/2019	100%
IRS Standard Mileage Rate Effective 1/1/20	1/03/2020	100%
New DOT Controlled Substance Random Testing Percentage Rate for 2020	1/24/2020	100%
Form I-9 Update	2/06/2020	100%
NERC Advises all Public Employers Covered by Ban-the-Box Provisions	2/14/2020	100%
Develop Member Service Plans to Include Trainings, Briefings & Policy Development (Year-to-Date)		
Trainings - Completed: 100; Participants: 1700; Course Content Evaluation Average: 4.58; Instructor Evaluation Average: 4.8	**6/30/2020**	**0%**
FRISK Training - Completed: 8; Participants: 117	**6/30/2020**	**0%**
HR Briefings - Completed: 12; Participants: 395	**6/30/2020**	**0%**
FRISK		
Douglas County - China Spring	11/26/2019	100%
Elko, City of (TBD)	6/30/2020	0%
Eureka County	12/04/2019	100%
Humboldt County	10/10/2019	100%
Humboldt County School District (TBD)	6/30/2020	0%
Incline Village General Improvement District	11/13/2019	100%
Kingsbury General Improvement District (TBD)	6/30/2020	0%
Lincoln County School District	3/20/2020	0%
Lyon County School District (TBD)	6/30/2020	0%
Mineral County School District	9/13/2019	100%
North Lyon County Fire Protection District (TBD)	6/30/2020	0%

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
FRISK (continued)		
Nye County School District	10/16/2019	100%
Sun Valley General Improvement District (TBD)	6/30/2020	0%
White Pine County School District	8/08/2019	100%
Winnemucca, City of	10/10/2019	100%
Phase I HR Compliance Assessment Program 11/12		
Nye County (On-site assessment 10/30/12)	6/30/2020	100%
Phase I HR Compliance Assessment Program 15/16		
Douglas County Sewer District (On-site assessment 2/23/16)	6/30/2020	75%
Phase I HR Compliance Assessment Program 16/17		
Lovelock (On-site assessment 11/1/16) (removed due to inactivity)	6/30/2020	75%
Mineral County (On-site assessment 10/18/16)	6/30/2020	75%
North Lyon County Fire Protection District (On-site assessment 10/25/16)	6/30/2020	75%
NRHA Reassessment (On-site assessment 3/13/17)	6/30/2020	75%
Pershing County (On-site assessment 12/12/16)	6/30/2020	75%
Walker River Irrigation District (On-site assessment 3/27/17)	6/30/2020	75%
Phase I HR Compliance Assessment Program 17/18		
Minden-Gardnerville Sanitation District (On-site assessment 2/14/18)	6/30/2020	100%
Pahrump Library District (On-site assessment 9/6/17)	6/30/2020	75%
Regional Transportation Commission (On-site assessment 2/28/18)	6/30/2020	75%
Phase I HR Compliance Assessment Program 18/19		
East Fork Fire Protection District (On-site assessment 1/31/19)	6/30/2020	75%
Storey County School District (On-site assessment 2/27/19)	6/30/2020	75%
Tentative Phase I HR Compliance Assessment Program 19/20 (Offer to Ten Members Annually)		
Fernley Swimming Pool District (On-site assessment 10/8/19)	6/30/2020	75%
Nevada Tahoe Conservation District (reassessment) (On-site assessment 11/5/19)	6/30/2020	75%
Smoky Valley Library District (On-site assessment 7/11/19)	6/30/2020	75%
Southern Nevada Health District (reassessment) (On-site assessment 7/25/19)	6/30/2020	75%
Stagecoach General Improvement District (On-site assessment 1/6/20)	6/30/2020	25%
Storey County (reassessment)	6/30/2020	0%
Sun Valley General Improvement District (reassessment) (On-site assessment: TBD)	6/30/2020	0%

POOL/PACT HR STRATEGIC PLAN FY 19/20

Objective/Action Plan	*Due Date*	*% Complete*
Tentative Phase I HR Compliance Assessment Program 19/20 (Offer to Ten Members Annually) (continued)		
Tahoe Transportation District (On-site assessment 7/17/19)	6/30/2020	75%
Phase II HR Compliance Assessment Program 15/16		
City of Yerington (On-site assessment 9/18/15)	6/30/2020	75%
Phase II HR Compliance Assessment Program 16/17		
Winnemucca (On-site assessment 1/18/17)	6/30/2020	75%
Phase II HR Compliance Assessment Program 17/18		
Humboldt County (On-site assessment 9/12/17)	6/30/2020	75%
Nye County (On-site assessment 8/16/17)	6/30/2020	75%
Nye County School District (On-site assessment 3/22/18)	6/30/2020	75%
Pahrump, Town of (On-site assessment 8/16/17)	6/30/2020	75%
Tentative Phase II HR Compliance Assessment Program 19/20 (Offer to Three Members Annually)		
Lincoln County School District (10/21/19)	6/30/2020	75%

Pooling Resources, Inc. (dba POOL/PACT HR)
SCOPE OF SERVICE FY 2020/2021 – 2024/2025

Goal: Partners with member entities to reduce employment liability by providing the resources and education for members to build strong foundations for effective Human Resources practices within their organizations.

Service	***Description***
Service Plans	Meet with HR contact(s) and/or key management representatives to develop Service Plans for the upcoming fiscal year based upon the organization's HR needs.
Coaching and Problem Solving	Provide consultation with members to manage and resolve critical employment-related issues to include identifying options, providing step-by-step guidance, monitoring progress, and answering questions. Notify claims management (Davies) in the event that a complaint would likely result in legal action against a member.
Training Development	Review annually and update as needed the most frequently presented instructor-led and on-line courses. Develop two new instructor-led or on-line training courses annually. Update and revise three instructor-led training or on-line courses annually. Periodically review underutilized courses and update or remove as appropriate. Develop new and update existing HR Briefings as necessary to be consistent with changes in law, regulations, and/or policies. Research and implement methods and tools to enhance online training capabilities.
Training Delivery	Deliver on-site trainings to members as needed or requested via service plan. Offer six regional trainings to be selected and scheduled prior to member Service Plan meetings. Provide regional workshops utilizing outside resources as appropriate. Present HR Briefings as requested. Host a minimum of three webinars per year.
Annual Conference	Host an annual HR Conference for members which includes speakers on a variety of relevant HR topics, networking opportunities, and round table discussions.

Pooling Resources, Inc. (dba POOL/PACT HR)
SCOPE OF SERVICE FY 2020/2021 – 2024/2025

Sample HR Policies and Forms	Maintain sample personnel policies for school districts, large organizations, small organizations, and drug/alcohol policies for CDL holders. Review and update sample personnel policies and related forms annually and as needed, with immediate changes made if law or court decision necessitates. Maintain and review a sample job description template. Assist members in adopting and implementing personnel policies, forms, and job descriptions.
Communication	Publish HR Alerts on significant HR-related law or practice changes on an as-needed basis. Publications will be distributed by e-mail link to the POOL/PACT website and available in paper form upon request. Alerts regarding major changes in laws related to human resources will be provided as soon as practical. Maintain annual training catalog with descriptions of certificate programs, facilitator-led courses, on-line courses, and HR Briefings. Facilitate round table discussions with member management, as requested, to discuss current issues and best practices. Promote on-line services including e-learning, webinars, and HR Resource Library.
Website Tools	Maintain HR Resource Library on POOL/PACT HR's website to include sample personnel policies, forms, job description template, Alerts, HR Briefings, Member Salary Schedules, and legislative tracking and summary. Post regional HR trainings on POOL/PACT website calendar.
HR Assessments	Conduct HR Compliance Assessment Program, Phase I to interested and committed members to assess core HR practices. Conduct HR Compliance Assessment Program, Phase II to interested and committed members who have successfully completed Phase I to assess compensation and benefit practices.
Biennial Member Survey	Conduct a biennial survey with members on services provided, quality of services, and potential needs.
Legislative Tracking	Track all HR-related legislation related to POOL/PACT members during each legislative session. Provide comprehensive summary of HR-related legislation.
Other Services	Provide HR Scholarships to assist members in attaining nationally recognized HR certifications as approved by the HR Oversight Committee. Work with certifying agencies to attain Continuing Education Credits.

SCOPE OF SERVICES 2015/2016 - 2020/2021

Goal: Serve as a business partner with POOL/PACT members to enhance their human resource programs, improve employee/employer relations, and reduce liability.

SERVICE	DESCRIPTION OF SERVICE
Develop and Revise Training Courses	Review and update the most frequently presented courses each year with particular focus on training that is given annually to the same audience. Prepare new trainings on HR-related subjects. Develop two new instructor-led or on-line training courses annually. Update and revise three instructor-led training courses annually. Remove outdated courses. Offer six regional trainings to be selected and prescheduled; topics to be identified prior to member Service Plan meetings beginning in May of each year. Provide regional workshops utilizing outside resources as appropriate. Offer four mandatory on-line training courses for new employees. Mandatory course topics include: Bullying; Drug & Alcohol-free Workplace; Unlawful Harassment; and Workplace Violence.
Enhance and Market Online Training	Market and continue to promote direct services such as e-learning, HR Briefings, and webinars.
Continue to Improve/Enhance Communications and Access to Information	Conduct HR Briefings, which are 30-40 minute mini-training sessions covering the various aspects of legal compliance or supervisory practice topic. Briefings are informal discussions designed for small groups. The number and frequency of HR Briefings will be based on the needs of the member organizations. When the mini-trainings are conducted at the member's facility, the business partner will also meet with HR and/or management staff to discuss issues of interest and concern to the member organizations regarding HR practices. HR Briefings on 40-50 topics for presentation by POOL/PACT HR Business Partners will be available on a continual basis. New briefing topics will be developed as needed and all existing topics will be updated, as necessary, to be consistent with changes in law and regulations. HR Briefings are included in the training catalog.

SERVICE	DESCRIPTION OF SERVICE
	Publish HR Alerts on current issues, legislative updates, case law updates on an as-needed basis. Publications will be distributed by e-mail link to the POOL/PACT website and will be available in paper form upon request. Alerts regarding major changes in laws related to human resources will be provided as soon as practical. Assist members in adopting and implementing HR policies. Upon request, POOL/PACT HR Business Partners will review proposed policies with key managers, assist in making adjustments to policies based upon input from managers and employee representatives, respond to questions, assist in presentation of policies for adoption by the governing board, and participate in sessions with managers to discuss implementation and administration of the policies. Facilitate training and round table discussion groups, as needed, for member staff assigned significant responsibilities for HR. Each session will include a HR topic of current interest followed by discussion on the topic. Also, other topics of interest to the group will be addressed by participants to share their practices and ideas. Maintain a sample job description templatewhich will be reviewed periodically.
Continue to Improve Use of Technology	Maintain the human resources items on the POOL/PACT website with current versions of HR policies and related documents, job descriptions, quick references on a broad range of HR topics, and on-line training. Add HR trainings to POOL/PACT website calendar. Conduct three to six webinars per year on HR topics and/or in partnership with the EAP provider.
Conduct HR Practices Assessments	Offer HR Compliance Assessment Program, Phase I to a minimum of ten members annually toassess core HR practices. Offer HR Compliance Assessment Program, Phase II to a minimum of three organizations annually. To be eligible for the Phase II, which is an assessment of compensation practices, the member must have successfully completed Phase I.
Develop and Deliver Client Service Plans	Review member HR management policies and practices through an on-site visit. The review will consist of an interview with the member's management representative responsible for HR management and key administrators. An annual service plan will be developed for each organization based upon the organization's needs. The focus of services will be based on the level of development of the member's HR management program.
Maintain Sample HR Policies	Maintain sample personnel policies for school districts, large organizations, small organization, and drug/alcohol policies for CDL holders. All policies will be reviewed and updated annually, with immediate changes made if law or court decision necessitates. Sample policies include all related forms, sample documents, and guidelines.

SERVICE	DESCRIPTION OF SERVICE
Coaching and Problem Solving	Provide telephone help-line assistance and related services to help resolve members' human resources problems. Provide assistance in identifying and locating resources, and assistance to members when a complaint is anticipated or filed, including providing coaching on appropriate approaches to initiating an administrative inquiry and related mitigation efforts. In the event that a complaint would likely result in legal action against a member, ASC will be notified.
New Services	Conduct a biennial survey with members on services provided, quality of services, and potential needs. Host an annual HR Seminar for members which includes speakers on a variety of relevant HR topics.
Special Services for the Larger Members	Work with representatives from larger employers to identify services that will meet the needs of large members. Following POOL/PACT HR Oversight Committee concurrence, deliver or facilitate the delivery of the services to the extent that such services can reasonably and practically be provided within the scope and funding of the POOL/PACT HR services grant. Also conduct human resource customized workshops as needed that are member type specific.
Special Services for Districts/Smaller	Continue to monitor "like member" meetings for similar members (e.g., water districts, schools) to discuss common HR related issues.

Date Of Loss	Location	Status	Accident Description	Cause	Paid Total	Reserve Total	Incurred Total	Incurred Recovery
4/26/2010	NYE COUNTY	Open	RESPONDING TO A CALL AT A CASINO, (	Person in Act of a Crime	367,815.42	2,183,279.84	2,183,279.84	0.00
1/9/2004	NORTH LAKE TAHOE FPD	Reopened	PREPARING FOR TRAINING STANDING IN	Other Than Phy Cause of Injury	292,797.74	1,841,562.30	1,841,562.30	0.00
1/14/2014	CENTRAL LYON COUNTY FPD	Open	AFTER PHYSICAL FITNESS, DIDN'T FEEL	Other	341,541.85	1,836,657.94	1,836,657.94	0.00
7/28/2006	WHITE PINE COUNTY	Open	HEART; ONGOING CHEST PAIN AND WE/	Other	706,034.39	1,640,213.85	1,640,213.85	0.00
3/3/2005	NORTH LAKE TAHOE FPD	Open	ROUTINE ANNUAL HEART STRESS TEST	Other Than Phy Cause of Injury	622,240.11	1,612,933.61	1,612,933.61	0.00
4/25/2007	SIERRA FPD	Open	ANNUAL PHYSICAL 4-25-07 ABNORMAL T	Other	610,802.36	1,580,835.38	1,580,835.38	0.00
7/25/2000	WHITE PINE COUNTY	Open	STRUCK BY LIGHTNING	Other	469,308.06	2,122,985.31	1,490,572.77	632,412.54
11/18/2009	CARSON CITY	Open	EXPOSURE TO COMBUSTIVE MATERIALS	Absorbtion/Ingestion/Inhalation	444,748.60	1,406,443.66	1,406,443.66	0.00
2/4/2008	LYON COUNTY	Open	OCC-DISEASE, HEART, CAREER POLICE	Other	697,844.20	1,278,437.41	1,278,437.41	0.00
9/16/2010	BOULDER CITY (CITY OF)	Open	WALKING DOWN THE FIRE STATION HAL	Other	431,232.87	1,156,130.85	985,287.70	170,843.15
11/4/2000	STOREY COUNTY	Open	ATRIAL FIBRILLATION	Other Than Phy Cause of Injury	531,720.47	1,242,871.61	983,970.67	258,900.94
2/20/2004	LYON COUNTY	Open	WHILE TRANSPORTING A PRISONER	Other	549,687.60	970,277.20	970,277.20	0.00
5/21/2018	NYE COUNTY	Open	WHILE DIRECTING TRAFFIC, EE WAS ST	Struck/Inj Motor Vehicle	627,868.97	903,207.80	898,207.80	5,000.00
6/8/2004	MINERAL COUNTY	Open	WATCHING TV IN CLASS	Other Than Phy Cause of Injury	90,514.00	1,129,619.02	776,278.10	353,340.92
11/17/2009	DOUGLAS COUNTY	Open	ATTEMPTING TO SUBDUE SUSPECT, FEI	Fall/Slip Miscellaneous	182,461.16	706,849.56	706,849.56	0.00
9/18/2008	SIERRA FPD	Reopened	EXTRACTING A COMBATIVE PT FROM VE	Caught In/Between Miscellaneous	504,501.38	669,422.43	669,422.43	0.00
5/24/1998	DOUGLAS COUNTY	Open	BOAT CAPSIZED-DROWNED	Other	264,241.91	633,849.08	626,167.13	7,681.95
10/27/2003	NYE COUNTY	Open	HEART; CHEST PAIN--SEVERAL EPISODE	Other	501,211.90	611,988.27	611,988.27	0.00
5/9/2012	NYE COUNTY	Open	WHILE WALKING FELT PAIN IN CENTER (	Other	95,210.44	569,598.42	569,598.42	0.00
8/11/2010	BOULDER CITY (CITY OF)	Open	PICKING UP 50 GALLON GARGAGE BAGS	Strain/Inj Lifting	486,564.49	558,822.73	558,822.73	0.00
3/2/2011	NYE COUNTY	Open	CHEST PAIN AND SHORTNESS OF BREA	Other	94,788.95	520,995.24	520,995.24	0.00
7/9/2017	NORTH LAKE TAHOE FPD	Open	EE WAS A PASSENGER INVOLVED IN A T	Veh/Air Collision w/ Another Vehicle	367,420.28	501,332.76	486,332.76	15,000.00
8/8/2010	PAHRUMP (TOWN OF)	Open	ON AUGUST 8, 2010 NOTICED ISSUES RE	Other	444,193.67	479,214.72	479,214.72	0.00
2/24/2011	ELKO COUNTY	Open	Shot during domestic violence call	Gunshot	336,205.94	440,330.86	440,330.86	0.00
8/23/2006	LINCOLN COUNTY SCHOOL DISTRICT	Open	LIFTING BLOCKS TO MAKE A RETAINING	Strain/Inj Lifting	337,608.32	421,761.62	421,761.62	0.00
12/29/2000	NYE COUNTY	Open	MAKING "U" TURN ATTEMPTING TO MAK	Veh/Air Collision w/ Another Vehicle	411,570.27	419,036.07	419,036.07	0.00
8/18/2018	LANDER COUNTY	Open	WHILE SEARCHING FOR DOWN AIRCRAF	Burn/Scald Fire or Flame	292,658.97	619,739.69	416,132.81	203,606.88
6/28/2006	WHITE PINE COUNTY SCHOOL DISTRIC	Reopened	S/F BACKWARDS OFF SINK WHILE STAN	Fall/Slip From different Level	407,016.64	411,716.07	411,716.07	0.00
10/10/2016	EAST FORK FIRE & PARAMEDIC DISTRI(	Open	LIFTING A PATIENT	Strain/Inj Lifting	341,753.35	388,233.20	388,233.20	0.00
6/21/2013	DOUGLAS COUNTY	Open	WHILE ON A WILDERNESS TRIP WITH JU	Struck/Inj Falling/Flying Object	321,235.37	368,419.16	368,419.16	0.00
8/27/2003	CARSON TAHOE REGIONAL HEALTHCAI	Open	LEFT & RIGHT HANDS/CARPAL TUNNEL S	Repetitive Motion	359,472.40	386,856.70	366,222.80	20,633.90
5/16/2007	SIERRA FPD	Open	FELL 12 FEET DOWN OFF A RETAINING \	Fall/Slip From different Level	249,053.85	353,457.90	353,457.90	0.00
4/8/2011	LINCOLN COUNTY SCHOOL DISTRICT	Open	WHILE CLEANING A BUS AFTER A SPOR'	Strain/Inj Wielding or Throwing	131,310.99	350,605.40	350,605.40	0.00
8/31/2012	STOREY COUNTY	Open	DRIVING VEHICLE ON ROAD AND VEHICL	Veh/Air Vehicle Upset	241,751.29	349,203.12	349,203.12	0.00
12/24/2011	LYON COUNTY	Open	WHILE CHECKING WATER LEAK, SLIPPE	Fall/Slip - Liquid/Grease Spill	251,736.43	330,292.29	330,292.29	0.00
11/30/2007	NORTH LAKE TAHOE FPD	Reopened	CARRYING PERSON IN A STAIR CHAIR	Strain/Inj Lifting	284,436.37	307,247.00	307,247.00	0.00
12/5/2011	SIERRA FPD	Open	WHILE BEING LIFTED OFF MOUNTAIN IN	Caught In/Between Miscellaneous	170,680.31	285,344.11	285,344.11	0.00
8/18/2018	LANDER COUNTY	Open	WHILE SEARCHING FOR DOWNED AIR C	Burn/Scald Fire or Flame	253,985.66	622,516.96	284,724.67	337,792.29
10/11/2002	TAHOE-DOUGLAS FPD	Open	LOWER BACK & RIGHT LEG PAIN--UNLO/	Strain/Inj Lifting	234,843.47	283,790.70	283,790.70	0.00
9/8/2010	DOUGLAS COUNTY	Open	INSTRUCTING TRAINING IN DEFENSIVE T	Strain/Inj Miscellaneous	111,564.02	391,576.31	279,094.25	112,482.06
6/16/2004	TAHOE-DOUGLAS FPD	Reopened	LIFTING & REPAIRING SEVERAL THOUS/	Strain/Inj Lifting	222,532.66	278,128.73	278,128.73	0.00
5/30/2012	LYON COUNTY	Open	ATTEMPTING TO REMOVE BOULDER FR(	Caught In/Between Object Handled	232,872.87	277,975.43	277,975.43	0.00
3/11/2012	NYE COUNTY	Reopened	HEART ATTACK	Other Than Phy Cause of Injury	68,274.25	263,603.81	263,603.81	0.00
2/4/2000	DOUGLAS COUNTY	Open	HEART-REFERRED TO DOCTOR AS RESI	Other	194,728.19	263,114.83	263,114.83	0.00
4/23/2016	ELY (CITY OF)	Open	FOOT SLIPPED OFF STEP WHILE CLIMBI	Fall/Slip From different Level	212,409.24	261,022.40	261,022.40	0.00

Date of Loss	Location	Status	Coverage	Accident Description	Paid Total	Incurred Total	OS Reserve	Incurred Recovery
11/21/2012	Boulder City	O	EM	Alleged religious discrimination and retaliation	$270,156.88	$270,156.88	$0.00	
2/11/2015	Douglas County	R	EM	Alleged ADA and 14th Amendment due process violations in connection with termination of employment	$142,362.47	$720,000.00	$577,637.53	
7/1/2015	Douglas County	O	EO	Alleged negligence, trespass, nuisance, misuse of easement and inverse condemnation in connection with flooding of properties below Johnson Lane	$1,674,519.86	$1,674,519.86	$0.00	$299,615.89
4/11/2017	Douglas County	O	CM	Employee dishonesty claim	$8,243.84	$525,000.00	$516,756.16	
2/9/2017	City of Elko	O	GL	Alleged negligence, trespass, nuisance, and inverse condemnation in connection with flooding of south side properties	$1,085,000.00	$443,354.80	$651,645.20	
8/30/2019	Eureka County School District	O	RB	Fire/smoke damage to new gym	$513,500.00	$463,161.37	$50,338.63	

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

March 11, 2020 ELearning and Webmaster report

Transitition from Torch enterprise to Absorb

Torch Enterprise –

Shutting Torch down with 65,013 Activity Completions.

The process of moving over to Absorb was intense to say the least. One thing I've learned from this experience, is never trust what a sales-person tells you prior to signing the contract. Though I was under the impression this move would be more automated, it turns out none of it was automated. We were also told we'd have up to a year to finish this process, when in reality it turned out to be just three months. I learned mid-December Torch was being shut down February 28.

I was given very strict deadlines to move everyone, and basically had two months to do so.

This process was done in four parts.

1. Re-export all POOL/PACT courses to ensure they took advantage of the latest technology available in our elearning development software, removed all remnants of Flash technology which is now dead, and exported the courses in HTML5 format for Absorb. Most of the courses were already produced in HTML5, but to take advantage of the latest bug fixes and performance enhancements in the most recent versions of course development software, I re-exported and uploaded these courses. This first step also included learning Absorb myself, setting up POOL/PACT's portal and the many options that come with it.
2. Move over the groups, now called departments in Absorb. In Absorb, these departments functioned differently than in Torch Enterprise. In Absorb, no two departments can be named the same even if they belong to different organizations, for example both IVGID and Nye County had departments called 'Administration' which proved to be problematic, and expanding that to a scale that included all POOL/PACT entities, nearly 1000 departments had to be manually renamed and remapped, which fell on me to do.
3. After Finalizing the names of the departments, I logged in as each administrator in Torch Enterprise, and exported their users in a format suitable to work with and manipulate the data for. The users were transposed by both myself and Zaria who was

of great assistance in a time crunch, to new spreadsheets specifically designed for Absorb, and manually mapped the new Absorb department names to the users. Absorb advised to do this on a per-organization basis as to minimize errors and processing time. Due to the tight deadlines imposed, there just wasn't time to get the admins for each entity involved or have them do the work. I dedicated several weekends to completing this task on time, which we finished a week prior to the February 1 deadline of having all users in Absorb.

4. After all 12,739 users were moved over, with 9566 of them being active users, the process began of moving the transcripts over. This is by far the most intense process of all the steps I've outlined here, and involved almost three weeks of communication with Absorb's tech staff, and testing different outcomes in a sandbox (test mode) version of the LMS, because Absorb handles transcripts far differently than Torch Enterprise did. I'll save you the nitty-gritty of these discussions, but to give you an idea, it involved to date 33 different support ticket threads and four different WebEx-style conference meetings. We are still in the process of importing these transcripts and are in the testing phase.
5. In addition, because I have trust issues, I exported my own master transcript report of every completion registered in Torch, 65,013 total. Because of the way Torch handles groups, it's not really possible to separate out that master transcript report by entity, so in addition, logged in as each admin and produced individual transcript reports for each POOL/PACT member, in the event something went wrong or goes wrong with the moveover of transcripts. These individual transcript reports, which contain the names of each user and what they completed and when, are available to each POOL/PACT member if they want them, and date back to 2012, when we first launched Moodle, our first LMS.

- **Move to Absorb**
  - All users moved, 12,740 total - This was done in four parts.
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- Transcript import in testing mode. Happy to report that during Torch Enterprise's roughly 2.5 year operation, there were **40,043 completions of exclusively POOL/PACT courses**, and **16,765 external training completions**…courses that were taught offline in classrooms then marked/tracked as complete within Torch Enterprise.
- 20 members trained in Absorb thus far - Scheduling more every week
- Members like this LMS far better
- Less training has been required for those I've already trained. The new LMS is proving to be more intuitive
- **Boulder City,** with assistance from me, was the first to set up an Instructor Led Training Course in Absorb, with 12 different sessions for the course for people to self-enroll in, for Rick Hudson's classroom based fire extinguisher safety training.
  - A whopping **104 Boulder City users** (1/3 of their full staff) were able to log in and **self-enroll** themselves into those sessions with **zero issues**, two days

prior to the classes occurring, and Vanessa was able to mark attendance for those users easily, registering completions for them.

I'd love to see HR possibly use the instructor-led courses feature in Absorb for future on-site trainings, and maybe even the trainings done onsite here at POOL/PACT given the smoothness of this test run.

To date, 38 different assignments have been created by the 21 users in the system.

To date, we now have 58 courses available in the system.

Talk about features of Absorb or is this enough?

E-LEARNING COURSES IN DEVELOPMENT:

- Added handwashing course to Absorb
- Added all HR briefings to Absorb
- Renewal Process course complete - not for use in Absorb - portable
- Fraud Prevention (Alan)
- **Jurassic Parliament** - Complete and uploaded to Absorb
- Public Administrators Property Asset Protection (Wayne)
- School District Development Committee (Marshall)
- Dyslexia (Ann Cyr)
- Suicide (Ann Cyr)

EAP Services Review 2020

Overview:

Employee Assistance Plan (EAP) utilization appears to continue to decline and remains below 3% typically. POOL/PACT HR has promoted the EAP heavily in their trainings, service reviews, and on the website. In light of the low utilization and costs, staff submitted concerns to the POOL/PACT HR Oversight Committee for discussion. Refer to the minutes of the committee December 13, 2019, for more details. As a result of those discussions, staff reviewed the State of Nevada's EAP provider services and costs for comparison.

Current Provider: Aetna Resources for Living (ARFL)

The contract with ARFL expires on June 30, 2020, after ARFL invoked a two-year extension in the existing contract. The contract requires notification by April 1, 2020, should POOL/PACT desire to enter into a new agreement with RSL. Current costs are $39,479.70 per quarter based upon an estimated employee count of 12,415 for an annual cost of $157,918.80 or a rate of $1.06 per employee per month (PEPM) at 2.1%-3% utilization. ARFL's representative contacted us about renewing the contract, but we have not yet responded.

State of Nevada Provider: KEYSTONE Peer Review Organization (KEPRO)

The EAP provider for the State of Nevada is KEPRO effective July 1, 2019, for a two-year term with an option to extend. Based upon their employee count of 19,792, the contract is not to exceed $200,889 per year or a rate of $0.66 PEPM plus Critical Incident Stress Management (CISM) costs at $275/hour. This rate is 38% lower than ARFL's PEPM.

POOL/PACT confirmed that it may as a group utilize the State's KEPRO contract provisions or individual local government members may contract directly. KEPRO sent a proposal confirming the $0.66 PEPM rate would apply to POOL/PACT as a group plan. They indicated that they would not offer the same for individual entities; however, our understanding is that their contract with the State requires that they also honor those terms with any local government. Their preference may be for a group deal, but that does not preclude individual deals.

ARFL and KEPRO have comparable extensive website services. KEPRO allows up to four visits per issue per year vs. three sessions in a rolling six month period for ARFL for mental health referrals. KEPRO indicated that their national utilization rates typically are 3%-5%. This is similar to other data found from a general search. Thus, it appears that the EAP industry generally garners low utilization rates regardless of provider. It is not clear whether an extension of EAP type benefits in conjunction with or under a group health plan has a better utilization rate or not.

Network Comparison: ARFL vs. KEPRO

Based upon a search of their respective website listing of providers and discussion with KEPRO representatives, there are differences in available contracted provider lists although KEPRO asserts they are willing to expand providers in areas where we may have a need.

Sample mental health network providers around the state were identified for both providers for comparison.

City/County	ARFL	KEPRO
Battle Mountain	0	0
Caliente (2)	0	0
Carson/Douglas	13	9
Clark	50	20
Elko	3	0
Ely	1	1
Eureka	0	0
Fallon	3	0
Fernley	0	0
Gardnerville	2	2
Hawthorne	0	0
Lovelock	0	0
Minden	3	2
Pahrump	5	1
Pioche	0	0
Tonopah (3)	0	0
Washoe County	25	20
Winnemucca	1	0
Yerington (1)	0	0

ARFL Notes:

(1) see Gardnerville

(2) 24 in Utah

(3) 7 in Bishop, CA

KEPRO Notes:

Clark County serves Caliente, Pahrump

NPAIP & PACT 7/1/20 - 7/1/21 Early Rate Indications				
Line of Business	**(Re)Insurer**	**Rate change from Expiring at 7/1/19**	**Estimated Rate Change from Expiring at 7/1/20**	**Notes**
Liability	UE	Flat	16%	
	CRL	33.80%	15%-18%	Mainly due to loss development
	GEM	6.61%	14% +/-	Mainly due to SAM claim exposure
	Brit	2.54%	Est. 5% - 10%	"New" underwriter, Doug Ransom- Per Bob Lombard, seeking 10% generally due to market conditions but hopeful to get down to mid-single digits
Property	Lloyds	4.48%	Est 8% - 15%	
WC	CRL	-12.00%	-1%	
	SNCC	Flat		
Equipment Breakdown	Boiler Re	Flat	Flat	
Airports	ACE	15% on average	Flat	2nd year of 3-year policy
Environmental	Ironshore	Flat	2.50%	
Terrorism	Lloyds	Flat	Flat	Coming off of a 2-year rate guarantee
Student Accident	Gerber	Flat	Flat	1st year of 2-year policy (proposed)

PACT BUDGET 2020-2021

Presented at Executive Committee March 11, 2020 Adopted at Annual Meeting April 17, 2020	***FY 2020-2021 Budget***	***% of Total Revenues***	***Notes***
Revenues			
Assessments	14,694,909	84.81%	Overall 8.3% rate increase plus exposure changes
Assessments for Heart Lung	2,056,385	11.87%	Back to Prior Year Rate +$1.00 rate to Police Fire Classification
PCM Risk Management Fee	575,000	3.32%	Fixed Amount from PCM
Total Revenues	**17,326,294**	**100.00%**	
Loss Fund & Insurance Expense			
Claims and Adjustment Expenses	7,768,000	44.83%	Actuarial amount at 70% Confidence Interval
Heart Lung Loss Reserves Expenses	2,056,385	11.87%	Includes Cardiac Wellness Program Charges
Excess Insurance Premiums	462,468	2.67%	Carrier Renewal rates plus additional exposures
Reinsurance Premium (PCM)	2,237,200	12.91%	PCM Rate at 75% CL + Admin Expenses
Total Loss Fund and Insurance Expenses	**12,524,053**	**72.28%**	
Program Expenses			
Member Education and services	724,272	4.18%	PRI, Target Solution, 24/7/365, EAP, MSDS On-line, E-learning
Loss control expenses	406,000	2.34%	Willis Loss Control Services, Inspections, trainings
Underwriting and claims processing	1,026,207	5.92%	Third Party Administrator, ASC Claims Processing
Total Program Expenses	**2,156,479**	**12.45%**	
Administration Expenses			
Management Services	698,625	4.03%	Nevada Risk Pooling Management Team
Professional Fees	112,819	0.65%	Independent Audit, Payroll Audits
Administrative and Overhead	689,242	3.98%	Rent, Utilities, Copier, Phone, Training, Technology, Support
Insurance Division Fees	549,176	3.17%	State of Nevada mandated fees
Nevada Insolvency Fund and related expenses	20,900	0.12%	State of Nevada mandated fees
Total Administrative Expenses	**2,070,762**	**11.95%**	
Operating Income (Loss)	**575,000**	**3.32%**	Thin margins to mitigate rate increase to membership
Investment Income	1,287,975	7.43%	Earnings from Investment Portfolio managed by NEAM, SAA
Net Gain (Loss)	**1,862,975**	**10.75%**	
PCM Amortization Expense	-	0.00%	Board Policy: NO AMORTIZATION
Net Gain (Loss) less Loss Control Grants	**$ 1,362,975**		
Other Expenses: Loss Control Grants: Paid from Surplus	500,000		Loss Control Grants Approved by Loss Control Committee

POOL BUDGET 2020-2021

Presented at Executive Committee March 11, 2020 To Be Finalized & Adopted at Annual Meeting April 17, 2020	FY 2020-2021 Budget	% of Total Revenues	Notes
Revenues			
Premiums Written	18,896,039	97.0%	***SUBJECT TO CHANGE!!!!***
Other Income	121,075	0.6%	Technology reimbursement
PRM Risk Management Services Payment	475,000	2.4%	Fixed Amount from PRM
Total Revenues	**19,492,114**	**100.0%**	
Loss Fund and Insurance Expenses			
Losses and loss adjustment expenses	6,176,000	31.7%	Actuarial Amount at 70% CL
Excess Insurance Premiums	7,074,788	36.3%	Property, Liability Insurance
Special Insurance programs	506,209	2.6%	Environmental & Student Accident
Agent Commissions & Taxes Written	1,342,312	6.9%	Board Policy … State Tax Regs
Total Loss Fund and Insurance Costs	**15,099,308**	**77.5%**	
Program Expenses			
Pooling and loss control fees	505,000	2.6%	Willis Pooling Broker & LC Services
Third party administrator fees	730,000	3.7%	ASC Claims Administration
Member education and training	1,641,936	8.4%	Members Services Dividend
Total Program Expenses	**2,876,936**	**14.8%**	
Administrative Expenses			
Management Services	543,375	2.8%	Nevada Risk Pooling Management Team
Casualty Insurance, Travel, Technology Services	183,362	0.9%	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**	**5.2%**	
Total Loss Fund, Program and Administration Expenses	**18,989,712**	**97.5%**	
Net Operating Income (Loss)	**502,402**	**2.5%**	Budget at Breakeven for rate mitigation
Non-Operating Investment Income	596,875	3.1%	Earnings from investment portfolio
Net Gain (Loss)	**$ 1,099,277**	**5.6%**	
PRM Amortization Expense		0.0%	Board Policy: 10 yr. amortization: non-cash
Net Gain (Loss) after Loss Control Grants	**$ 724,277**	**5.6%**	
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	-	Estimated cost of repair for leaking roof
Depreciation	55,525	Non-cash item based on life of building
Total Building Expenses	**$ 153,684**	
Net Building Income (Loss)	85,086	

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Comments from Jack Angaran

Part 1 Common Terms and Conditions

The Cyber Risk Coverage Form, uniquely focuses first on the maximum Limit of Liability undertaken by the Pool including some limits so that is no question about the coverage limitation from the beginning. It also details the notice requirements and obligations of the member for coverage, whether the 3rd party claim for or first party event. It makes clear that No Member shall file an action against the Pool of any kind, except declaratory relief.

Part 2 Security and Privacy Liability Coverage

This Part sets out the insuring agreements for Security and Privacy Liability coverage, and makes clear that third-party defense is at the sole discretion of the Pool. It makes clear that the Pool has a right to settle, with the written consent of the member. It then states the definitions used in reading the insuring agreements, as well as exclusions. (We think we still need to consolidate some of these definitions in part one.)

Part 3 Security Failure/Privacy Event Management

This is mostly first party coverage, addressing a Privacy or Security Event (defined) first discovered and reported during the coverage period involving loss of Personal Information**,** with its own set of definitions, Member duties and exclusions.

Part 4: Network Interruption Coverage

This is both occurrence and first party coverage dealing with systems and security failures with a long list of sublimits depending on the type of failure. Again with their own list of definitions (highly technical) notice conditions and exclusions.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

Declarations:

This Coverage Form contains one or more coverage sections. Certain coverage sections are limited to liability for claims that are first made against the covered parties during the coverage period and reported in writing to the POOL as required by the terms of the Coverage Form.

1	MEMBER	Member			
		Mailing Address			
2	POLICY PERIOD	Inception Date July 1, 2020		Expiration Date July 1, 2021	
		12:01 A.M. at the address stated in Item 1			
3	PREMIUM			$	
4	NAME AND ADDRESS OF MEMBER				
	XXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXX				
5	LIMIT OF LIABILITY	$			

6						
			SUBLIMIT OF LIABILITY	RETENTION	RETROACTIVE DATE	CONTINUITY DATE
		Security and Privacy Liability	$	$		
		Regulatory Action	$			
		Event Management	$	$	Not Applicable	Not Applicable
		PropertyDamage and Network Interruption	$	$	Not Applicable	Not Applicable
		Waiting Hours Period	hours			

IN WITNESS WHEREOF, the POOL (NPAIP) has caused this Coverage Form to be signed on the Declarations by its duly authorized representative.

____

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

PART ONE: COMMON TERMS & CONDITIONS:

In consideration of the payment for Coverage under this Coverage Form the **POOL** agrees as follows:

1. LIMIT OF LIABILITY

The Limit of Liability shown in Item 5 of the Declarations is the **POOL'S** maximum liability for all **claims** under all Coverage Sections of this 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 Item 6 of 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.

2. NOTICE

a) The Member 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 a Member or a First Party Event as soon as practicable after:

   i. any personnel in the office of any member of the Control Group first becomes aware of the Claim; or

   ii. any First Party Event commences or, solely with respect to a Discovery Coverage Section, is discovered.

   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 a Member; or

   ii. any subsequent First Party Event;

   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 Member shall become aware of any circumstances which may reasonably be expected to give rise to a Claim being made against a Member and shall choose to 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 is subsequently made against a Member 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 ~~such~~ circumstances was given.

d) Notice as described herein shall be given in writing to the Pool at the following address or email address:

POOL
Claims Department
P.O. Box XXXXXX
Carson City, Nevada XXXXX
c-claim@Pool.com

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

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.

3. MEMBER'S OBLIGATIONS

In connection with all Claims and First Party Events under this Coverage Form, each Member agrees to the following:

a) such Member shall send the **POOL** copies of all demands, suit papers, other related legal documents and invoices for Defense Costs received by such Member, as soon as practicable;

b) such Member shall immediately record the specifics of any Claim and First Party Event and the date such Member first received such Claim or First Party Event;

c) such Member shall cooperate with and help the **POOL** and/or any counsel 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 Member may have against anyone who may be liable to any Member;

iv. by attending depositions, hearings and trials;

v. by securing and giving evidence, and obtaining the attendance of witnesses;

vi. by furnishing any and all documentation within the possession of such Member that may be required; and

vii. by taking such actions that such Member and the **POOL** agree are necessary and practicable to prevent or limit Loss arising from any First Party Event or Third Party Event.

d) unless required to do so by law, Members 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 all Members within the retention pursuant to a Coverage Section under this Coverage Form.

ii. take any action, or fail to take any required action which prejudices the **POOL'S** rights under this Coverage Form.

4. 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 premium:

a) Automatic Discovery Period: If the Member or the **POOL** shall cancel or refuse to renew this Coverage Form the Member 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 Member during the Automatic Discovery Period for any Third Party **claims** occurring prior to the end of the Policy 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 insurance a Member purchases or that is purchased for a Member's benefit, or that would be covered by any subsequent insurance but for the exhaustion of the amount of insurance applicable to such Claims or any applicable Retention amount.

b) Optional Discovery Period: Except as indicated below, if the Member or the **Pool** shall cancel or refuse to renew this Coverage Form or in the event of a Transaction (as that term is defined in Clause 10. below), the Member shall have the right to a period of up to three years following the effective date of such cancellation or nonrenewal (an "Optional Discovery Period"), upon payment of an additional premium amount of up to:

i. one hundred percent (100%) of the full annual premium, for a period of one (1) year,

ii. one hundred and seventy-five percent (175%) of the full annual premium, for a period of two (2) years, or

iii. two hundred percent (200%) of the full annual premium, for a period of three (3) years,

in which to give written notice to the **Pool** of Claims first made against a Member 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 Formt.

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

As used herein, “full annual premium” means the premium amount set forth in the Declarations as such, plus an additional premium 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 premium 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 premium 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 premium.

5. SUBROGATION

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

6. OTHER INSURANCE

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, bot not both. There is absolutely no coverage under this Coverage Form if insurance 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.

7. NOTICE AND AUTHORITY

Except for the giving of a notice of **Claim**, which shall be governed by the provisions of Section s of these Common Terms and Conditions, all notices required under this Coverage Form to be given by a Member to the **POOL** shall be given in writing to the **POOL** at the address stated in Item 2(a) of the Declarations. It is agreed that the Member shall act on behalf of all Members with respect to the giving of notice of a Claim, the giving and receiving of notice of cancellation and nonrenewal, the payment of premiums and the receiving of any return premiums 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

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

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

No Member shall file an action against the **POOL** of any kind, for damages or any other relief, except for declaratory relief.

10. BANKRUPTCY

Bankruptcy or insolvency of any Company or any Member or of their estates shall not relieve the **POOL** of any of its obligations hereunder.

11. WORLDWIDE TERRITORY

Where legally permissible, this Coverage Form shall apply to First Party Claims and Third Party Claims occurring or suffered anywhere in the ~~world~~ United States.

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 Member 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 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) As soon as practicable after receipt such request, a Member or employee of the Member requests permission to share such information with the **POOL;**

b) The Member 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 Member provides full notice of such Claim or First Party 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 Member'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 Member prior to the Continuity Date, or if no Continuity Date is specified, 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 Member and continually renewed by the **POOL** (or an affiliate) until the inception date of this Coverage Form, and (ii) not disclosed in the Application.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

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. INSURING AGREEMENTS

With respect to the SECURITY AND PRIVACY LIABILITY COVERAGE AGREEMENT, the Pool's OPTIONAL DEFENSE provisions and the SETTLEMENT provisions of this Clause, solely with respect to Claims first made against a Member 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 Coverage Section affords the following coverage:

a) SECURITY AND PRIVACY COVERAGE AGREEMENT: The POOL shall pay on a Member's behalf all loss that such Member is legally obligated to pay resulting from a **Claim** alleging a **Privacy or Security Event** up to the applicable coverage limit or sublimit, which ever may apply, but not both.

b) OPTIONAL 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 right to investigate any **Claim**.

   iii. The **Pool** will withdraw any defense it undertakes if a Member refuses to consent to a settlement that the **Pool** recommends pursuant to the **Settlement** provision below and that the claimant will accept. As a consequence of such Member's refusal, the **Pool's** liability shall not exceed the amount for which the **Pool** could have settled such **Claim** had such Member consented plus Defense Costs incurred prior to the date of such refusal.

   iv. The Pool will withdraw any defense it undertakes after the applicable Limit of Liability or Sublimit 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 Extortion Expenses**, and **Cyber Extortion Monies**.

c) SETTLEMENT:

   i. The **Pool** has the right, with the written consent of a Member, to settle any **Claim** if the **Pool** believes that it is proper.

   ii. A Member may not settle any **Claim** on behalf of all Members to which this coverage applies and which are subject without the written consent of the POOL.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

2. DEFINITIONS

The following definitions apply to this coverage section:

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).

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 Proceeding** 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 Member, 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 or designated by the Member with the Pool's prior consent 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 Member with the Pool's prior consent; and

c. Premiums 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 Member or any charges by a Member 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 Member; or

b. operated by a third party service provider and used to provide hosted computer application services to the Member or for processing, maintaining, hosting or storing the Member's electronic data pursuant to a written contract with the Member for such services.

"**Cyber Extortion Expenses**" means all reasonable and necessary costs and expenses which a Member incurs as a direct result of a **Cyber Extortion Threat**, other than **Cyber Extortion Monies**.

"**Cyber Extortion Monies**" means any funds, including any cryptocurrency, which the Member pays, with the prior written consent of the Pool, for the purpose of terminating the **Cyber Extortion Threat**.

"Cyber Extortion Threat" means a credible threat or series of related credible threats, including, but not limited to, a demand for **Cyber Extortion Monies**, directed at a Member to:

1. Release, divulge, disseminate, destroy or use confidential information taken from the Member 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 of electronic data stored electronically on a **Computer System**, including without limitation **Personal Information**.

"**Expenses to Reduce Loss**" means expenses incurred by the Member 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 Member 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 Member's business directly caused by a **Privacy or Security Event**.

"**PCI-DSS Assessment**" means any monetary penalty owed by a Member due to the Member's noncompliance with Payment Card Industry Data Security Standards under an agreement between the Member and a financial institution or other person enabling the Member 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;

Provided, however, **Personal Information** does not include information that is lawfully available to the public, including without limitation information lawfully available from any Member 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 Member or for which the Member 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 Member 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 Member or for which the Member 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 Member'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 Member 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 Member elects to provide such services; and

e. For the services of a public relations consultant designated by the Pool to avert or mitigate damage to the Member'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 Member or any charges by a Member 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 and Electronic Data Damage;

e. Network Interruption Costs;

f. Cyber Extortion Expenses; or

g. Cyber Extortion Monies

"**Proof of Loss Preparation Costs**" means fees and expenses incurred by a Member 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 caused by the reprogramming of the software (including the firmware) of such electronic equipment 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 Proceeding** payable by a Member to the governmental entity bringing the **Regulatory Proceeding** and any sum of money that a Member 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 Proceeding**.

"**Regulatory Proceeding**" 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 Member 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.

3. DUTIES OF THE MEMBER IN THE EVENT OF A CLAIM

After a situation that results in, or may result in, a claim under this Coverage Form, is discovered, the Member must notify the POOL in writing as soon as practicable, but not to exceed 90 days from the date discovered and cooperate with the POOL in the investigation and settlement of the **claim**. Additionally, the Member 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 Member because of a **claim** which this Coverage Form may provide coverage.

The Member 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.

4. TERRITORY

This Coverage Form provides coverage for **Privacy or Security Events** any where in the ~~world~~ United States resulting in a **claims** against the Members. **Suits**, however, must be brought in the state of Nevada against a Member.

5. EXCLUSIONS

This Coverage Form shall not cover any loss in connection with a **Claim** made against a Member:

f) 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 company occurring at a time when such person 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 Company or an Information Holder if any person referenced in Sub-paragraph (1) 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 employee or independent contractor that caused a direct loss to a Member or any other person.

g) alleging, arising out of, based upon or attributable to any (i) misappropriation of a trade secret by any Member on behalf of or to the benefit of any Company or (ii) infringement of patent.

h) alleging, arising out of, based upon or attributable to any **Bodily Injury** or **Property Damage**.

i) 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 Member, including any electrical power interruption, surge, brownout or blackout; provided, however, this Sub-paragraph (3) 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 Member; provided, however, this Sub-paragraph (4) 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.

j) 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;

k) alleging, arising out of, based upon or attributable to a Member's employment of any individual or any of an Insured'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 Member, or (2) a failure to disclose a **Privacy or Security Event** in violation of any Security Breach Notice Law.

l) 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.

m) brought by or on behalf of:

i. any Member;

ii. any business entity that is controlled, managed or operated, directly or indirectly, in whole or in part, by a Member; or

iii. any parent company, Subsidiary, successor or assignee of a Member, or any person or entity affiliated with a Member or such business entity through common Management Control;

provided, however, this exclusion shall not apply to (i) a Member as described in Sub-paragraph (3) of the definition of Member; or (ii) a Member as described in Sub-paragraph (2) of the definition of Member but only to the extent such Member is alleging a Privacy or Security Event or failure to disclose a Privacy or Security Event in violation of any Security Breach Notice Law.

n) for any of the following:

i. the return of a Member's fees or compensation;

ii. any profit or advantage to which a Member is not legally entitled;

iii. a Member's expenses or charges, including employee compensation and benefits, overhead, over-charges or cost over-runs;

iv. a Member's cost of providing, correcting, re-performing or completing any services;

v. civil or criminal fines or penalties imposed by law against a Member and any matters deemed uninsurable under the law pursuant to which this Coverage Form shall be construed; provided, however, this Sub-paragraph (5) shall not apply to (a) any monetary amounts a Member 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 Member's costs and expenses of complying with any injunctive or other form of equitable relief;

vii. taxes incurred by a Member;

viii. the amounts for which a Member is not financially liable or which are without legal recourse to any Member;

ix. amounts a Member 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.

o) alleging, arising out of, based upon or attributable to any obligation a Member 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;

ii. liability a Member 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;

p) 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 Coverage Section is a renewal or replacement or which it may succeed in time.

q) 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.

r) 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 member of the Control Group knew or could have reasonably foreseen that such **Privacy or Security Event** did or would result in a **Claim** against a Member.

s) 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.

t) for (1) the theft of money or securities from a Member; or (2) the transfer or loss of money or securities from or to a Member's accounts or accounts under a Member's control, including customer accounts. For purposes of this Sub-paragraph (o), the term "accounts" shall include, but are not limited to, deposit, credit, debit, prepaid and securities brokerage accounts.

6. LIMIT OF LIABILITY

Notwithstanding anything in the Coverage Form to the contrary, the maximum liability of the POOL arising from a **Privacy or Security Event** claim shall be the applicability Limit of Liability or Sublimit, but not both.

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. INSURING AGREEMENTS

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 Member incurs solely as a result of an alleged **Privacy or Security Event** that has actually occurred or is reasonably believed by such Member and the **POOL** to have occurred up to the applicable Limit of Liability or sublimit, which ever may apply.

b) SETTLEMENT

The **POOL** has the right, with the written consent of a Member, to settle any Claim or Loss if the **POOL** believes that it is proper.

(PROPOSED) POOL CYBER-RISK COVERAGE FORM

2. DEFINITIONS

The following definitions apply to this coverage section:

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):

c. 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

d. charges and expenses which necessarily continue (including ordinary payroll).

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 Proceeding** 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 Member, 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

d. Reasonable and necessary fees charged by attorneys designated by the Pool or designated by the Member with the Pool's prior consent to assist with the investigation, adjustment, negotiation, arbitration, defense or appeal of a **Claim**;

e. 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 Member with the Pool's prior consent; and

f. Premiums 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:

d. any internal salary, administrative, overhead or other related expenses of any Member or any charges by a Member for time spent cooperating with the investigation and defense of any **Claim**;

e. **Privacy Response Expenses**; or

f. **PCI-DSS Assessments**.

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

c. operated by and either owned by or leased to the Member; or

d. operated by a third party service provider and used to provide hosted computer application services to the Member or for processing, maintaining, hosting or storing the Member's electronic data pursuant to a written contract with the Member for such services.

"**Cyber Extortion Expenses**" means all reasonable and necessary costs and expenses which a Member incurs as a direct result of a **Cyber Extortion Threat**, other than **Cyber Extortion Monies**.

"**Cyber Extortion Monies**" means any funds, including any cryptocurrency, which the Member pays, with the prior written consent of the Pool, for the purpose of terminating the **Cyber Extortion Threat**.

"Cyber Extortion Threat" means a credible threat or series of related credible threats, including, but not limited to, a demand for **Cyber Extortion Monies**, directed at a Member to:

5. Release, divulge, disseminate, destroy or use confidential information taken from the Member as a result of a **Privacy or Security Event**;

6. Introduce malicious code into a Computer System;

7. Corrupt, damage or destroy a Computer System;

8. Restrict or hinder access to a Computer System;

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

"**Expenses to Reduce Loss**" means expenses incurred by the Member 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 Member 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 Member's business directly caused by a **Privacy or Security Event**.

"**PCI-DSS Assessment**" means any monetary penalty owed by a Member due to the Member's noncompliance with Payment Card Industry Data Security Standards under an agreement between the Member and a financial institution or other person enabling the Member 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:

e. information concerning the individual that constitutes "nonpublic personal information" as defined in the Gramm-Leach Bliley Act of 1999, as amended, and implementing regulations;

f. 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;

g. 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

h. other nonpublic personally identifiable information, as protected under any local, state, federal or foreign law;

Provided, however, **Personal Information** does not include information that is lawfully available to the public, including without limitation information lawfully available from any Member 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 Member or for which the Member 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:

e. The number of individuals or entities engaged in such **Privacy or Security Events**;

f. The number of individuals or entities affected by such **Privacy or Security Events**;

g. The number of locations where such **Privacy or Security Events** occurred; or

h. 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 Member 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 Member or for which the Member is legally responsible:

f. 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;

g. For the services of consultants or attorneys designated by the Pool to determine the Member's obligations, if any, under applicable law to give notice to affected individuals;

h. To notify affected individuals if required by applicable law or if the Member 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;

i. For the services of a contractor designated by the Pool to provide identity theft protection services to affected individuals if the Member elects to provide such services; and

j. For the services of a public relations consultant designated by the Pool to avert or mitigate damage to the Member's reputation as a result of the **Privacy or Security Event**;

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

h. any internal salary, administrative, overhead or other related expenses of any Member or any charges by a Member for time spent cooperating with the investigation and response to any **Privacy or Security Event**;

i. **Claim Expenses**;

j. **PCI-DSS Assessments**;

k. Electronic Equipment and Electronic Data Damage;

l. Network Interruption Costs;

m. Cyber Extortion Expenses; or

n. Cyber Extortion Monies

"**Proof of Loss Preparation Costs**" means fees and expenses incurred by a Member 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 caused by the reprogramming of the software (including the firmware) of such electronic equipment 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 Proceeding** payable by a Member to the governmental entity bringing the **Regulatory Proceeding** and any sum of money that a Member 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 Proceeding**.

"**Regulatory Proceeding**" 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 Member 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.

3. DUTIES OF THE MEMBER IN THE EVENT OF A CLAIM OR LOSS

After a situation that results in, or may result in, a **claim** under this Coverage Form, is discovered, the Member must notify the POOL in writing as soon as practicable, but not to exceed 90 days from the date discovered and cooperate with the POOL in the investigation and settlement of the **claim**. Additionally, the Member 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 Member because of a **claim** which this Coverage Form may provide coverage.

f) In addition, under the Insuring Agreement when responding to an **extortion threat** or suspected **extortion threat** you must:

   i. Determine that the **extortion threat** has actually occurred;

   ii. With respect to ransomware make every reasonable effort to access your **electric data** from backups, if any, and remediate the cause of the ransomware;

   iii. Make every reasonable effort to immediately notify the Pool before making any ransom payment based upon the **extortion threat**;

   iv. Fully cooperate with the POOL'S **Privacy and Security Event** investigative response team, if deployed to evaluate and assist the Member is it relates to the **extortion threat**; and

v. Receive express written POOL approve before any ransom payment based upon the **extortion threat** is made.

The Member 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.

4. CONFIDENTIALITY

To the extent allowed by law, the Member shall make every reasonable effort to keep confidential and to not divulge the existence of coverage for **extortion threats** or ransom amounts paid.

5. NOTICE

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 Member must also:

a) complete and sign a written, detailed and affirmed proof of loss within ninety (90) days 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 form 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 Member 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. any investigation of the circumstances arising from or relating to a **Privacy or Security Event** regardless of if it gives rise to a claim or potential claim;

   ii. enforcing any legal rights a Member may have against anyone who may be liable to the Member or POOL; and

   iii. executing any documents that the **POOL** deems necessary to secure its rights under this Coverage Form.

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 Member's claim under this Coverage Section, including, without limitation, those connected with preparing a proof of loss, shall be such Member's obligation, and are not covered under this Coverage Form.

6. EXCLUSIONS

The **Pool** shall not be liable to make any payment for any **claim**:

a) 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:

vi. past or present directors, officers, trustees, general or managing partners or principals (or the equivalent positions) of a Company, occurring at a time when such person served in such capacity, whether acting alone or in collusion with other persons; or

vii. past or present employee (other than those referenced in Sub-paragraph (1) above) or independent contractor employed by a **Member** if any person referenced in Sub-paragraph (1) above participated in, approved of, acquiesced to, or knew or had reason to know prior to the act of, the dishonest, fraudulent, malicious, or criminal act committed by such employee or independent contractor that caused a direct loss to a Member or any other person.

b) arising out of, based upon or attributable to any (i) misappropriation of any person or entities trade secret, (ii) misappropriation of a trade secret on behalf of or to the benefit of any Member by a Member or any employee of a Member, or (iii) infringement of patent, copyright, trademark or trade dress.

c) for any **Bodily Injury** or **Property Damage**.

d) 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. satellite failure.

e) arising out of, based upon or attributable to any seizure, confiscation, nationalization, or destruction of a **Computer System** or **Electronic Data** by order of any governmental or public authority.

f) 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.

g) for any profit or advantage to which any Member is not legally entitled.

h) 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.

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.

System Failure Sublimit	[System Failure Sublimit]
IT Service Provider Security Failure Sublimit	[IT Service Provider Security Failure Sublimit]
Non-IT Service Provider Security Failure Sublimit	[Non-IT Service Provider Security Failure Sublimit]
Outsource Provider Security Failure Sublimit	[Outsource Provider Security Failure Sublimit]
IT Service Provider System Failure Sublimit	[IT Service Provider System Failure Sublimit]
Non-IT Service Provider System Failure Sublimit	[Non-IT Service Provider System Failure Sublimit]
Outsource Provider System Failure Sublimit	[Outsource Provider System Failure Sublimit]
Proof of Loss Preparation Costs Sublimit	[Proof of Loss Preparation Costs Sublimit]
Extended Period of Indemnity	[Extended Period of Indemnity] days
Security Failure Waiting Hours Period	[Security Failure Waiting Hours Period] hours
System Failure Waiting Hours Period	[System Failure Waiting Hours Period] hours

1. INSURING AGREEMENTS

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 INSURING AGREEMENT: The **Pool** shall pay all **claims** that a Member incurs after the **Waiting Hours Period** and solely as a result of a **Privacy or Security Event** resulting in a **System Failure** up to the applicable coverage limit of liablity or sublimit, which ever may apply, but not both.

2. DEFINITIONS

The following definitions apply to this coverage section:

"**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 Indemnit**y and the Extended **Period of Indemnity** (if any):

e. 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

f. charges and expenses which necessarily continue (including ordinary payroll).

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 Proceeding** 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 Member, 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

g. Reasonable and necessary fees charged by attorneys designated by the Pool or designated by the Member with the Pool's prior consent to assist with the investigation, adjustment, negotiation, arbitration, defense or appeal of a **Claim**;

h. 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 Member with the Pool's prior consent; and

i. Premiums 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:

g. any internal salary, administrative, overhead or other related expenses of any Member or any charges by a Member for time spent cooperating with the investigation and defense of any **Claim**;

h. **Privacy Response Expenses**; or

i. **PCI-DSS Assessments**.

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

e. operated by and either owned by or leased to the Member; or

f. operated by a third party service provider and used to provide hosted computer application services to the Member or for processing, maintaining, hosting or storing the Member's electronic data pursuant to a written contract with the Member for such services.

"**Cyber Extortion Expenses**" means all reasonable and necessary costs and expenses which a Member incurs as a direct result of a Cyber Extortion Threat, other than Cyber Extortion Monies.

"**Cyber Extortion Monies**" means any funds, including any cryptocurrency, which the Member pays, with the prior written consent of the Pool, for the purpose of terminating the Cyber Extortion Threat.

"Cyber Extortion Threat" means a credible threat or series of related credible threats, including, but not limited to, a demand for **Cyber Extortion Monies**, directed at a Member to:

9. Release, divulge, disseminate, destroy or use confidential information taken from the Member as a result of a **Privacy or Security Event**;

10. Introduce malicious code into a Computer System;

11. Corrupt, damage or destroy a Computer System;

12. Restrict or hinder access to a Computer System;

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

"**Expenses to Reduce Loss**" means expenses incurred by the Member 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 Member 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**.

IT Service Provider means an entity, other than a Member, that:

i. provides "cloud computing" or other hosted computer resources to a Member; or

ii. provides information technology services required by a Member to operate a **Computer System** under its ownership, operation or control;

in each case pursuant to a written contract with a Member.

Non-IT Service Provider means an entity, other than a Member, that provides goods or services to a Member 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**.

Material Interruption means the actual and measurable interruption or suspension of a Member's business directly caused by a **Privacy or Security Event**.

Outsource Provider means:

i. an **IT Service Provider**,

ii. a **Non-IT Service Provider**, or

iii. any other entity that is not a Member and that a Member depends on to conduct its business including, without limitation, any entity providing services as:

(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.

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

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 Member 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 **Member** 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 Member 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 Member 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.

"**Personal Information**" means an individual's name in combination with one or more of the following:

i. information concerning the individual that constitutes "nonpublic personal information" as defined in the Gramm-Leach Bliley Act of 1999, as amended, and implementing regulations;

j. 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;

k. 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

l. other nonpublic personally identifiable information, as protected under any local, state, federal or foreign law;

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

"**Privacy or Security Event**" means:

c) the actual or reasonably suspected theft, loss or unauthorized disclosure of or access to **Personal Information** in the care, custody or control of the Member or for which the Member is legally responsible, regardless of whether such **Personal Information** is maintained in electronic, paper or any other format; or

d) 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:

i. The number of individuals or entities engaged in such **Privacy or Security Events**;

j. The number of individuals or entities affected by such **Privacy or Security Events**;

k. The number of locations where such **Privacy or Security Events** occurred; or

l. 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 Member 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 Member or for which the Member is legally responsible:

k. 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;

l. For the services of consultants or attorneys designated by the Pool to determine the Member's obligations, if any, under applicable law to give notice to affected individuals;

m. To notify affected individuals if required by applicable law or if the Member 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;

n. For the services of a contractor designated by the Pool to provide identity theft protection services to affected individuals if the Member elects to provide such services; and

o. For the services of a public relations consultant designated by the Pool to avert or mitigate damage to the Member'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 Member or any charges by a Member 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 and Electronic Data Damage;

e. Network Interruption Costs;

f. Cyber Extortion Expenses; or

g. Cyber Extortion Monies

"**Proof of Loss Preparation Costs**" means fees and expenses incurred by a Member 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 caused by the reprogramming of the software (including the firmware) of such electronic equipment 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 Proceeding** payable by a Member to the governmental entity bringing the **Regulatory Proceeding** and any sum of money that a Member 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 Proceeding**.

"**Regulatory Proceeding**" 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 Member 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.

Voluntary Shutdown means the voluntary and intentional shutdown or impairment of a **Computer System** under the ownership, operation or control of a **Member**, by or at the direction of a **Member** 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

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 Member must also:

e) complete and sign a written, detailed and affirmed proof of loss within ninety (90) days 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. 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. a detailed calculation of any **claim** or potential **claim**; and

   vi. all underlying documents and materials that reasonably relate to or form any part of the proof of such **claim** or potential **claim**.

f) upon the **POOL'S** request, submit to an examination under oath.

g) immediately record the specifics of any **Privacy or Security Event** and the date such Member first became aware of such **Privacy or Security Event**.

h) provide the **POOL** with any cooperation and assistance that the **POOL** may request, including assisting the **POOL** in:

iv. any investigation of the circumstances arising from or relating to a **Privacy or Security Event** regardless of if it gives rise to a claim or potential claim;

v. enforcing any legal rights a Member may have against anyone who may be liable to the Member or POOL; and

vi. executing any documents that the **POOL** deems necessary to secure its rights under this Coverage Form.

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 Member's claim under this Coverage Section, including, without limitation, those connected with preparing a proof of loss, shall be such Member'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);

ii. an internet service provider (including any provider of internet connectivity), or

iii. a securities exchange or market.

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 Member agrees, as soon as practicable, to use overtime, extra time and any other resource owned or controlled by such Member, or obtainable by such Member from other sources (including any other Member), in order to continue its business and reduce its loss.

e) Each Member 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 Member has collected such loss or part of loss from an **Outsource Provider** or any other third party.

5. APPRAISAL

If any Member 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.

Such Member and the **POOL** will:

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

The **Pool** shall not be liable to make any payment:

a) 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 Company, occurring at a time when such person served in such capacity, whether acting alone or in collusion with other persons; or

ii. past or present employee (other than those referenced in Sub-paragraph (1) above) or independent contractor employed by a Company if any of those referenced in Sub-paragraph (1) above participated in, approved of, acquiesced to, or knew or had reason to know prior to the act of, the dishonest, fraudulent, malicious, or criminal act committed by such employee or independent contractor that caused a direct loss to a Member or any other person.

b) arising out of, based upon or attributable to any misappropriation or theft of trade secret or infringement of patent, copyright, trademark, trade dress or any other intellectual property right.

c) arising out of, based upon or attributable to any **Bodily** Injury or **Property Damage**.

d) 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. 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) 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.

g) for any profit or advantage to which any Member is not legally entitled.

h) 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.

i) 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.

j) 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.

7. LIMIT OF LIABILITY

The following provisions shall apply in addition to the provisions of the Common Terms and Conditions:

Notwithstanding anything in the Coverage Form to the contrary:

a) the maximum liability of the **POOL** for all **claims** arising from all **System Failures** is the **System Failure** Sublimit set forth in the Endorsement Schedule above;

b) the maximum liability of the **POOL** for all **claims** arising from a **Security Failure** of the **Computer System** of an **IT Service Provider** is the **IT Service Provider** Security Failure Sublimit set forth in the Endorsement Schedule above;

c) the maximum liability of the **Pool** for all a **claims** arising from a **Security Failure** of the **Computer System** of a **Non-IT Service Provider** is the **Non-IT Service Provider Security Failure** Sublimit set forth in the Endorsement Schedule above;

d) the maximum liability of the **Pool** for all **claims** arising from a **Security Failure** of the **Computer System** of an **Outsource Provider** other than an **IT Service Provider** or a **Non-IT Service Provider** is the **Outsource Provider Security Failure** Sublimit set forth in the Endorsement Schedule above;

e) the maximum liability of the **Pool** for all **claims** arising from a **System Failure** of the **Computer System** of an **IT Service Provider** is the **IT Service Provider System Failure** Sublimit set forth in the Endorsement Schedule above

f) the maximum liability of the **Pool** for all **claims** arising from a **System Failure** of the **Computer System** of a **Non-IT Service Provider** is the **Non-IT Service Provider System Failure** Sublimit set forth in the Endorsement Schedule above;

g) the maximum liability of the **Pool** for all **claims** arising from a **System Failure** of the **Computer System** of an **Outsource Provider** other than an **IT Service Provider** or a **Non-IT Service Provider** is the **Outsource Provider System Failure** Sublimit set forth in the Endorsement Schedule above; and

h) the maximum liability of the **Pool** for all Proof of C Preparation Costs is the Proof of Loss Preparation Costs Sublimit set forth in the Endorsement Schedule above.

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 Section.

PRIVACY OR SECURITY EVENT LIABILITY AND EXPENSE COVERAGE

THIS IS CLAIMS MADE AND REPORTED COVERAGE

(Declarations section highlighted to be incorporated into pool's master declarations as a separate section of liability coverage; Limits and Aggregate should match the limit purchased; Sublimits should not exceed the ones shown (unless purchased); Deductible and Retroactive Dates are examples)

Coverage	Limits	Aggregate	Deductible	Retroactive Date(s)
Privacy or Security Event Liability and Expense	$5,000,000	$5,000,000	$10,000	7/1/13 for $1,000,000; 7/1/17 for $2,000,000; 7/1/19 for $5,000,000
Sublimits:				
Privacy or Security Event Liability	Included	Included		
Privacy Response Expenses	$1,000,000	$1,000,000		
Regulatory Proceedings and Penalties	Included	Included		
PCI-DSS Assessments	Included	Included		
Electronic Equipment, Electronic Data, and Network Interruption Costs	$250,000	$250,000		
Cyber Extortion Expenses and Monies	$50,000	$50,000		

1. **Privacy or Security Event Liability and Expense Coverage Agreement**

The following coverages are limited as described in Section 3. The right and duty of the Pool to defend ends when the applicable limit of liability 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 Extortion Expenses,** and **Cyber Extortion Monies**. This coverage only applies if:

i. the **Privacy or Security Event** commenced on or after the Retroactive Date, if any, shown in the Declarations and before the end of the Coverage Period;

ii. A **Claim** for damages because of the **Privacy or Security Event** is first made against the Covered Person during the Coverage Period or any Extended Reporting Period provided under Section 7;

iii. and the Covered Person gives written notice of the **Claim** to the Pool in accordance with Section 4.

A **Claim** seeking damages will be deemed to have been made when notice of the **Claim** is received by any Covered Person or by the Pool, whichever occurs first.

A. Privacy or Security Event Liability

The Pool will pay those sums a Covered Person becomes legally obligated to pay as damages because of a **Privacy or Security Event**. The Pool will have the right and duty to defend the Covered Person against any **Suit** seeking such damages. However, the Pool will have no duty to defend any Covered Person against any **Suit** seeking damages to which this coverage does not apply. The Pool may at its discretion investigate any **Privacy or Security Event** and settle any **Claim** that may result.

B. Privacy Response Expenses

The Pool will pay for **Privacy Response Expenses** incurred by the Named Member in connection with a **Privacy or Security Event** that results in the actual or reasonably suspected theft, loss or unauthorized disclosure of or access to **Personal Information**.

C. Regulatory Proceedings and Penalties

The Pool will pay for **Regulatory Penalties** the Covered Person becomes legally obligated to pay as a result of a **Regulatory Proceeding** resulting from a **Privacy or Security Event**. The Pool will have the right and duty to defend the Covered Person against any **Regulatory Proceeding** to which this coverage applies. The Pool may at its discretion investigate any **Privacy or Security Event** and settle any **Claim** that may result.

D. PCI-DSS Assessments

The Pool will pay for **PCI-DSS Assessments** for which a Covered Person is liable if the **PCI-DSS Assessments** are due to noncompliance by the Covered Person with PCI Data Security Standards and the noncompliance resulted in a **Privacy or Security Event**.

E. Electronic Equipment and Electronic Data Damage

The Pool will pay for the Named Member's damage to, loss of use or destruction of electronic equipment caused by the reprogramming of the software (including the firmware) of such electronic equipment rendering it useless for its intended purpose, the reasonable and necessary expenses to determine whether **Electronic Data** can or cannot be restored, recollected, or recreated, and the reasonable and necessary expenses to restore, recreate or recollect **Electronic Data** for which a Covered Person incurs as a result of a **Privacy or Security Event.**

F. Network Interruption Costs

The Pool will pay for **Business Income Loss, Expenses to Reduce Loss, Extra Expenses and Proof of Loss Preparation Costs** for which a Covered Person incurs after the **Waiting Hours Period** and solely as a result of a **Privacy or Security Event.**

G. Cyber Extortion Coverage

The Pool will pay for **Cyber Extortion Expenses** and **Cyber Extortion Monies** the Named Member pays as a direct result of a **Cyber Extortion Threat**.

2. **Deductible**

For each **Privacy or Security Event** and **Cyber Extortion Threat**, the Pool will pay only such amounts as are in excess of the deductible amount shown in the Declarations.

3. **Limits of Liability**

The limits of liability shown in the Declarations establish the most the Pool will pay regardless of the number of **Privacy or Security Events**, **Cyber Extortion Threats**, Covered Persons, **Claims** made, **Suits** or **Regulatory Proceedings** brought or individuals or entities making **Claims** or bringing **Suits** or **Regulatory Proceedings**.

4. **Notice to the Pool**

A. As a condition precedent to the obligations of the Pool under this coverage, the Covered Person must give written notice to the Pool of any **Claim** made against the Covered Person as soon as practicable, but in no event later than the end of the Coverage Period or any Extended Reporting Period provided under Section 7.

B. As a condition precedent to the obligations of the Pool under this coverage, the Covered Person must give written notice to the Pool of any **Privacy or Security Event** or **Cyber Extortion Threat** as soon as practicable and provide all such information relating to the **Privacy or Security Event** or **Cyber Extortion Threat** as the Pool may reasonably request.

C. If during the Coverage Period, any Covered Person becomes aware of a **Privacy or Security Event** that may reasonably be expected to give rise to a **Claim**, including a **Regulatory Proceeding** or **PCI-DSS Assessment**, against any Covered Person, the Covered Person must give written notice to the Pool of such **Privacy or Security Event** as soon as practicable, but in no event later than the end of the Coverage Period or any Extended Reporting Period provided under Section 7. Notice must include:

i. A specific description of the **Privacy or Security Event**, including all relevant dates;

ii. The names of persons involved in the **Privacy or Security Event**, including names of potential claimants and a specific description of any **Personal**

Information actually or reasonably suspected to have been subject to theft, loss or unauthorized access or disclosure;

iii. The specific reasons for anticipating that a **Claim** may result from such **Privacy or Security Event**;

iv. The specific nature of the alleged or potential damages arising from such **Privacy or Security Event**; and

v. The specific circumstances by which the Covered Person first became aware of the **Privacy or Security Event**.

Any **Claim** subsequently made against any Covered Person arising out of such **Privacy or Security Event** shall be deemed to be a **Claim** made during the Coverage Period in which the **Privacy or Security Event** was first reported to the Pool.

5. **Exclusions**

This coverage does not apply to any **Claim**, **Suit**, **Regulatory Proceeding**, damages, **Regulatory Penalties**, **Claim Expenses**, **Privacy Response Expenses**, **PCI-DSS Assessments**, Network Interruption Costs, Electronic Equipment and Electronic Data Damage, **Cyber Extortion Expenses or Cyber Extortion Monies**:

A. For, arising out of, or resulting from **Bodily Injury** or **Property Damage**;

B. For, arising out of, or resulting from any contractual liability or obligation, or arising out of or resulting from breach of contract or agreement either oral or written; provided, however, that this exclusion shall not apply:

i. to the extent the Covered Person would have been liable in the absence of such contract or agreement; or

ii. to amounts payable as **PCI-DSS Assessments**.

C. For, arising out of, or resulting from any actual or alleged antitrust violation, restraint of trade, unfair competition, or false or deceptive or misleading advertising or violation of the Sherman Anti-Trust Act, the Clayton Act, or the Robinson-Patman Act, as amended;

D. For, arising out of or resulting from any actual or alleged false, deceptive or unfair trade practices; however, this exclusion does not apply to any **Claim** or loss covered under this endorsement that results from a theft, loss or unauthorized disclosure of or access to **Personal Information**;

E. For, arising out of or resulting from:

i. the actual or alleged unlawful collection or acquisition of **Personal Information** by or on behalf of the Covered Person; or the failure to comply with a legal requirement to provide individuals with the ability to assent to or withhold assent (*i.e.*, opt-in or opt-out) from the collection, disclosure or use of **Personal Information**; or

ii. the distribution of unsolicited email, direct mail, or facsimiles, wiretapping, audio or video recording, or telemarketing, if such distribution, wiretapping, recording or telemarketing is done by or on behalf of the Covered Person;

F. For, arising out of or resulting from any of the following conduct by a Covered Person:

i. any actual or alleged violation of the Organized Crime Control Act of 1970 (commonly known as the Racketeer Influenced and Corrupt Organizations Act or RICO), as amended, or any regulation promulgated thereunder or any similar federal law or law of any state, locality or foreign government, whether such law is statutory, regulatory or common law;

ii. any actual or alleged violation of any securities law, regulation or legislation, including but not limited to the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Act of 1940, any state blue sky or securities law, any other federal securities law or legislation, or any other similar law or legislation of any state, locality or foreign government, or any amendment to such laws, or any violation of any order, ruling or regulation issued pursuant to such laws;

iii. any actual or alleged violation of the Fair Labor Standards Act of 1938, the National Labor Relations Act, the Worker Adjustment and Retraining Act of 1988, the Certified Omnibus Budget Reconciliation Act of 1985, the Occupational Safety and Health Act of 1970, the Employee Retirement Security Act of 1974 or any similar law or legislation of any state, locality or foreign government, or any amendment to such laws, or any violation of any order, ruling or regulation issued pursuant to such laws; or

iv. any actual or alleged discrimination of any kind including but not limited to age, color, race, sex, creed, national origin, marital status, sexual preference, disability or pregnancy;

G. For, arising out of, or resulting from any criminal, dishonest, fraudulent, or malicious act, error or omission, any intentional security breach, or any intentional or knowing violation of the law committed by any Covered Person; provided, however, this exclusion shall not apply unless there is a final adjudication of such conduct, an admission of such conduct by the Covered Person, or in a criminal proceeding a plea of guilty, *nolo contendere*, no contest or any similar plea by the Covered Person;

H. For, arising out of or resulting from any actual or alleged:

i. infringement of patent or patent rights or misuse or abuse of patent; or

ii. infringement of copyright arising from or related to software code or software products; or

iii. use or misappropriation of any ideas or trade secrets by a Covered Person or on behalf of, or in collusion with a Covered Person;

I. Arising out of or resulting from any of the following:

i. trading losses, trading liabilities or change in value of accounts;

ii. any loss of monies, securities or tangible property of others in the care, custody or control of the Covered Person;

iii. the monetary value of any electronic fund transfers or transactions by or on behalf of the Covered Person that is lost, diminished, or damaged during transfer from, to or between accounts; or

iv. the value of coupons, price discounts, prizes awards, or any other valuable consideration given in excess of the total contracted or expected amount that is lost, diminished or damaged;

6. **Definitions**

The following definitions apply to this coverage:

"**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).

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 Proceeding** 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 Covered Person, 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 provided under Section 7.

"**Claim Expenses**" means

a. Reasonable and necessary fees charged by attorneys designated by the Pool or designated by the Covered Person with the Pool's prior consent 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 Covered Person with the Pool's prior consent; and

c. Premiums 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 Covered Person or any charges by a Covered Person 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 Member; or

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

"**Cyber Extortion Expenses**" means all reasonable and necessary costs and expenses which a Covered Person incurs as a direct result of a Cyber Extortion Threat, other than Cyber Extortion Monies.

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

“Cyber Extortion Threat” means a credible threat or series of related credible threats, including, but not limited to, a demand for Cyber Extortion Monies, directed at a Covered Person to:

1. Release, divulge, disseminate, destroy or use confidential information taken from the Covered Person 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 of electronic data stored electronically on a **Computer System**, including without limitation **Personal Information**.

“**Expenses to Reduce Loss**” means expenses incurred by the Member 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 Member 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 Covered Person’s business directly caused by a **Privacy or Security Event**.

“**PCI-DSS Assessment**” means any monetary penalty owed by a Covered Person due to the Covered Person’s noncompliance with Payment Card Industry Data Security Standards under an agreement between the Covered Person and a financial institution or other person enabling the Covered Person 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;

Provided, however, **Personal Information** does not include information that is lawfully available to the public, including without limitation information lawfully available from any Covered Person 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 Member or for which the Named Member 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 Member 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 Member or for which the Named Member 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 Member'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 Member 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 Member elects to provide such services; and

e. For the services of a public relations consultant designated by the Pool to avert or mitigate damage to the Named Member'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 Covered Person or any charges by a Covered Person 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 and Electronic Data Damage;

e. Network Interruption Costs;

f. Cyber Extortion Expenses; or

g. Cyber Extortion Monies

"**Proof of Loss Preparation Costs**" means fees and expenses incurred by a Member 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 caused by the reprogramming of the software (including the firmware) of such electronic equipment 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 Proceeding** payable by a Covered Person to the governmental entity bringing the **Regulatory Proceeding** and any sum of money that a Covered Person 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 Proceeding**.

"**Regulatory Proceeding**" 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 Covered Person 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.

7. **Extended Reporting Periods**

A. **Applicability**

This section applies solely to the coverage provided under Section 1, but no Automatic or Optional Extended Reporting Period will be provided if the Pool (i) cancels such coverage for non-payment of premium, (ii) cancels or rescinds such coverage for material misrepresentation or fraud or (iii) cancels or rescinds such coverage for violation by the Named Member of the charter, bylaws or other rules governing the conduct of members of the Pool.

B. **Automatic Extended Reporting Period**

i. Subject to Section 7.A, if the Named Member or the Pool cancels or nonrenews the coverage provided under Section 1, the Named Member will have the right to an Automatic Extended Reporting Period of sixty (60) days, which will commence on the effective date of such cancellation or nonrenewal. During the Automatic Extended Reporting Period, a Covered Person may give notice to the Pool of any **Privacy or Security Event** that commenced on or after the Retroactive Date, if any, shown in the Declarations and before the effective date of the cancellation or nonrenewal and for which a **Claim** was first made against the Covered Person during the Coverage Period or the Automatic Extended Reporting Period. Such notice must be given in accordance with Section 4.

ii. The Automatic Extended Reporting Period will not apply where an Optional Extended Reporting Period has been purchased or to **Claims** that are covered under any subsequent insurance a Covered Person purchases or that is purchased for a Covered Person's benefit, or that would be covered by any such subsequent insurance but for the exhaustion of the amount of insurance applicable to the **Claims** or any applicable retention amount.

C. **Optional Extended Reporting Period**

i. Subject to Section 7.A, if the Named Member or the Pool cancels or nonrenews the coverage provided under Section 1, the Named Member will have the right to purchase an Optional Extended Reporting Period of up to three (3) years, which will commence on the effective date of such cancellation or nonrenewal. During the Optional Extended Reporting Period, a Covered Person may give notice to the Pool of any **Privacy or Security Event** that commenced on or after the Retroactive Date, if any, shown in the Declarations and before the effective date of the cancellation or nonrenewal and for which a **Claim** was first made against the Covered Person during the Coverage Period or the Optional Extended Reporting Period. Such notice must be given in accordance with Section 4.

ii. The Named Member may purchase an Optional Extended Reporting Period for payment of an additional premium amount of one hundred percent (100%) of the full annual premium, for a period of one (1) year. Premium will be determined by us for any period longer than one (1) year, but not to exceed three (3) years.

As used herein, "full annual premium" means the annual premium amount charged for the coverage provided in Section 1 plus any premium charged for additional coverage added by endorsement to the coverage provided in Section 1.

iii. The right to purchase an Optional Extended Reporting Period will terminate unless written notice of election, together with any additional premium due, is received by the Pool no later than thirty (30) days after the effective date of the cancellation or nonrenewal of the coverage provided in Section 1.

D. Conditions Applicable to Extended Reporting Periods

i. Once in effect, the Automatic or Optional Extended Reporting Period cannot be canceled or rescinded, except by the Pool for material misrepresentation, fraud or violation by the Named Member of the charter, bylaws or other rules governing the conduct of members of the Pool. Any premium charged for an Optional Extended Reporting Period will be fully earned and nonrefundable at inception of the Optional Extended Reporting Period.

ii. The Automatic or Optional Extended Reporting Period does not reinstate or increase the limits of coverage described in Section 3.

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:

	Entity	Special Districts	Hospitals
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:

	Entity	Special Districts	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
Place: Whitney Peak Hotel
Reno, Nevada

Date: April 16, 2020 Time: 10:00 a.m.

Date: April 17, 2020 Time: 8:00 a.m.

JOINT BOARDS and EXECUTIVE COMMITTEES' AGENDA

April 16, 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 make 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.

10:00 a.m. Board Orientation Workshop

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: Board Orientation - POOL/PACT Who's Who Matrix (30 min)**
4. **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) **Audit Committee Meeting of October 30, 2018**
5) **Human Resources Oversight Committee Meeting of September 28, 2018**
6) **Human Resources Oversight Committee Meeting of December 7, 2018**
7) **Human Resources Oversight Committee Meeting of March 1, 2019**
8) **Loss Control Committee Meeting of September 18, 2018**
9) **Loss Control Committee Meeting of December 17, 2018**
10) **Loss Control Committee Meeting of March 19, 2019**

5. **<u>For Possible Action:</u> Highlights from and Acceptance of Reports**
    1) **Nevada Risk Pooling, Inc.**
    2) **Executive Director**
    3) **Chief Operations Officer**
    4) **Chief Financial Officer**
        1. **Public Risk Mutual Audit**
        2. **Public Compensation Mutual Audit**
        3. **PRI Financial Audit**
        4. **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**

6. **Scenarios: Fixed Income Investments – Playground Exercises in a Challenging Market (NEAM)**

7. **Scenarios: Risk Management, Loss Control, Wellness – HVA, FFR, Jail Audits, Grants (play FFR video; play Tell Me Something Good clips)**

8. **Scenarios: Human Resources & Safety Responsibility (Stacy Norbeck, Marshall Smith)**

9. **Scenarios: Claims Management - Darwin Strikes Again (Donna, Rick, Marshall)**

    Break: come back at 3:00 p.m.

10. **Scenarios: Convenient Learning (Mike Van Houten)**

11. **Scenarios: Mark Haggen – Wells Fargo Treasury Management** - General fraud overview, the trends that we are seeing and the tools/practices that will help best reduce risk and exposure

12. **Scenarios: Cyber Security Readiness KnowBe4 (Mike Rebaleati)**

13. **Public Comment**

14. **<u>For Possible Action</u>: Recess Until April 17, 2020 at 8:00 a.m.**

5:30 p.m. – 6:30 p.m. Board Attitude Assessment

6:30 p.m. – 9:00 p.m. Dinner and "Tell Me Something Good" Audience Participation Show

JOINT BOARDS and EXECUTIVE COMMITTEES' AGENDA

April 17, 2020

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15. **Reconvene Meeting of April 16th and Roll**

16. **Public Comment**

17. **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**

18. **For Possible Action: Review and Approval of Investment Guidelines**
    a. **PACT Investment Guidelines**
    b. **POOL Investment Guidelines**

19. **For Possible Action: Willis Re Pooling Stewardship Report**

20. **For Possible Action: Davis (Alternative Service Concepts) Claims Overview Reports**

21. **For Possible Action: Employee Assistance Program Review, Elimination or Consider Alternative Service Providers**

22. **For Possible Action: Recognition of Retiring Executive Committee Members**

23. **Public Comment**

24. **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.

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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
Place: Whitney Peak Hotel, 255 N. Virginia Street, Reno, Nevada
Time: 9:00 a.m. or
Upon adjournment of Joint Board Meeting
Date: April 17, 2020

AGENDA

April 17, 2019

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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:**
      1) **Board Meeting April 17, 2019**
   b. **Acceptance of Interim Financial Statements**

4. **For Possible Action: Acceptance of Audit for June 30, 2019**

5. **For Possible Action: Acceptance of Reports**
   a. **Actuarial Overview**
   b. **Legislative Changes**

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. **<u>For Possible Action:</u>** **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**

9. <u>For Possible Action:</u> 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**

10. <u>For Possible Action:</u> Election of Chair and Vice Chair

11. Public Comment

12. <u>For Possible Action</u>: Adjournment

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Notice of Meetings and Agendas for the Meeting of
the Board of Directors and of the Executive Committee of
Nevada Public Agency Insurance Pool
Place: Whitney Peak Hotel, 255 N. Virginia Street, Reno, Nevada
Time: 10:30 a.m. or
Upon adjournment of PACT Board Meeting
Date: April 17, 2020

AGENDA

April 17, 2019

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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 and Committee Meetings:**
      i. **Board Meeting April 17, 2019**
      ii. **Acceptance of Interim Financial Statements**
4. **For Possible Action: Acceptance of Audit for June 30, 2019**
5. **For Possible Action: Acceptance of Reports**
   a. **Actuarial Overview**
   b. **Legislative Changes**
6. **For Possible Action: Approval of Renewal Reinsurance and Insurance Proposals and Options**
7. **For Possible Action: Approval of Budget for 2020-2021**

8. **<u>For Possible Action:</u> 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**

9. **<u>For Possible Action</u>: Approval of Changes to POOL Form**

10. **<u>For Possible Action:</u> 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**

11. **<u>For Possible Action:</u> Election of Chair and Vice Chair**

12. **Public Comment**

13. **<u>For Possible Action</u>: Adjournment**

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