

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LOCAL GOVERNMENT PROPERTY
AND CASUALTY POOL**

JUNE 30, 2018

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Local Government Property and Casualty Pool

BOARD OF DIRECTORS AND OFFICERS

June 30, 2018

Board of Directors

**Chairman
Secretary
Director
Director
Director**

**Jeff Huffman
Michael Garland
Van Boshers
Larry Waters
Robert M. Wormsley**

Officers

**President & CEO
Vice President
Chief Operating Officer
Secretary**

**Robert M. Wormsley
Bob Fielding
David Seivers
Michael Garland**



Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Local Government Property and Casualty Pool

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Government Property and Casualty Pool (the "Pool") which comprise the Statement of Net Position as of June 30, 2018, and the related Statements of Revenues, Expenses and Changes in Net Position and of Cash Flows for the year then ended, and the related Notes to 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Pool'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 Pool's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITORS' REPORT - CONTINUED

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Local Government Property and Casualty Pool as of June 30, 2018, and the changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the Notes to Financial Statements, the liability for unpaid losses and loss adjustment expenses in the accompanying financial statements is based upon an evaluation by the Pool's independent actuary. Management believes that this estimate is reasonable. However, this estimate is subject to change and the changes can be material in relation to the financial statements taken as a whole. No assurance can be given that the actual losses will not be more or less than the current estimate. Our opinion is not modified with respect to this matter.

As discussed in the Notes to Financial Statements, under the terms of the Pool's service contract, under certain circumstances, the Pool may be liable for the additional expenses related to adjusting claims until all such claims are concluded. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2018, on our consideration of the Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

September 19, 2018

Shoen, Torgman, Butler & Company, P.A.

Local Government Property and Casualty Pool

STATEMENT OF NET POSITION

June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,365,340
Certificates of deposit	533,668
Investment in debt securities	8,077,076
Investment in the State Investment Pool	17,308,328
Investment in note receivable	931,000
Premium receivable	5,516
Excess insurance recoverable on paid losses and loss adjustment expenses	2,569,557
Accrued interest receivable	65,361
Policyholder deductibles receivable	47,224
Total current assets	<u>31,903,070</u>

NONCURRENT ASSETS

Certificates of deposit	1,315,437
Investment in note receivable	5,242,000
Other invested assets	2,093,354
Fixed assets - at cost, net of accumulated depreciation of \$65,846	31,873
Total noncurrent assets	<u>8,682,664</u>

Total Assets \$ 40,585,734

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	\$ 7,929,228
Accrued expenses and accounts payable	172,175
Total current liabilities	<u>8,101,403</u>

NONCURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	<u>9,796,506</u>
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Total liabilities 17,897,909

NET POSITION, UNRESTRICTED 22,687,825

\$ 40,585,734

The accompanying notes are an integral part of this statement.

Local Government Property and Casualty Pool

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2018

OPERATING REVENUES	
Premiums earned	\$ 17,168,832
OPERATING EXPENSES	
Losses and loss adjustment expenses	7,933,752
Excess insurance premiums	2,455,479
Claims administration fees	1,516,212
Commissions	1,507,457
Professional fees	80,679
Other administrative expenses	510,595
	<u>14,004,174</u>
OPERATING INCOME	3,164,658
NON-OPERATING INCOME	
Net investment income	<u>629,745</u>
INCREASE IN NET POSITION	3,794,403
Net position at July 1, 2017	<u>18,893,422</u>
NET POSITION AT JUNE 30, 2018	\$ <u>22,687,825</u>

The accompanying notes are an integral part of this statement.

Local Government Property and Casualty Pool

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Premiums collected	\$ 17,163,316
Excess insurance premiums paid	(11,097,582)
Losses and loss adjustment expenses paid	(2,455,479)
Other expenses paid	(3,514,470)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>95,785</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net deposit in State Investment Pool	4,760,421
Purchases of debt securities	(6,945,630)
Proceeds from maturities of debt securities	1,503,000
Purchases of certificates of deposit	(1,581,411)
Maturities of certificates of deposit	2,046,475
Principal collected on note receivable	876,000
Purchases of fixed assets	(29,495)
Depreciation	15,778
Investment income collected	617,293
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,262,431</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS **1,358,216**

Cash and cash equivalents at July 1, 2017 1,007,124

CASH AND CASH EQUIVALENTS AT JUNE 30, 2018 **\$ 2,365,340**

The accompanying notes are an integral part of this statement.

Local Government Property and Casualty Pool
STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended June 30, 2018

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 3,164,658
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premium receivable	(5,516)
Excess insurance recoverable on paid losses and loss adjustment expenses	(1,555,191)
Policyholder deductibles receivable	(1,865)
Other assets	54,778
Increase (decrease) in liabilities:	
Unpaid losses and loss adjustment expenses	(1,608,639)
Accrued expenses and accounts payable	47,560
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>95,785</u>

NON-CASH INVESTING ACTIVITIES

A non-cash increase in other invested assets and net investment income of \$114,737 was recorded related to the investment in County Reinsurance Limited as discussed in Note 5.

The accompanying notes are an integral part of this statement.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

NOTE 1 - ORGANIZATION OF POOL

The Local Government Property and Casualty Fund (the “Fund”) is a not-for-profit corporation organized to provide financial, administrative and other services in areas of risk management, insurance, excess insurance, self-insurance and loss prevention or any combination thereof for liabilities created under property and casualty policies.

The operations of the Local Government Property and Casualty Pool (the “Pool”) are a division of the Fund. The purpose of the Pool is to administer a program of self-insurance for Tennessee local governments through the pooling of resources of member participants pursuant to the terms of the State of Tennessee Interlocal Cooperation Act under the Tennessee Code Annotated. There are 80 members in the Pool.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting and reporting policies of the Pool conform to accounting principles generally accepted in the United States of America, governmental accounting standards and prevailing practices within the insurance industry. Except as otherwise noted, the Pool carries its assets and liabilities principally on the historical cost basis and follows the accrual method of accounting.

Investments in the State Investment Pool

Investments in the State of Tennessee Local Government Investment Pool (“LGIP”) are carried at cost which approximates estimated market value. Although the Pool can withdraw its deposits in the LGIP on demand without penalty, they are not considered cash equivalents as the deposits, in general, are part of the Pool’s investing activities rather than its cash management activities. Management considers investments in the State of Tennessee Local Government Investment Pool to be relatively safe, with minimal credit risk.

Insurance Premiums

Insurance premiums, which are determined on a member-by-member basis and include contributions to the loss fund, fees, taxes and excess insurance premiums, are recognized as revenue ratably over the terms of the policies.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line or certain accelerated methods.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Unpaid Losses and Loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses includes the estimated costs of investigating and settling all claims incurred as of the balance sheet date. Such amounts are determined on the basis of an evaluation of the Pool's losses as prepared by the Pool's independent actuary. The liability for unpaid losses and loss adjustment expenses has not been discounted for the time value of money.

Income Tax Exemption

The Local Government Property and Casualty Fund, including the Pool, is a governmental entity and, thus, is exempt from Federal income taxes under Internal Revenue Code Section 115.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, cash and cash equivalents include only cash in checking, savings or money market accounts, certificates of deposit and other depository instruments with maturities of three months or less at the time of acquisition.

Concentration of Credit Risk

The Pool invests in certificates of deposit with federal insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

Fair Value Measurements

U.S. Generally Accepted Accounting Principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs are unadjusted quoted prices for identical assets in active markets.

Level 2 - Inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in active markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Inputs are unobservable and based on management estimate.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Management 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 in the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Pool has valued all assets below as described further in Note 4 and Note 5. The following table sets forth, by level within the fair value hierarchy, the Pool's assets at estimated fair value as of:

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Investment in				
State Investment Pool	\$ --	\$ --	\$ 17,308,328	\$ 17,308,328
Investment in CRL	\$ --	\$ --	\$ 2,093,354	\$ 2,093,354
Debt securities	\$ --	\$ 8,077,076	\$ --	\$ 8,077,076

The Pool did not have any Level 1 assets at any point during the year ended June 30, 2018.

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale are stated at their estimated fair market value and consist of the following as of:

	June 30, 2018			
	Amortized Cost	Estimated Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Government securities	\$ 7,876,410	\$ 7,798,084	\$ --	\$(78,326)
Corporate bonds	284,073	278,992	--	(5,081)
	<u>\$ 8,160,483</u>	<u>\$ 8,077,076</u>	<u>\$ --</u>	<u>\$(83,407)</u>

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE - CONTINUED

The amortized cost and estimated market value of investment securities available-for-sale as of June 30, 2018 by contractual maturity, are shown below. In some instances, actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2018			
	<u>Amortized Cost</u>	<u>Estimated Market Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>
Due in one year or less	\$ 2,067,650	\$ 2,057,967	\$ --	\$ (9,683)
Due in one year through five years	<u>6,092,833</u>	<u>6,019,109</u>	<u>--</u>	<u>(73,724)</u>
	<u>\$ 8,160,483</u>	<u>\$ 8,077,076</u>	<u>\$ --</u>	<u>\$ (83,407)</u>

There were no sales of investments for the year ended June 30, 2018.

Information pertaining to securities with gross unrealized losses at June 30, 2018, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2018					
	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Estimated Fair Market Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Market Value</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Market Value</u>	<u>Gross Unrealized Losses</u>
Government securities	\$ 5,409,809	\$ (22,462)	\$ 2,388,275	\$ (55,864)	\$ 7,798,084	\$ (78,326)
Corporate bonds	<u>--</u>	<u>(--)</u>	<u>278,992</u>	<u>(5,081)</u>	<u>278,992</u>	<u>(5,081)</u>
	<u>\$ 5,409,809</u>	<u>\$ (22,462)</u>	<u>\$ 2,667,267</u>	<u>\$ (60,945)</u>	<u>\$ 8,077,076</u>	<u>\$ (83,407)</u>

The unrealized losses on 8 debt securities at June 30, 2018 were caused primarily by rising interest rates. The severity of the impairment (ranging from minimal to 3%) is consistent with the general trend in debt securities.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 4 - INVESTMENT SECURITIES AVAILABLE-FOR-SALE - CONTINUED

The Pool has evaluated the near-term prospects of the issuers in relation to the severity and duration of the above impairments and has the intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value. Further, the Pool has evaluated each issuer and noted no issuer with compelling evidence that any of these losses are permanent. Based on this analysis, the Pool does not consider these investments to be other-than-temporarily impaired at June 30, 2018.

NOTE 5 - OTHER INVESTED ASSETS

The Pool has invested in County Reinsurance Limited (CRL), a captive insurer that assumes various casualty coverages for public entity pools. As of June 30, 2018, the Pool's investment is approximately \$2,093,000 based on the book value of the investment in accordance with CRL's audited financial statements as of December 31, 2017. The change in value of the investment during the year is approximately \$115,000, which is included in net investment income in the accompanying financial statements. The Pool owns approximately 3.56% of CRL. The following summarizes the financial information for CRL as of December 31, 2017 and for the year then ended as extracted from audited financial statements audited by other auditors:

BALANCE SHEET

Assets	\$	<u>237,394,382</u>
Liabilities	\$	178,998,789
Members' contribution and surplus		<u>58,395,593</u>
	\$	<u>237,394,382</u>

STATEMENT OF OPERATIONS

Underwriting revenue	\$	33,455,311
Underwriting expenses		<u>38,382,316</u>
Operating income	(4,927,005)
Investment income		<u>7,737,725</u>
Net income	\$	<u>2,810,720</u>

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 6 - CERTIFICATES OF DEPOSIT

The Pool invests in certificates of deposit with federally insured banks. Certificates of deposit are carried at cost which approximates estimated market value.

NOTE 7 - EXCESS COVERAGE

The Pool purchases aggregate excess and specific excess insurance for protection against losses in excess of the applicable retentions. The Pool carries the following excess coverage:

Aggregate excess insurance coverage takes effect when total net losses exceed the attachment point for each policy period as shown below:

<u>Policy Period</u>	<u>Attachment</u>
7/25/86 - 7/24/87	\$ 836,108
7/25/87 - 7/24/88	1,144,595
7/25/88 - 7/24/89	1,092,895
7/25/89 - 7/24/90	1,101,653
7/25/90 - 7/24/91	1,443,388
7/25/91 - 6/30/92	1,386,632
7/01/92 - 6/30/93	1,587,633
7/01/93 - 6/30/94	1,806,450
7/01/94 - 6/30/95	2,009,631
7/01/95 - 6/30/96	2,084,925
7/01/96 - 6/30/97	1,690,481
7/01/97 - 6/30/98	1,563,103
7/01/98 - 6/30/99	1,675,069
7/01/99 - 6/30/00	1,360,965
7/01/00 - 6/30/01	1,774,834
7/01/01 - 6/30/02	2,881,011
7/01/02 - 6/30/03	3,709,341
7/01/03 - 6/30/04	Varies by line
7/01/04 - 6/30/05	Varies by line
7/01/05 - 6/30/06	Varies by line
7/01/06 - 6/30/07	Varies by line
7/01/07 - 6/30/08	Varies by line
7/01/08 - 6/30/09	Varies by line
7/01/09 - 6/30/10	Varies by line

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 7 - EXCESS COVERAGE - CONTINUED

<u>Policy Period</u>	<u>Attachment</u>
7/01/10 - 6/30/11	Varies by line
7/01/11 - 6/30/12	Varies by line
7/01/12 - 6/30/13	Varies by line
7/01/13 - 6/30/14	Varies by line
7/01/14 - 6/30/15	Varies by line
7/01/15 - 6/30/16	Varies by line
7/01/16 - 6/30/17	Varies by line
7/01/17 - 6/30/18	Varies by line

Specific excess coverage takes effect when losses from an individual claim exceed the attachment point (which is in excess of the maintenance deductible) for each policy period as shown below:

<u>Policy Period</u>	<u>Attachment</u>
7/25/86 - 7/24/87	\$100,000
7/25/87 - 7/24/88	100,000
7/25/88 - 7/24/89	100,000
7/25/89 - 7/24/90	100,000
7/25/90 - 7/24/91	100,000
7/25/91 - 6/30/92	100,000
7/01/92 - 6/30/93	100,000
7/01/93 - 6/30/94	100,000
7/01/94 - 6/30/95	100,000
7/01/95 - 6/30/96	100,000
7/01/96 - 6/30/97	100,000
7/01/97 - 6/30/98	100,000
7/01/98 - 6/30/99	100,000
7/01/99 - 6/30/00	100,000
7/01/00 - 6/30/01	100,000
7/01/01 - 6/30/02	100,000
7/01/02 - 6/30/03	100,000
7/01/03 - 6/30/04	250,000
7/01/04 - 6/30/05	250,000
7/01/05 - 6/30/06	250,000
7/01/06 - 6/30/07	250,000
7/01/07 - 6/30/08	250,000
7/01/08 - 6/30/09	250,000

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 7 - EXCESS COVERAGE - CONTINUED

<u>Policy Period</u>	<u>Attachment</u>
7/01/09 - 6/30/10	Varies by line
7/01/10 - 6/30/11	Varies by line
7/01/11 - 6/30/12	Varies by line
7/01/12 - 6/30/13	Varies by line
7/01/13 - 6/30/14	Varies by line
7/01/14 - 6/30/15	Varies by line
7/01/15 - 6/30/16	Varies by line
7/01/16 - 6/30/17	Varies by line
7/01/17 - 6/30/18	Varies by line

Excess insurance recoverable on paid losses and loss adjustment expenses of approximately \$2,570,000 represents claims paid in excess of the specific and aggregate retention levels yet unrecovered from the insurer as of June 30, 2018. These amounts should be recovered from the excess insurers in the future.

Excess insurance contracts do not relieve the Pool from its obligations to members. Failure of insurers to honor their obligations could result in losses to the Pool. Accordingly, the Pool evaluates the financial condition of its excess insurers to minimize its exposure to significant losses from excess insurer insolvency. At June 30, 2018, excess insurance recoverable on unpaid losses and loss adjustment expenses of approximately \$5,888,000 was associated with a single insurer. At June 30, 2018, specific excess insurance recoverable on loss and loss adjustment expense payments of approximately \$2,312,000 was associated with one excess insurer. At June 30, 2018, aggregate excess insurance recoverable on loss and loss adjustment expense payments of approximately \$258,000 was associated with one excess insurer.

The underlying insurance contracts covered by the excess insurance contracts all expire on June 30. Therefore, written and earned are identical for both direct and ceded premiums.

NOTE 8 - FIXED ASSETS

Fixed assets consist of the following:

Automobiles	\$ 97,719
Less: accumulated depreciation	(65,846)
	\$ <u>31,873</u>

Depreciation expense was approximately \$16,000 for the year ended June 30, 2018.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 9 - INVESTMENT IN NOTE RECEIVABLE

The Pool has an investment in a note receivable through the Tennessee County Services Loan Program (TCSLP). A promissory note, dated July 3, 2015 was executed for the principal amount of \$8,470,520. The note bears interest at a rate of 2.65%. Principal and interest are payable annually. The balance of the promissory note is \$6,173,000 as of June 30, 2018.

The following sets forth the required payment of principal:

<u>Date of Payment</u>	<u>Principal Payment</u>
6/01/19	931,000
6/01/20	966,000
6/01/21	1,006,000
Thereafter	<u>3,270,000</u>
	<u>\$ 6,173,000</u>

NOTE 10 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The coverage offered by the Pool is on a modified claims-made basis which provides for payment of claims which occur during the period of coverage that are reported within 24 months following expiration of the policy. The Pool establishes a liability for both reported and unreported insured claims based upon an evaluation of the Pool's losses as prepared by the Pool's independent actuary. This evaluation of the Pool's losses is a significant estimate which is subject to change and the change can be material in relation to the financial statements taken as a whole. The liability for unpaid losses and loss adjustment expenses includes an estimated provision for incurred but not reported losses (IBNR) as well as reported losses. The IBNR provision totaled approximately \$4,487,000 at June 30, 2018. Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

Losses and loss adjustment expenses do not include claims administration fees of approximately \$946,000. Although these are considered unallocated loss adjustment expenses, they are disclosed separately in the accompanying financial statements.

Unpaid losses and loss adjustment expenses are shown net of excess insurance recoverables on unpaid losses and loss adjustment expenses of approximately \$5,888,000 at June 30, 2018. The losses and loss adjustment expenses are net of the effect of changes in recoveries recognized under the excess contracts referred to in Note 7.

During the year ended June 30, 2018, the Pool experienced an increase in the recoveries recognized under these excess contracts which totaled approximately \$6,549,000. This amount has decreased current year losses and loss adjustment expenses.

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2018

NOTE 11 - CONCENTRATIONS/UNCERTAINTY

All members who participate in the Pool are governmental entities within the State of Tennessee.

The Pool maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

The Pool's investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Pool.

NOTE 12 - MEMBER INDEMNIFICATION

The Pool has entered into an agreement with each participating member to provide property and casualty coverages for the participating members. The agreement includes a provision that each member is jointly and severally liable for the property and casualty liability obligations of the Pool and its members which were incurred during the period of time that the participating member was a member of the Pool. Accordingly, any loss and loss adjustment expenses or other expenses after the Pool has exhausted available assets and excess insurance will be the financial responsibility of the members.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Alternate Service Concepts, LLC is responsible for providing adjusting services for claims arising during the term of the contract. However, in the event that the contract is cancelled or non-renewed, at management's discretion, Alternate Service Concepts, LLC will continue to handle claims for an annual fee to be mutually agreed upon by both parties. No provision has been made in the accompanying financial statements for additional fees incurred as the contract has not been cancelled or non-renewed.

NOTE 14 - RELATED PARTY TRANSACTIONS

Certain excess insurance contracts referred to in Note 7 have been purchased from CRL. The Pool is invested in CRL. The excess insurance recoverable on paid losses of approximately \$2,312,000 and excess insurance recoverable on unpaid losses of approximately \$5,888,000 are due from CRL. The Pool's other invested assets includes approximately \$2,093,000 invested in CRL.

NOTE 15 - SUBSEQUENT EVENTS

Management considered subsequent events through September 19, 2018, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION



Shores, Tagman, Butler & Company, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors

Local Government Property and Casualty Pool

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparative Schedule of Claims Development and Earned Assessments and the Reconciliation of Claims Liabilities are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

September 19, 2018

Shores, Tagman, Butler & Company, P.A.

Local Government Property and Casualty Pool

Comparative Schedule of Claims Development and Earned Assessments (in 000's)

For the Years Ended June 30, 2009 through June 30, 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Required contribution and investment revenue										
Earned	\$ 14,798	\$ 13,795	\$ 13,989	\$ 13,611	\$ 13,879	\$ 14,715	\$ 16,429	\$ 16,732	\$ 17,340	\$ 17,799
Ceded	2,023	1,575	1,806	1,913	2,139	2,109	2,126	2,037	2,170	2,455
Net Earned	12,775	12,220	12,183	11,698	11,740	12,606	14,303	14,695	15,170	15,344
Unallocated Expenses	3,712	3,301	381	3,026	3,180	3,600	3,778	3,969	3,905	3,615
Estimated incurred claims and allocated loss adjustment expenses, end of policy year										
Incurred	10,192	13,840	12,565	11,575	10,288	10,553	14,881	11,137	17,499	17,912
Ceded	1,452	3,678	3,422	1,165	920	845	4,618	1,181	5,657	6,934
Net Incurred	8,740	10,162	9,143	10,410	9,368	9,708	10,263	9,956	11,842	10,978
Paid (cumulative) as of:										
End of policy year	2,617	2,404	2,848	2,324	2,539	3,113	3,065	3,177	3,988	3,190
One year later	4,209	4,934	5,010	5,162	5,100	5,446	4,892	5,032	7,284	
Two years later	6,177	6,123	6,186	5,827	5,981	6,485	5,923	5,739		
Three years later	7,042	8,669	7,175	6,726	6,706	6,979	7,061			
Four years later	7,703	8,662	7,638	7,201	7,566	7,145				
Five years later	7,773	8,906	7,750	7,235	7,654					
Six years later	7,785	9,312	7,930	7,470						
Seven years later	7,833	9,351	7,941							
Eight years later	7,865	9,382								
Nine years later	8,010									
Reestimated ceded losses and allocated loss adjustment expenses	2,466	2,041	3,385	772	1,027	1,033	6,859	2,848	5,135	6,934
Reestimated incurred claims and allocated loss adjustment expenses										
End of policy year	8,740	10,162	9,143	10,410	9,368	9,708	10,263	9,956	11,842	10,978
One year later	8,734	9,284	9,282	9,055	8,390	10,451	10,346	9,902	10,698	
Two years later	9,133	9,145	8,985	8,322	8,186	9,302	9,279	8,793		
Three years later	8,548	9,824	8,460	8,217	8,579	8,224	8,600			
Four years later	8,461	9,356	8,506	7,726	8,626	7,953				
Five years later	7,992	9,035	8,088	7,687	8,449					
Six years later	7,984	9,438	8,076	7,506						
Seven years later	8,021	9,395	8,035							
Eight years later	8,051	9,405								
Nine years later	8,059									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(681)	(757)	(1,108)	(2,904)	(919)	(1,755)	(1,663)	(1,163)	(1,144)	-

Local Government Property and Casualty Pool

Reconciliation of Claims Liabilities

The following represents changes in the liability for unpaid losses and loss adjustment expenses for the Pool during the years ended June 30, 2018 and 2017, respectively:

	Property and Casualty Liabilities	
	Years Ended June 30,	
	2018	2017
	<u>(in thousands)</u>	<u>(in thousands)</u>
Unpaid losses and loss adjustment expenses at beginning of the fiscal year, net of excess insurance recoverables	\$ 19,334	\$ 18,244
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	10,978	11,842
Change in provision for insured events of prior fiscal years	(3,044)	(2,186)
Total incurred losses and loss adjustment expenses	<u>7,934</u>	<u>9,656</u>
Payments:		
Losses and loss adjustment expenses attributable to insured losses of the current fiscal year	(3,190)	(3,988)
Losses and loss adjustment expenses attributable to insured losses of the prior fiscal years	(6,352)	(4,578)
Total payments	(9,542)	(8,566)
Total unpaid losses and loss adjustment expenses at the end of the fiscal year, net of excess insurance recoverables	\$ <u>17,726</u>	\$ <u>19,334</u>