

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**LOCAL GOVERNMENT PROPERTY  
AND CASUALTY POOL**

**JUNE 30, 2020**

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**Local Government Property and Casualty Pool**

**BOARD OF DIRECTORS AND OFFICERS**

**June 30, 2020**

**Board of Directors**

**Chairman  
Secretary  
Director  
Director  
Director**

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

**Officers**

**President & CEO  
Vice President & COO  
Secretary**

**Robert M. Wormsley  
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, 2020, 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, 2020, 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 August 20, 2020, 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 solely 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 effectiveness of 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.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pool's basic financial statements. The Board of Directors and Officers information on page 3 is presented for the purposes of additional analysis and is not a required part of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

August 20, 2020

*Shores, Teyman, Butler & Company, P.A.*

**Local Government Property and Casualty Pool**

**STATEMENT OF NET POSITION**

**June 30, 2020**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 107,577
Certificates of deposit	2,843,288
Investment in debt securities	18,308,096
Investment in the State Investment Pool	13,916,336
Investment in note receivable	1,006,000
Excess insurance recoverable on paid losses and loss adjustment expenses	1,512,049
Accrued interest receivable	194,372
Policyholder deductibles receivable	51,134
Total current assets	<u>37,938,852</u>

**NONCURRENT ASSETS**

Certificates of deposit	279,747
Investment in note receivable	3,270,000
Other invested assets	5,916,295
Fixed assets - at cost, net of accumulated depreciation of \$96,449	1,270
Total noncurrent assets	<u>9,467,312</u>

Total Assets	\$ <u>47,406,164</u>
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**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Unpaid losses and loss adjustment expenses	\$ 9,241,257
Accrued expenses and accounts payable	250,913
Total current liabilities	<u>9,492,170</u>

**NONCURRENT LIABILITIES**

Unpaid losses and loss adjustment expenses	<u>11,475,087</u>
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Total liabilities	<u>20,967,257</u>
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**NET POSITION, UNRESTRICTED**

	<u>26,438,907</u>
	\$ <u>47,406,164</u>

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, 2020**

**OPERATING REVENUES**

Premiums earned	\$ 19,236,546
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**OPERATING EXPENSES**

Losses and loss adjustment expenses	12,347,044
Excess insurance premiums	3,675,402
Claims administration fees	1,703,523
Commissions	1,710,594
Professional fees	58,004
Other administrative expenses	505,402
	<u>19,999,969</u>

OPERATING LOSS	( 763,423 )
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**NON-OPERATING INCOME**

Net investment income	<u>1,433,712</u>
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INCREASE IN NET POSITION	670,289
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Net position at July 1, 2019	<u>25,768,618</u>
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NET POSITION AT JUNE 30, 2020	\$ <u><u>26,438,907</u></u>
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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, 2020**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Premiums collected	\$ 19,238,170
Losses and loss adjustment expenses paid	( 10,790,042 )
Excess insurance premiums paid	( 3,675,402 )
Other expenses paid	( 3,977,007 )
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>795,719</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Net deposit in State Investment Pool	( 897,650 )
Purchases of debt securities	( 23,301,966 )
Proceeds from maturities of debt securities	23,429,000
Purchases of certificates of deposit	( 2,626,035 )
Maturities of certificates of deposit	1,591,889
Increase in investment in other invested assets	( 1,000,000 )
Principal collected on note receivable	966,000
Depreciation	15,301
Investment income collected	776,651
NET CASH USED IN INVESTING ACTIVITIES	<u>( 1,046,810 )</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	( 251,091 )
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Cash and cash equivalents at July 1, 2019	<u>358,668</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2020	\$ <u>107,577</u>
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**NON-CASH INVESTING ACTIVITIES**

A non-cash increase in other invested assets and net investment income of \$694,872 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**  
**STATEMENT OF CASH FLOWS - CONTINUED**  
**For the Year Ended June 30, 2020**

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

Operating loss	\$ ( 763,423 )
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Premium receivable	1,624
Excess insurance recoverable on paid losses and loss adjustment expenses	( 1,410,213 )
Policyholder deductibles receivable	( 18,749 )
Increase (decrease) in liabilities:	
Unpaid losses and loss adjustment expenses	2,967,215
Accrued expenses and accounts payable	19,265
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>795,719</u>

The accompanying notes are an integral part of this statement.

# **Local Government Property and Casualty Pool**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2020**

### **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, 2020**

**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.

**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 markets that are not active; 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, 2020**

**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:

	<b>June 30, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investment in CRL</b>	\$ --	\$ --	\$ 5,916,295	\$ 5,916,295
<b>Debt securities</b>	\$ --	\$ 18,308,096	\$ --	\$ 18,308,096

The Pool did not have any Level 1 assets at any point during the year ended June 30, 2020.

**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:

	<b>June 30, 2020</b>			
	<b>Amortized Cost</b>	<b>Estimated Fair Market Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
<b>Government securities</b>	\$ 3,407,790	\$ 3,520,034	\$ 112,244	\$ ( --)
<b>Corporate bonds</b>	15,024,480	14,788,062	3,319	( 239,737)
	<u>\$ 18,432,270</u>	<u>\$ 18,308,096</u>	<u>\$ 115,563</u>	<u>\$ ( 239,737)</u>

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

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

The amortized cost and estimated fair market value of investment securities available-for-sale as of June 30, 2020 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.

	<b>June 30, 2020</b>			
	<b>Amortized Cost</b>	<b>Estimated Fair Market Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
Due in one year or less	\$ 1,307,061	\$ 1,312,458	\$ 5,397	\$ ( --)
Due in one year through five years	8,525,209	8,578,049	110,166	( 57,326)
Due after five years through ten years	6,500,000	6,356,845	--	( 143,155)
Due after ten years	<u>2,100,000</u>	<u>2,060,744</u>	<u>--</u>	<u>( 39,256)</u>
	<u>\$ 18,432,270</u>	<u>\$ 18,308,096</u>	<u>\$ 115,563</u>	<u>\$ ( 239,737)</u>

There were no sales of investments for the year ended June 30, 2020.

Information pertaining to securities with gross unrealized losses at June 30, 2020, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	<b>June 30, 2020</b>					
	<b>Less than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Estimated Fair Market Value</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Market Value</b>	<b>Gross Unrealized Losses</b>
Corporate bonds	\$ 14,360,263	\$ ( 239,737)	\$ --	\$ ( --)	\$ 14,360,263	\$ ( 239,737)

The unrealized losses on 4 debt securities at June 30, 2020 were caused primarily by rising interest rates. The severity of the impairment (ranging from 1% to 7%) is consistent with the general trend in debt securities.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**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, 2020.

**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. During the year ended June 30, 2019, The Pool invested in the "Property Plus Program", a separate account participation agreement with CRL. During the year, the Pool's investment was increased to approximately \$4,916,000 based on the book value of the investment in accordance with CRL's audited financial statements as of December 31, 2019. The change in value of the investment during the year is approximately \$695,000, which is included in net investment income in the accompanying financial statements. The Pool owned approximately 3.56% of CRL and 6.56% of the "Property Plus Program" as of December 31, 2019. The Pool contributed an additional \$1,000,000 to the separated account participation CRL on June 22, 2020, which brings the total investment in CRL to approximately \$5,916,000 as of June 30, 2020. The following summarizes the financial information for CRL as of December 31, 2019 and for the year then ended as extracted from audited financial statements audited by other auditors:

**BALANCE SHEET**

<b>Assets</b>	<b>\$ 309,932,250</b>
<b>Liabilities</b>	<b>\$ 229,588,702</b>
<b>Members' contribution and surplus</b>	<b>80,343,548</b>
	<b>\$ 309,932,250</b>

**STATEMENT OF OPERATIONS**

<b>Underwriting revenue</b>	<b>\$ 38,379,597</b>
<b>Underwriting expenses</b>	<b>40,337,357</b>
<b>Operating income</b>	<b>( 1,957,760 )</b>
<b>Investment income</b>	<b>19,911,474</b>
<b>Net income</b>	<b>\$ 17,953,714</b>

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**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, 2020

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
7/01/18 - 6/30/19	Varies by line
7/01/19 - 6/30/20	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, 2020**

**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
7/01/18 - 6/30/19	Varies by line
7/01/19 - 6/30/19	Varies by line
7/01/19 - 6/30/20	Varies by line

Excess insurance recoverable on paid losses and loss adjustment expenses of approximately \$1,512,000 represents claims paid in excess of the specific and aggregate retention levels yet unrecovered from the reinsurer as of June 30, 2020. These amounts should be recovered from the excess insurer 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, 2020, excess insurance recoverable on unpaid losses and loss adjustment expenses of approximately \$2,352,000 was associated with a single 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	( 96,449 )
	\$ <u>1,270</u>

Depreciation expense was approximately \$15,000 for the year ended June 30, 2020.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**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 notes is \$4,276,000 as of June 30, 2020.

The following sets forth the required payment of principal:

<u>Date of Payment</u>	<u>Principal Payment</u>
6/01/21	\$ 1,006,000
6/01/22	1,056,000
6/01/23	1,081,000
6/01/24	<u>1,133,000</u>
	<u>\$ 4,276,000</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 \$4,607,000 at June 30, 2020. 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 \$1,098,000. 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 \$2,352,000 at June 30, 2020. 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, 2020, the Pool experienced an increase in the recoveries recognized under these excess contracts which totaled approximately \$2,388,000. This amount has decreased current year losses and loss adjustment expenses.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2020**

**NOTE 11 - CONCENTRATIONS/UNCERTAINTY**

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

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.

The COVID-19 outbreak in the United States has caused widespread business disruption. While the disruption is currently expected to be temporary, there is considerable uncertainty around the impact of the disruption on the Pool. The related financial impact and duration cannot be reasonably estimated at this time.

**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 losses 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 unpaid losses of approximately \$2,352,000 are due from CRL. The Pool's other invested assets includes approximately \$5,916,000 invested in CRL.

**NOTE 15 - SUBSEQUENT EVENTS**

Management considered subsequent events through August 20, 2020, 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.

August 20, 2020

*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, 2011 through June 30, 2020**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Required contribution and investment revenue</b>										
<b>Earned</b>	\$ 13,989	\$ 13,611	\$ 13,879	\$ 14,715	\$ 16,429	\$ 16,732	\$ 17,340	\$ 17,799	\$ 19,775	\$ 20,670
<b>Ceded</b>	1,806	1,913	2,139	2,109	2,126	2,037	2,170	2,455	3,161	3,675
<b>Net Earned</b>	12,183	11,698	11,740	12,606	14,303	14,695	15,170	15,344	16,614	16,995
<b>Unallocated Expenses</b>	381	3,026	3,180	3,600	3,778	3,969	3,905	3,615	3,899	3,978
<b>Estimated incurred claims and allocated loss adjustment expenses, end of policy year</b>										
<b>Incurred</b>	12,565	11,575	10,288	10,553	14,881	11,137	17,499	17,912	12,727	13,329
<b>Ceded</b>	3,422	1,165	920	845	4,618	1,181	5,657	6,934	1,211	1,373
<b>Net Incurred</b>	9,143	10,410	9,368	9,708	10,263	9,956	11,842	10,978	11,516	11,956
<b>Paid (cumulative) as of:</b>										
End of policy year	2,848	2,324	2,539	3,113	3,065	3,177	3,988	3,190	4,299	4,264
One year later	5,010	5,162	5,100	5,446	4,892	5,032	7,284	5,809	6,209	
Two years later	6,186	5,827	5,981	6,485	5,923	5,739	8,389	7,134		
Three years later	7,175	6,726	6,706	6,979	7,061	6,510	9,795			
Four years later	7,638	7,201	7,566	7,145	7,461	6,798				
Five years later	7,750	7,235	7,654	7,519	7,480					
Six years later	7,930	7,470	7,776	7,568						
Seven years later	7,941	7,474	7,803							
Eight years later	7,962	7,467								
Nine years later	7,959									
<b>Reestimated ceded losses and allocated loss adjustment expenses</b>	3,499	848	1,108	1,134	7,587	2,941	5,734	8,277	1,665	1,373
<b>Reestimated incurred claims and allocated loss adjustment expenses</b>										
End of policy year	9,143	10,410	9,368	9,708	10,263	9,956	11,842	10,978	11,516	11,956
One year later	9,282	9,055	8,390	10,451	10,346	9,902	10,698	10,675	13,020	
Two years later	8,985	8,322	8,186	9,302	9,279	8,793	11,260	10,703		
Three years later	8,460	8,217	8,579	8,224	8,600	8,143	10,856			
Four years later	8,506	7,726	8,626	7,953	8,008	7,557				
Five years later	8,088	7,687	8,449	7,655	7,960					
Six years later	8,076	7,506	8,070	7,663						
Seven years later	8,035	7,474	8,009							
Eight years later	7,980	7,467								
Nine years later	7,959									
<b>Increase (decrease) in estimated incurred claims and expenses from end of policy year</b>	(1,184)	(2,943)	(1,359)	(2,045)	(2,303)	(2,399)	(986)	(275)	1,504	-

## 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, 2020 and 2019, respectively:

	Property and Casualty Liabilities	
	Years Ended June 30,	
	2020	2019
	(in thousands)	(in thousands)
Unpaid losses and loss adjustment expenses at beginning of the fiscal year, net of excess insurance recoverables	\$ 17,749	\$ 17,726
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	11,956	11,516
Change in provision for insured events of prior fiscal years	391	( 1,882)
Total incurred losses and loss adjustment expenses	12,347	9,634
Payments:		
Losses and loss adjustment expenses attributable to insured losses of the current fiscal year	4,264	4,299
Losses and loss adjustment expenses attributable to insured losses of the prior fiscal years	5,116	5,312
Total payments	9,380	9,611
Total unpaid losses and loss adjustment expenses at the end of the fiscal year, net of excess insurance recoverables	\$ 20,716	\$ 17,749