

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LOCAL GOVERNMENT
WORKERS' COMPENSATION POOL**

JUNE 30, 2020

C O N T E N T S

BOARD OF DIRECTORS AND OFFICERS	3
INDEPENDENT AUDITORS' REPORT	4
FINANCIAL STATEMENTS	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9
NOTES TO FINANCIAL STATEMENTS	11
SUPPLEMENTAL INFORMATION	
Independent Auditors' Report on Supplemental Information	23
Comparative Schedule of Claims Development and Earned Assessments	24
Reconciliation of Claims Liabilities	25

Local Government Workers' Compensation 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 Workers' Compensation Pool

Report on the Financial Statements

We have audited the accompanying financial statements of the Local Government Workers' Compensation 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 Workers' Compensation 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 18, 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 18, 2020

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

Local Government Workers' Compensation Pool

STATEMENT OF NET POSITION

June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 192,681
Certificates of deposit	2,855,098
Investment in debt securities	17,390,880
Investment in State Investment Pool	24,353,497
Excess insurance recoverable on paid losses and loss adjustment expenses	413,679
Accrued interest receivable	222,499
Investment in note receivable	525,000
	<u>45,953,334</u>

NONCURRENT ASSETS

Certificates of deposit	279,747
Investment in notes receivable	7,270,000
Other invested assets	1,325,807
Fixed assets	43,148
	<u>8,918,702</u>

Total Assets	\$ <u>54,872,036</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	\$ 8,137,085
Accrued expenses and accounts payable	110,174
	<u>8,247,259</u>

NONCURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	<u>25,522,034</u>
Total Liabilities	<u>33,769,293</u>

NET POSITION, UNRESTRICTED	<u>21,102,743</u>
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\$ 54,872,036

The accompanying notes are an integral part of this statement.

Local Government Workers' Compensation Pool

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended June 30, 2020

OPERATING REVENUES

Premiums earned \$ 14,760,569

OPERATING EXPENSES

Losses and loss adjustment expenses 5,955,976

Excess insurance premiums 1,708,168

Claims administration fees 908,586

Commissions 806,409

Professional fees 45,800

Second injury fund assessment 60,000

Other administrative expenses 553,318

10,038,257

OPERATING INCOME

4,722,312

NON-OPERATING REVENUES

Net investment income 1,200,335

INCREASE IN NET POSITION

5,922,647

Net position at July 1, 2019

15,180,096

NET POSITION AT JUNE 30, 2020

\$ 21,102,743

The accompanying notes are an integral part of this statement.

Local Government Workers' Compensation Pool

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Premiums collected	\$ 14,760,569
Excess insurance premiums paid	(1,708,168)
Losses and loss adjustment expenses paid	(7,545,487)
Other expenses paid	(2,355,950)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,150,964</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net deposit in State Investment Pool	(3,633,303)
Purchase of debt securities	(23,299,966)
Proceeds from maturities of debt securities	23,451,000
Purchase of certificates of deposit	(2,637,845)
Maturities of certificates of deposit	1,594,026
Principal collected on notes receivable	(75,000)
Purchases of fixed assets	(52,630)
Depreciation	13,913
Investment income collected	932,560
NET CASH USED IN INVESTING ACTIVITIES	<u>(3,707,245)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (556,281)

Cash and cash equivalents at July 1, 2019 748,962

CASH AND CASH EQUIVALENTS AT JUNE 30, 2020 \$ 192,681

NON-CASH INVESTING ACTIVITIES

A non-cash increase in other invested assets and net investment income of \$295,074 was recorded related to the investment in County Reinsurance Limited as discussed in Note 7.

The accompanying notes are an integral part of this statement.

Local Government Workers' Compensation 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 income	\$ 4,722,312
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in assets:	
Excess insurance recoverable on paid losses and loss adjustment expenses	24,429
Other receivable	34,444
Increase (decrease) in liabilities:	
Unpaid losses and loss adjustment expenses	(1,613,940)
Accrued expenses and accounts payable	8,725
Other liabilities	(25,006)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>3,150,964</u>

The accompanying notes are an integral part of this statement.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 1 - ORGANIZATION OF POOL

The Local Government Workers' Compensation 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 by the workers' compensation laws.

The operations of the Local Government Workers' Compensation 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 76 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.

Premiums

Premiums, as reflected herein, are based upon the current year's estimated premiums and premium adjustments as the result of payroll audits from prior periods.

Investment in State Investment Pool

Investments in the State of Tennessee Local Government Investment Pool ("LGIP") are carried at cost which approximates 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.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Insurance Premiums

Insurance premiums are recognized as revenue ratably over the terms of the policies.

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 is presented at full value and has not been reduced for the time value of money.

Income Tax Exemption

The Local Government Workers' Compensation 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 purpose 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).

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value Measurements - Continued

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.

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 in Notes 4, 5 and 7. The following table sets forth, by level within the fair value hierarchy, the Pool's assets at estimated fair value as of:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total
Investment in CRL	\$ --	\$ --	\$ 1,325,807	\$ 1,325,807
Debt securities	\$ --	\$ 17,390,880	\$ --	\$ 17,390,880

The Pool did not have any Level 1 assets at any point during the year ended June 30, 2020. There were no significant transfers between Level 2 and Level 3 during the year ended June 30, 2020.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 4 - INVESTMENTS IN DEBT SECURITIES

Investments in debt securities are stated at their estimated fair market value and consist of the following as of:

	June 30, 2020			
	Amortized Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Government securities	\$ 2,477,426	\$ 2,586,035	\$ 108,609	\$ (--)
Corporate bonds	15,041,608	14,804,845	3,021	(239,784)
	<u>\$ 17,519,034</u>	<u>\$ 17,390,880</u>	<u>\$ 111,630</u>	<u>\$ (239,784)</u>

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.

	June 30, 2020			
	Amortized Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Due in one year or less	\$ 394,601	\$ 396,050	\$ 1,497	\$ (48)
Due in one year through five years	8,524,433	8,577,241	110,133	(57,325)
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>\$ 17,519,034</u>	<u>\$ 17,390,880</u>	<u>\$ 111,630</u>	<u>\$ (239,784)</u>

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

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 4 - INVESTMENTS IN DEBT SECURITIES - CONTINUED

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:

	June 30, 2020					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses	Estimated Fair Market Value	Gross Unrealized Losses
Corporate bonds	\$ 14,360,263	\$ (239,736)	\$ 11,040	\$ (48)	\$ 14,371,303	\$ (239,784)

The unrealized losses on 5 debt securities at June 30, 2020 were caused primarily by rising interest rates. The severity of the impairment (ranging from minimal to 7%) is consistent with the general trend in debt securities.

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 - INVESTMENT IN STATE INVESTMENT POOL

The Pool's investments consist of the State of Tennessee Local Government Investment Pool. Investments are carried at cost which approximates estimated market value.

NOTE 6 - CERTIFICATES OF DEPOSIT

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

NOTE 7 - 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, 2020, the Pool's investment is approximately \$1,326,000 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 \$295,000, which is included in net investment

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 7 - OTHER INVESTED ASSETS - CONTINUED

income in the accompanying financial statements. The Pool owns approximately 1.65% of CRL. 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

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

STATEMENT OF OPERATIONS

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

NOTE 8 - FIXED ASSETS

Fixed assets consists of the following:

Automobiles	\$ 74,379
Less: accumulated depreciation	(<u>31,231</u>)
	\$ <u>43,148</u>

Depreciation expense was approximately \$14,000 for the year ended June 30, 2020.

NOTE 9 - EXCESS INSURANCE

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:

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - EXCESS INSURANCE - CONTINUED

Aggregate excess insurance coverage takes effect when total net losses exceed the attachment point for each policy period. Varying limits apply to each policy period. Following are the policy periods and the related attachment points:

<u>Policy Period</u>	<u>Attachment Point</u>
01/01/81 - 12/31/81	\$ 454,575
01/01/82 - 12/31/82	1,193,214
01/01/83 - 12/31/83	1,447,938
01/01/84 - 12/31/84	1,620,134
01/01/85 - 12/31/85	2,280,405
01/01/86 - 12/31/86	4,079,363
01/01/87 - 12/31/87	4,960,912
01/01/88 - 12/31/88	4,762,947
01/01/89 - 12/31/89	5,184,145
01/01/90 - 12/31/90	6,122,608
01/01/91 - 12/31/91	6,334,656
01/01/92 - 12/31/92	8,332,325

For fund years 1993/94 through 2019/20, the Pool elected not to purchase aggregate coverage from its excess carrier.

Specific excess coverage takes effect when losses from an individual claim exceed the attachment point for each policy period. Varying limits apply to each policy period. Following are the policy periods and the related attachment points:

<u>Policy Period</u>	<u>Attachment Point</u>
01/01/81 - 12/31/81	
to 01/01/85 - 12/31/85	\$125,000
01/01/86 - 12/31/86	250,000
01/01/87 - 12/31/87	
to 01/01/94 - 12/31/94	300,000
01/01/95 - 06/30/95	300,000
07/01/95 - 06/30/96	300,000
07/01/96 - 06/30/97	300,000
07/01/97 - 06/30/98	300,000
07/01/98 - 06/30/99	300,000
07/01/99 - 06/30/00	300,000
07/01/00 - 06/30/01	300,000

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - EXCESS INSURANCE - CONTINUED

<u>Policy Period</u>	<u>Attachment Point</u>
07/01/01 - 06/30/02	\$300,000
07/01/02 - 06/30/03	300,000
07/01/03 - 06/30/04	500,000
07/01/04 - 06/30/05	500,000
07/01/05 - 06/30/06	500,000
07/01/06 - 06/30/07	500,000
07/01/07 - 06/30/08	500,000
07/01/08 - 06/30/09	500,000
07/01/09 - 06/30/10	500,000
07/01/10 - 06/30/11	500,000
07/01/11 - 06/30/12	500,000
07/01/12 - 06/30/13	500,000
07/01/13 - 06/30/14	500,000
07/01/14 - 06/30/15	500,000
07/01/15 - 06/30/16	500,000
07/01/16 - 06/30/17	500,000
07/01/17 - 06/30/18	500,000
07/01/18 - 06/30/19	500,000
07/01/19 - 06/30/20	500,000

The Pool entered into an excess insurance agreement from July 1, 2003 through June 30, 2009 that provides for specific retention of \$500,000 with the Pool also being responsible for an additional \$250,000 of total loss per annual twelve month period in excess of the self-insured retention per occurrence of \$500,000. The additional one-time corridor deductible of \$250,000 for each twelve month period may be satisfied by loss stemming from one or several occurrences.

Excess insurance recoverable on paid losses and loss adjustment expenses represent claims paid in excess of the specific and aggregate retention levels yet unrecovered from the insurer as of June 30, 2020. 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 insurers to minimize its exposure to significant losses from excess reinsurer insolvency. At June 30, 2020, excess insurance recoverable on unpaid losses and loss adjustment expenses was approximately \$12,173,000 and excess insurance recoverable on paid losses and loss adjustment expenses was approximately \$414,000. Of these amounts, approximately \$11,759,000 and \$356,000, respectively, were associated with four and two excess carriers, respectively.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 9 - EXCESS INSURANCE - CONTINUED

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 10 - INVESTMENT IN NOTES RECEIVABLE

The Pool has investments of notes receivable through the Tennessee County Services Loan Program (TCSLP). Promissory notes, dated February 5, 2014 and February 13, 2020 were executed for the principal amounts of \$9,685,215 and \$500,000, respectively. The note executed February 5, 2014 bears interest at a rate of 2.50% and the note executed February 13, 2020 bears interest at a rate of 4.00%. Principal and interest are payable annually. The total balance of the promissory notes is \$7,795,000 as of June 30, 2020.

The following sets forth the required payment of principal:

<u>Date of Payment</u>	<u>Principal Payment</u>
3/01/21	\$ 100,000
5/01/21	425,000
3/01/22	100,000
5/01/22	425,000
3/01/23	100,000
5/01/23	425,000
Thereafter	<u>6,220,000</u>
	<u>\$ 7,795,000</u>

NOTE 11 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The coverage offered by the Pool is on an occurrence basis which provides for payment of claims which occur during the period of coverage regardless of when the claim is reported. The Pool establishes a liability for both reported and unreported insured claims, which includes estimates of both future payments of losses and related loss adjustment expenses.

The liability is 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. The changes 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 \$16,637,000 at June 30, 2020. Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 11 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

Unpaid losses and loss adjustment expenses are shown net of excess recoverable on unpaid losses and loss adjustment expenses of approximately \$12,173,000 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 9. During the year ended June 30, 2020, the Pool experienced an increase in the recoveries recognized under these excess contracts which totaled approximately \$233,000. This amount was credited to current year losses and loss adjustment expenses.

NOTE 12 - 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 13 - MEMBER INDEMNIFICATION

The Pool has entered into an agreement with each participating member to provide workers' compensation coverages for the participating members. The agreement includes a provision that each member is jointly and severally liable for the workers' compensation 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 14 - COMMITMENTS AND CONTINGENCIES

Alternate Service Concepts, L.L.C. (ASC) 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, ASC will continue to handle claims for an annual fee to be mutually agreed upon by the 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.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

NOTE 15 - SUBSEQUENT EVENTS

Management considered subsequent events through August 18, 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 Workers' Compensation 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 18, 2020

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

Local Government Workers' Compensation Pool

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

For the Years Ended June 30, 2011 through June 30, 2020

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Required contribution and investment revenue										
Earned	\$ 10,451	\$ 10,609	\$ 11,692	\$ 12,531	\$ 14,781	\$ 14,563	\$ 14,175	\$ 14,523	\$ 15,131	\$ 15,961
Ceded	<u>909</u>	<u>935</u>	<u>1,149</u>	<u>1,172</u>	<u>1,260</u>	<u>1,312</u>	<u>1,288</u>	<u>1,432</u>	<u>1,597</u>	<u>1,708</u>
Net Earned	9,542	9,674	10,543	11,359	13,521	13,251	12,887	13,091	13,534	14,253
Unallocated Expenses	(4,122)	1,810	1,824	1,738	1,949	1,939	1,906	2,151	2,145	2,374
Estimated incurred claims and allocated loss adjustment expenses, end of policy year										
Incurred	10,288	9,016	7,348	7,861	8,044	11,468	9,676	10,669	10,184	10,628
Ceded	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,492</u>	<u>-</u>	<u>487</u>	<u>1,050</u>	<u>1,498</u>
Net Incurred	10,288	9,016	7,348	7,861	8,044	9,976	9,676	10,182	9,134	9,130
Paid (cumulative) as of:										
End of policy year	2,838	2,739	1,912	2,004	1,863	2,602	2,466	2,957	2,540	2,810
One year later	6,217	5,042	3,544	4,448	3,385	4,673	5,080	5,027	4,938	
Two years later	7,300	5,979	4,337	5,636	4,111	5,081	5,682	5,637		
Three years later	8,316	6,561	4,915	6,097	4,368	5,425	6,041			
Four years later	8,526	6,608	5,074	6,482	4,506	5,548				
Five years later	8,819	6,681	5,256	6,571	4,583					
Six years later	9,046	6,760	5,289	6,607						
Seven years later	9,320	6,797	5,369							
Eight years later	9,395	6,825								
Nine years later	9,631									
Reestimated ceded losses and allocated loss adjustment expenses	62	76	-	-	98	1,077	1,105	755	70	1,498
Reestimated incurred claims and allocated loss adjustment expenses										
End of policy year	10,288	9,016	7,348	7,861	8,044	9,976	9,676	10,182	9,134	9,130
One year later	10,368	8,640	6,153	8,244	6,639	8,669	9,382	9,038	8,206	
Two years later	10,568	8,675	6,526	8,657	6,530	7,808	8,736	8,453		
Three years later	11,466	8,935	6,598	8,654	6,253	7,300	8,045			
Four years later	11,205	8,738	6,573	8,579	6,123	7,020				
Five years later	11,371	8,565	6,528	8,400	5,868					
Six years later	11,456	8,485	6,520	8,191						
Seven years later	11,547	8,321	6,513							
Eight years later	11,426	8,229								
Nine years later	11,333									
Increase (decrease) in estimated incurred claims and expenses from end of policy year	1,045	(787)	(835)	330	(2,176)	(2,956)	(1,631)	(1,729)	(928)	-

Local Government Workers' Compensation 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:

	Workers' Compensation	
	Years Ended June 30,	
	2020	2019
	(in thousands)	(in thousands)
Unpaid losses and loss adjustment expenses at beginning of year	\$ 35,273	\$ 36,925
Incurred losses and loss adjustment expenses:		
Provision for insured losses of the current year	9,130	9,134
Change in provision for insured losses of prior years	(3,174)	(4,137)
Total incurred losses and loss adjustment expenses	<u>5,956</u>	<u>4,997</u>
Payments:		
Losses and loss adjustment expenses attributable to insured losses of the current year	2,810	2,540
Losses and loss adjustment expenses attributable to insured losses of the prior years	<u>4,760</u>	<u>4,109</u>
Total payments	<u>7,570</u>	<u>6,649</u>
Total unpaid losses and loss adjustment expenses at end of year	\$ <u>33,659</u>	\$ <u>35,273</u>