

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**LOCAL GOVERNMENT PROPERTY  
AND CASUALTY POOL**

**JUNE 30, 2023**

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**Local Government Property and Casualty Pool**

**BOARD OF DIRECTORS AND OFFICERS**

**June 30, 2023**

**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 Audit of the Financial Statements**

### **Opinion**

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, 2023, 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.

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, 2023, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (Government Auditing Standards). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Pool and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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

## **INDEPENDENT AUDITORS' REPORT - CONTINUED**

### **Emphasis of Matter - Continued**

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 circumstance, 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.

### **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. Management is also responsible for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## **INDEPENDENT AUDITORS' REPORT - CONTINUED**

### **Auditors' Responsibilities for the Audit of the Financial Statements - Continued**

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Pool's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 25, 2023, on our consideration of the Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

## INDEPENDENT AUDITORS' REPORT - CONTINUED

### Other Reporting Required by Government Auditing Standards - Continued

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.

### Other Information

Management is responsible for the other information included in this report. The other information comprises the Board of Directors and Officers information on page 3 but does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

August 25, 2023

*Shore, Tagman, Butler & Company, P.A.*

**Local Government Property and Casualty Pool**

**STATEMENT OF NET POSITION**

**June 30, 2023**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 38,146
Certificates of deposit	817,865
Investment in debt securities	26,072,510
Investment in equity securities	5,719,159
Investment in the State Investment Pool	8,504,187
Excess insurance recoverable on paid losses and loss adjustment expenses	2,007,305
Accrued interest receivable	238,028
Policyholder deductibles receivable	281,395
Other assets	68,658
Total current assets	<u>43,747,253</u>

**NONCURRENT ASSETS**

Investment in annuities	1,425,081
Other invested assets	4,834,224
Total noncurrent assets	<u>6,259,305</u>

Total Assets	<u>\$ 50,006,558</u>
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**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Unpaid losses and loss adjustment expenses	\$ 12,130,414
Accrued expenses and accounts payable	152,995
Total current liabilities	<u>12,283,409</u>

**NONCURRENT LIABILITIES**

Unpaid losses and loss adjustment expenses	<u>17,318,981</u>
Total liabilities	<u>29,602,390</u>

**NET POSITION, UNRESTRICTED**

	<u>20,404,168</u>
	<u>\$ 50,006,558</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, 2023**

**OPERATING REVENUES**

Premiums earned \$ 24,681,045

**OPERATING EXPENSES**

Losses and loss adjustment expenses 18,783,637

Excess insurance premiums 6,662,745

Claims administration fees 687,996

Commissions 1,993,818

Professional fees 113,244

Other administrative expenses 582,854

28,824,294

**OPERATING LOSS ( 4,143,249 )**

**NON-OPERATING REVENUE**

Net investment income 251,551

**DECREASE IN NET POSITION ( 3,891,698 )**

Net position at July 1, 2022 24,295,866

**NET POSITION AT JUNE 30, 2023 \$ 20,404,168**

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, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Premiums collected	\$ 24,681,045
Losses and loss adjustment expenses paid	( 14,752,824 )
Excess insurance premiums paid	( 6,662,745 )
Other expenses paid	( 3,647,486 )
NET CASH USED IN OPERATING ACTIVITIES	<u>( 382,010 )</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Net deposit in State Investment Pool	2,098,925
Purchases of debt securities	( 15,643,071 )
Proceeds from sales of debt securities	10,942,295
Purchases of certificates of deposit	( 526,722 )
Maturities of certificates of deposit	2,075,458
Investment income collected	<u>1,122,533</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>69,418</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	( 312,592 )
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Cash and cash equivalents at July 1, 2022	<u>350,738</u>
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CASH AND CASH EQUIVALENTS AT JUNE 30, 2023	\$ <u>38,146</u>
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**NON-CASH INVESTING ACTIVITIES**

A non-cash decrease in other invested assets and net investment income of \$734,673 was recorded related to the investment in County Reinsurance Limited as discussed in Note 6.

A non-cash decrease in investment securities and net investment income of \$393,449 was recorded as a result of adjusting investment securities to their estimated fair value.

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, 2023**

**RECONCILIATION OF OPERATING LOSS TO NET**

**CASH USED IN OPERATING ACTIVITIES:**

<b>Operating loss</b>	<b>\$ ( 4,143,249 )</b>
<b>Adjustments to reconcile operating loss to net cash used in operating activities:</b>	
<b>Changes in operating assets and liabilities:</b>	
<b>(Increase) decrease in assets:</b>	
<b>Excess insurance recoverable on paid losses and loss adjustment expenses</b>	<b>( 1,911,542 )</b>
<b>Policyholder deductibles receivable</b>	<b>( 211,994 )</b>
<b>Other assets</b>	<b>( 8,050 )</b>
<b>Increase (decrease) in liabilities:</b>	
<b>Unpaid losses and loss adjustment expenses</b>	<b>5,942,355</b>
<b>Accrued expenses and accounts payable</b>	<b>( 49,530 )</b>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>\$ ( <u>382,010</u> )</b>

**The accompanying notes are an integral part of this statement.**

## **Local Government Property and Casualty Pool**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2023**

#### **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 89 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.

##### **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.**

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Fair Value Measurements - Continued**

**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.

**Investment in the State Investment Pool**

Investment in the State of Tennessee Local Government Investment Pool ("LGIP") is 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 investment in the State of Tennessee Local Government Investment Pool to be relatively safe, with minimal credit risk.

**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.

**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.

**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.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**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 Notes 4, 5, and 6. 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, 2023</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investment in CRL</b>	\$ --	\$ --	\$ 4,834,224	\$ 4,834,224
<b>Debt securities</b>	\$ --	\$ 26,072,510	\$ --	\$ 26,072,510
<b>Equity securities</b>	\$ 5,719,159	\$ --	\$ --	\$ 5,719,159

There were no significant transfers between Levels 1, 2 and 3 during the year ended June 30, 2023.

**NOTE 4 - INVESTMENT IN DEBT SECURITIES**

Investment in debt securities is stated at estimated fair value and consists of the following as of:

	<b>June 30, 2023</b>			
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>
<b>U.S. Treasury securities</b>	\$ 19,413,133	\$ 19,038,306	\$ --	\$ ( 374,827)
<b>U.S. Government Agency securities</b>	149,870	147,156	--	( 2,714)
<b>Corporate bonds</b>	5,407,643	4,784,547	--	( 623,096)
<b>Municipal bonds</b>	1,888,550	1,741,241	982	( 148,291)
<b>Certificates of deposit</b>	362,000	361,260	--	( 740)
	\$ 27,221,196	\$ 26,072,510	\$ 982	\$ (1,149,668)

# Local Government Property and Casualty Pool

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

### NOTE 4 - INVESTMENT IN DEBT SECURITIES - CONTINUED

The amortized cost and estimated fair value of investment in debt securities as of June 30, 2023 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, 2023			
	Amortized Cost	Estimated Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Due in one year or less	\$ 15,706,728	\$ 15,397,870	\$ --	\$ ( 308,858)
Due in one year through five years	10,135,422	9,419,879	--	( 715,543)
Due after five years through ten years	1,122,746	1,014,676	256	( 108,326)
Due after ten years	256,300	240,085	726	( 16,941)
	<u>\$ 27,221,196</u>	<u>\$ 26,072,510</u>	<u>\$ 982</u>	<u>\$ (1,149,668)</u>

Proceeds from the sales of debt securities available-for-sale during the year ended June 30, 2023, were approximately \$351,000. Gross gains of approximately \$3,000 and gross losses of \$-0- were realized on these sales during the year ended June 30, 2023.

Information pertaining to securities with gross unrealized losses at June 30, 2023, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Treasury securities	\$ 9,029,859	\$ ( 97,410)	\$ 10,008,447	\$ ( 277,417)	\$ 19,038,306	\$ ( 374,827)
U.S. Government Agency securities	147,156	( 2,714)	--	( --)	147,156	( 2,714)
Corporate bonds	210,689	( 3,515)	4,573,858	( 619,581)	4,784,547	( 623,096)
Municipal bonds	293,861	( 7,637)	1,371,847	( 140,654)	1,665,708	( 148,291)
Certificates of deposit	361,260	( 740)	--	( --)	361,260	( 740)
	<u>\$ 10,042,825</u>	<u>( 112,016)</u>	<u>15,954,152</u>	<u>( 1,037,652)</u>	<u>25,996,977</u>	<u>( 1,149,668)</u>

The unrealized losses on 81 debt securities at June 30, 2023 were caused primarily by rising interest rates. The severity of the impairments (ranging from minimal to 20%) is consistent with the general trend in debt securities.

# **Local Government Property and Casualty Pool**

## **NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

### **NOTE 4 - INVESTMENT IN DEBT SECURITIES - 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, 2023.

### **NOTE 5 - INVESTMENT IN EQUITY SECURITIES**

Investment in equity securities is stated at fair value and consists of the following at:

	June 30, 2023			
	Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Preferred stock and mutual funds	<u>\$ 6,417,371</u>	<u>\$ 5,719,159</u>	<u>\$ --</u>	<u>\$ ( 698,212)</u>

There were no sales of equity securities during the year ended June 30, 2023.

Information pertaining to equity securities with gross unrealized losses at June 30, 2023, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2023					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Preferred stock and mutual funds	<u>\$ --</u>	<u>\$ ( --)</u>	<u>\$ 5,719,159</u>	<u>\$ ( 698,212)</u>	<u>\$ 5,719,159</u>	<u>\$ ( 698,212)</u>

The unrealized losses on 2 equity securities at June 30, 2023 were caused primarily by normal stock price fluctuations. The severity of the impairments (9% to 24%) is consistent with the individual variability of a stock price over a short-term period of time.



**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 6 - 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, 2023, the Pool's investment is approximately \$1,592,000 based on the book value of the investment in accordance with CRL's audited financial statements as of December 31, 2022. The decrease in value of the investment during the year is approximately \$(906,000) which is reflected in net investment income in the accompanying financial statements. The Pool owns approximately 3.40% of CRL. The following summarizes the financial information for CRL as of December 31, 2022 and for the year then ended as extracted from audited financial statements audited by other auditors:

**BALANCE SHEET**

Assets	\$ <u>404,008,082</u>
Liabilities	\$ 357,217,268
Members' contribution and surplus	<u>46,790,814</u>
	\$ <u><u>404,008,082</u></u>

**STATEMENT OF OPERATIONS**

Underwriting revenue	\$ 62,549,735
Underwriting expenses	<u>88,305,012</u>
Operating income	( 25,755,277 )
Investment income	<u>8,282,171</u>
Net loss	\$ ( <u><u>17,473,106</u></u> )

The Pool has invested in CRL's Property Plus Program Separate Account (Separate Account). As of June 30, 2023, the Pool's investment is approximately \$3,242,000 based on the book value of the investment in accordance with Separate Account's audited financial statements as of December 31, 2022. The increase in value of the investment during the year is approximately \$171,000 which is included in net investment income in the accompanying financial statements. The Pool owns approximately 7.72% of Separate Account. The following summarizes the financial information for Separate Account as of December 31, 2022 and for the year then ended as extracted from audited financial statements audited by other auditors:

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 6 - OTHER INVESTED ASSETS - CONTINUED**

**BALANCE SHEET**

<b>Assets</b>	<b>\$ 57,474,029</b>
<b>Liabilities</b>	<b>\$ 15,482,522</b>
<b>Members' contribution and surplus</b>	<b>41,991,507</b>
	<b>\$ 57,474,029</b>

**STATEMENT OF OPERATIONS**

<b>Underwriting revenue</b>	<b>\$ 8,471,477</b>
<b>Underwriting expenses</b>	<b>6,463,588</b>
<b>Operating income</b>	<b>2,007,889</b>
<b>Investment income</b>	<b>1,188,120</b>
<b>Net income</b>	<b>\$ 3,196,009</b>

**NOTE 7 - INVESTMENT IN ANNUITIES**

The Pool invests in fifty-one year term and three-year term annuities with three-year guarantee periods. Investment in annuities is being carried at the cash surrender value of approximately \$1,149,000 and \$276,000, respectively, for a total of approximately \$1,425,000, as of June 30, 2023. The related cost is approximately \$1,206,000 and \$294,000, respectively. They earn interest of 1.6% and 5.1% a year, respectively. The Pool earned approximately \$66,000 in interest from the annuities as of June 30, 2023.

**NOTE 8 - 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 9 - 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:

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

NOTE 9 - EXCESS COVERAGE - CONTINUED

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
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

Local Government Property and Casualty Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2023

NOTE 9 - EXCESS COVERAGE - CONTINUED

<u>Policy Period</u>	<u>Attachment</u>
7/01/18 - 6/30/19	Varies by line
7/01/19 - 6/30/20	Varies by line
7/01/20 - 6/30/21	Varies by line
7/01/21 - 6/30/22	Varies by line
7/01/22 - 6/30/23	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
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

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 9 - EXCESS COVERAGE - CONTINUED**

<u>Policy Period</u>	<u>Attachment</u>
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
7/01/20 - 6/30/21	Varies by line
7/01/21 - 6/30/22	Varies by line
7/01/22 - 6/30/23	Varies by line

Excess insurance recoverable on paid losses and loss adjustment expenses of approximately \$2,007,000 represents claims paid in excess of the specific and aggregate retention levels yet unrecovered from the reinsurer as of June 30, 2023. 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, 2023, excess insurance recoverable on unpaid losses and loss adjustment expenses of approximately \$78,223,000 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 10 - FIXED ASSETS**

Fixed assets consist of the following:

Automobiles	\$ 97,719
Less: accumulated depreciation	( 97,719 )
	\$ --

There was no depreciation expense for the year ended June 30, 2023.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 11 - 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 \$7,737,000 at June 30, 2023. 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 \$526,000. 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 \$78,223,000 at June 30, 2023. 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, 2023, the Pool experienced an increase in the recoveries recognized under these excess contracts which totaled approximately \$78,453,000. This amount has decreased 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.

**Local Government Property and Casualty Pool**

**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**June 30, 2023**

**NOTE 13 - 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 14 - 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 15 - RELATED PARTY TRANSACTIONS**

Certain excess insurance contracts referred to in Note 9 have been purchased from CRL. The Pool is invested in CRL. The excess insurance recoverable on unpaid losses of approximately \$78,223,000 is due from CRL. The Pool's other invested assets includes approximately \$4,834,000 invested in CRL.

**NOTE 16 - SUBSEQUENT EVENTS**

Management considered subsequent events through August 25, 2023, the date the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**





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

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON REQUIRED SUPPLEMENTARY INFORMATION**

Board of Directors  
Local Government Property and Casualty Pool

Accounting principles generally accepted in the United States of America require that the Comparative Schedule of Claims Development and Earned Assessments and the Reconciliation of Claims Liabilities be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

August 25, 2023

*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, 2014 through June 30, 2023**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Required contribution and investment revenue</b>										
<b>Earned</b>	\$ 14,715	\$ 16,429	\$ 16,732	\$ 17,340	\$ 17,799	\$ 19,775	\$ 20,670	\$ 21,701	\$ 19,443	\$ 24,933
<b>Ceded</b>	<u>2,109</u>	<u>2,126</u>	<u>2,037</u>	<u>2,170</u>	<u>2,455</u>	<u>3,161</u>	<u>3,675</u>	<u>4,620</u>	<u>5,261</u>	<u>6,663</u>
<b>Net Earned</b>	12,606	14,303	14,695	15,170	15,344	16,614	16,995	17,081	14,182	18,270
<b>Unallocated Expenses</b>	3,600	3,778	3,969	3,905	3,615	3,899	3,978	4,039	3,964	3,378
<b>Estimated incurred claims and allocated loss adjustment expenses, end of policy year</b>										
<b>Incurred</b>	10,553	14,881	11,137	17,499	17,912	12,727	13,329	16,629	13,889	94,880
<b>Ceded</b>	<u>845</u>	<u>4,618</u>	<u>1,181</u>	<u>5,657</u>	<u>6,934</u>	<u>1,211</u>	<u>1,373</u>	<u>3,059</u>	<u>1,242</u>	<u>75,653</u>
<b>Net Incurred</b>	9,708	10,263	9,956	11,842	10,978	11,516	11,956	13,570	12,647	19,227
<b>Paid (cumulative) as of:</b>										
End of policy year	3,113	3,065	3,177	3,988	3,190	4,299	4,264	4,670	4,629	6,628
One year later	5,446	4,892	5,032	7,284	5,809	6,209	6,283	7,010	6,523	
Two years later	6,485	5,923	5,739	8,389	7,134	8,040	7,920	8,846		
Three years later	6,979	7,061	6,510	9,795	8,694	9,745	9,989			
Four years later	7,145	7,461	6,798	10,049	10,231	10,169				
Five years later	7,519	7,480	6,999	10,068	10,260					
Six years later	7,568	7,525	7,123	10,084						
Seven years later	7,580	7,608	7,128							
Eight years later	7,578	7,612								
Nine years later	7,595									
<b>Reestimated ceded losses and allocated loss adjustment expenses</b>	1,134	7,589	3,109	6,588	9,561	1,971	2,226	6,500	2,584	75,653
<b>Reestimated incurred claims and allocated loss adjustment expenses</b>										
End of policy year	9,708	10,263	9,956	11,842	10,978	11,516	11,956	13,570	12,647	19,227
One year later	10,451	10,346	9,902	10,698	10,675	13,020	11,310	12,988	12,120	
Two years later	9,302	9,279	8,793	11,260	10,703	13,429	11,116	12,799		
Three years later	8,224	8,600	8,143	10,856	11,360	13,505	12,105			
Four years later	7,953	8,008	7,557	10,334	12,404	13,049				
Five years later	7,655	7,960	7,507	10,312	11,842					
Six years later	7,663	7,849	7,133	10,566						
Seven years later	7,641	7,625	7,139							
Eight years later	7,606	7,636								
Nine years later	7,628									
<b>Increase (decrease) in estimated incurred claims and expenses from end of policy year</b>	(2,080)	(2,627)	(2,817)	(1,276)	864	1,533	149	(771)	(527)	-

## 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, 2023 and 2022, respectively:

	<b>Property and Casualty Liabilities</b>	
	<b>Years Ended June 30,</b>	
	<b>2023</b>	<b>2022</b>
	(in thousands)	(in thousands)
Unpaid losses and loss adjustment expenses at beginning of the fiscal year, net of excess insurance recoverables	\$ 23,507	\$ 23,259
Incurring losses and loss adjustment expenses:		
Provision for insured events of the current fiscal year	19,227	12,647
Change in provision for insured events of prior fiscal years	( 443)	( 279)
Total incurred losses and loss adjustment expenses	<u>18,784</u>	<u>12,368</u>
Payments:		
Losses and loss adjustment expenses attributable to insured losses of the current fiscal year	6,628	4,629
Losses and loss adjustment expenses attributable to insured losses of the prior fiscal years	<u>6,214</u>	<u>7,491</u>
Total payments	<u>12,842</u>	<u>12,120</u>
Total unpaid losses and loss adjustment expenses at the end of the fiscal year, net of excess insurance recoverables	\$ <u>29,449</u>	\$ <u>23,507</u>