

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**LOCAL GOVERNMENT
WORKERS' COMPENSATION POOL**

JUNE 30, 2022

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Local Government Workers' Compensation Pool

BOARD OF DIRECTORS AND OFFICERS

June 30, 2022

Board of Directors

Chairman

Jeff Huffman

Secretary

Michael Garland

Director

Van Boshers

Director

Larry Waters

Director

Robert M. Wormsley

Officers

President & CEO

Robert M. Wormsley

Vice President & COO

David Seivers

Secretary

Michael Garland



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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Local Government Workers' Compensation Pool

Opinion

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, 2022, 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 Workers' Compensation Pool as of June 30, 2022, 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 audits. 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 losses will not be more or less than the current estimate. Our opinion is not modified with respect to this matter.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Emphasis of Matter - Continued

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 one year from the date the financial statements are issued.

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 Matters

In accordance with Government Auditing Standards, we have also issued our report dated August 29, 2022 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 Matters - 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 29, 2022

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

Local Government Workers' Compensation Pool

STATEMENT OF NET POSITION

June 30, 2022

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 593,427
Certificates of deposit	1,790,823
Investment in debt securities	21,447,467
Investment in equity securities	5,196,920
Investment in State Investment Pool	22,691,441
Investment in annuity	1,408,309
Excess insurance recoverable on paid losses and loss adjustment expenses	333,764
Accrued interest receivable	171,822
Investment in note receivable	425,000
Other assets	73,857
	<u>54,132,830</u>

NONCURRENT ASSETS

Investment in notes receivable	6,020,000
Other invested assets	1,150,521
Certificates of deposit	291,143
Fixed assets	27,485
	<u>7,489,149</u>

Total Assets	\$ <u>61,621,979</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	\$ 8,400,259
Accrued expenses and accounts payable	112,725
	<u>8,512,984</u>

NONCURRENT LIABILITIES

Unpaid losses and loss adjustment expenses	<u>25,200,778</u>
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Total Liabilities	<u>33,713,762</u>
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NET POSITION, UNRESTRICTED	<u>27,908,217</u>
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\$ <u>61,621,979</u>

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, 2022

OPERATING REVENUES

Premiums earned \$ 14,721,064

OPERATING EXPENSES

Losses and loss adjustment expenses	7,738,529
Excess insurance premiums	1,454,265
Claims administration fees	778,488
Commissions	727,403
Professional fees	45,800
Second injury fund assessment	60,000
Other administrative expenses	<u>673,308</u>
	<u>11,477,793</u>

OPERATING INCOME 3,243,271

NON-OPERATING LOSS

Net investment loss (1,196,826)

INCREASE IN NET POSITION 2,046,445

Net position at July 1, 2021 25,861,772

NET POSITION AT JUNE 30, 2022 \$ 27,908,217

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, 2022

CASH FLOWS FROM OPERATING ACTIVITIES:

Premiums collected	\$ 14,721,064
Excess insurance premiums paid	(1,454,265)
Losses and loss adjustment expenses paid	(7,348,297)
Other expenses paid	(2,396,216)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,522,286</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Net deposit in State Investment Pool	4,951,653
Purchase of debt securities	(28,642,055)
Proceeds from sales of debt securities	11,099,665
Purchases of equity securities	(171,582)
Proceeds from sales of equity securities	7,434,620
Purchase of certificates of deposit	(2,081,966)
Maturities of certificates of deposit	2,913,641
Principal collected on notes receivable	825,000
Depreciation	7,832
Investment income collected	599,093
NET CASH USED IN INVESTING ACTIVITIES	<u>(3,064,099)</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS **458,187**

Cash and cash equivalents at July 1, 2021 **135,240**

CASH AND CASH EQUIVALENTS AT JUNE 30, 2022 **\$ 593,427**

NON-CASH INVESTING ACTIVITIES

A non-cash decrease in other invested assets and net investment income of \$250,311 was recorded related to the investment in County Reinsurance Limited as discussed in Note 9.

A non-cash decrease in investment securities and net investment income of \$1,228,340 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 Workers' Compensation Pool
STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended June 30, 2022

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

Operating income	\$ 3,243,271
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	174,522
Other assets	(73,857)
Increase (decrease) in liabilities:	
Unpaid losses and loss adjustment expenses	215,710
Accrued expenses and accounts payable	(37,360)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>3,522,286</u>

The accompanying notes are an integral part of this statement.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS

June 30, 2022

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.

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).

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 Workers' Compensation Pool
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

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 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.

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.

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.

Insurance Premiums

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

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.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

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 in Notes 4, 5, 6 and 9. The following table sets forth, by level within the fair value hierarchy, the Pool's assets at estimated fair value as of:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Investment in CRL	\$ --	\$ --	\$ 1,150,521	\$ 1,150,521
Debt securities	\$ --	\$ 21,447,467	\$ --	\$ 21,447,467
Equity securities	\$ 5,196,920	\$ --	\$ --	\$ 5,196,920

There were no significant transfers between Level 1, 2 and 3 during the year ended June 30, 2022.

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, 2022			
	Amortized Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Government securities	\$ 15,064,829	\$ 14,799,454	\$ 17	\$ (265,392)
Corporate bonds	5,155,735	4,759,571	--	(396,164)
Municipal bonds	1,988,816	1,888,442	311	(100,685)
	\$ 22,209,380	\$ 21,447,467	\$ 328	\$ (762,241)

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 4 - INVESTMENTS IN DEBT SECURITIES - CONTINUED

The amortized cost and estimated fair market value of investment securities in debt securities as of June 30, 2022 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, 2022			
	Amortized Cost	Estimated Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Due in one year or less	\$ 4,920,677	\$ 4,911,001	\$ 17	\$ (9,693)
Due in one year through five years	15,526,265	14,869,604	--	(656,661)
Due after five years through ten years	1,166,443	1,091,992	311	(74,762)
Due after ten years	595,995	574,870	--	(21,125)
	<u>\$ 22,209,380</u>	<u>\$ 21,447,467</u>	<u>\$ 328</u>	<u>\$ (762,241)</u>

Proceeds from sales of debt securities for the year ended June 30, 2022 were approximately \$2,610,000. Gross gains of approximately \$36,000 and gross losses of -0- were realized on these sales.

Information pertaining to securities with gross unrealized losses at June 30, 2022 aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2022					
	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
Government securities	\$ 14,706,835	\$ (265,392)	\$ --	\$ (--)	\$ 14,706,835	\$ (265,392)
Corporate bonds	4,684,126	(387,609)	75,445	(8,555)	4,759,571	(396,164)
Municipal bonds	1,868,284	(100,685)	--	(--)	1,868,284	(100,685)
	<u>\$ 21,259,245</u>	<u>(753,686)</u>	<u>75,445</u>	<u>(8,555)</u>	<u>21,334,690</u>	<u>(762,241)</u>

The unrealized losses on 63 debt securities at June 30, 2022 were caused primarily by rising interest rates. The severity of the impairments (minimal to 12%) is consistent with the general trend in debt securities.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 4 - INVESTMENTS 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, 2022.

NOTE 5 - INVESTMENT IN EQUITY SECURITIES

Investment in equity securities are stated at their fair market value and consist of the following at:

	June 30, 2022			
	Cost	Fair Market Value	Gross Unrealized Gains	Gross Unrealized Losses
Mutual funds	<u>\$ 5,669,871</u>	<u>\$ 5,196,920</u>	<u>\$ --</u>	<u>\$ (472,951)</u>

Proceeds from sales of equity securities for the year ended June 30, 2022 were approximately \$7,435,000. Gross gains of approximately \$-0- and gross losses of approximately \$(437,000) were realized on these sales.

Information pertaining to equity securities with gross unrealized losses at June 30, 2022, aggregated by length of time individual securities have been in a continuous loss position, is as follows:

	June 30, 2022					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Market Value	Gross Unrealized Losses	Fair Market Value	Gross Unrealized Losses	Fair Market Value	Gross Unrealized Losses
Mutual funds	<u>\$ --</u>	<u>\$ (--)</u>	<u>\$ 5,196,920</u>	<u>\$ (472,951)</u>	<u>\$ 5,196,920</u>	<u>\$ (472,951)</u>

The unrealized loss on 1 equity security at June 30, 2022 was caused primarily by normal stock price fluctuations. The severity of the impairment (8%) is consistent with the individual variability of a stock price over a short-term period of time.

NOTE 6 - 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.

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 7 - INVESTMENT IN ANNUITY

During the year ended June 30, 2022, the Pool purchased one annuity at \$1,500,000. The annuity is a fifty-one year term annuity. The contract has a three-year guarantee period. The annuity earns interest of 1.6% a year.

The investment is being carried at the cash surrender value of approximately \$1,408,000 as of June 30, 2022. The Pool earned approximately \$37,000 in interest from the annuity as of June 30, 2022.

NOTE 8 - 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 9 - 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, 2022, the Pool's investment is approximately \$1,151,000 based on the book value of the investment in accordance with CRL's audited financial statements as of December 31, 2021. The change in value of the investment during the year is approximately \$(250,000) which is included in net investment income in the accompanying financial statements. The Pool owns approximately 1.60% of CRL. The following summarizes the financial information for CRL as of December 31, 2021 and for the year then ended as extracted from audited financial statements audited by other auditors:

BALANCE SHEET

Assets	\$ <u>392,411,172</u>
Liabilities	\$ 319,417,816
Members' contribution and surplus	<u>72,993,356</u>
	\$ <u><u>392,411,172</u></u>

STATEMENT OF OPERATIONS

Underwriting revenue	\$ 57,013,744
Underwriting expenses	<u>72,458,272</u>
Operating income	(15,444,528)
Investment income	<u>970,949</u>
Net income	\$ (<u><u>14,473,579</u></u>)

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

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 4, 2014 were executed for the principal amounts of \$5,180,000 and \$4,505,215 bearing interest at a rate of 2.50%. Principal and interest are payable annually. The total balance of the promissory notes is \$6,445,000 as of June 30, 2022.

The following sets forth the required payment of principal:

<u>Date of Payment</u>	<u>Principal Payment</u>
5/01/23	\$ 425,000
5/01/24	425,000
Thereafter	<u>5,595,000</u>
	<u>\$ 6,445,000</u>

NOTE 11 - FIXED ASSETS

Fixed assets consists of the following:

Automobiles	\$ 74,379
Less: accumulated depreciation	(<u>46,894</u>)
	<u>\$ 27,485</u>

Depreciation expense was approximately \$7,000 for the year ended June 30, 2022.

NOTE 12 - 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:

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

Local Government Workers' Compensation Pool

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 12 - EXCESS INSURANCE - CONTINUED

<u>Policy Period</u>	<u>Attachment Point</u>
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 2020/21, 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
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

Local Government Workers' Compensation Pool
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 12 - EXCESS INSURANCE - CONTINUED

<u>Policy Period</u>	<u>Attachment Point</u>
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
07/01/20 - 06/30/21	500,000
07/01/21 - 06/30/22	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, 2022. 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, 2022, excess insurance recoverable on unpaid losses and loss adjustment expenses was approximately \$10,940,000 and excess insurance recoverable on paid losses and loss adjustment expenses was approximately \$334,000. Of these amounts, approximately \$10,657,000 and \$251,000, respectively, were associated with four and two excess carriers, respectively.

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 13 - 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.

Local Government Workers' Compensation Pool
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 13 - UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES - CONTINUED

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 \$17,077,000 at June 30, 2022. Unpaid losses and loss adjustment expenses have not been discounted for the time value of money.

Unpaid losses and loss adjustment expenses are shown net of excess recoverable on unpaid losses and loss adjustment expenses of approximately \$10,940,000 at June 30, 2022. The losses and loss adjustment expenses are net of the effect of changes in recoveries recognized under the excess contracts referred to in Note 12. During the year ended June 30, 2022, the Pool experienced an increase in the recoveries recognized under these excess contracts which totaled approximately \$551,000. This amount was credited to current year losses and loss adjustment expenses.

NOTE 14 - NET POSITION

As of June 30, 2022, \$3,000,000 of the Pool's net position has been designated for certain matters by the Board of Directors. These funds have been designated to mitigate any future claims from the ultimate impact of COVID-19 and any future unexpected development in claims liabilities.

NOTE 15 - 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.

Local Government Workers' Compensation Pool
NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2022

NOTE 16 - 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 17 - 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.

NOTE 18 - SUBSEQUENT EVENTS

Management considered subsequent events through August 29, 2022, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



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

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY 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 29, 2022

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, 2013 through June 30, 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Required contribution and investment revenue										
Earned	\$ 11,692	\$ 12,531	\$ 14,781	\$ 14,563	\$ 14,175	\$ 14,523	\$ 15,131	\$ 15,961	\$ 15,775	\$ 13,524
Ceded	1,149	1,172	1,260	1,312	1,288	1,432	1,597	1,708	1,594	1,454
Net Earned	10,543	11,359	13,521	13,251	12,887	13,091	13,534	14,253	14,181	12,070
Unallocated Expenses	1,824	1,738	1,949	1,939	1,906	2,151	2,145	2,374	2,379	2,285
Estimated incurred claims and allocated loss adjustment expenses, end of policy year										
Incurred	7,348	7,861	8,044	11,468	9,676	10,669	10,184	10,628	10,934	10,591
Ceded	-	-	-	1,492	-	487	1,050	1,498	1,390	1,290
Net Incurred	7,348	7,861	8,044	9,976	9,676	10,182	9,134	9,130	9,544	9,301
Paid (cumulative) as of:										
End of policy year	1,912	2,004	1,863	2,602	2,466	2,957	2,540	2,810	2,975	2,624
One year later	3,544	4,448	3,385	4,673	5,080	5,027	4,938	4,964	5,698	
Two years later	4,337	5,636	4,111	5,081	5,682	5,637	5,508	5,500		
Three years later	4,915	6,097	4,368	5,425	6,041	6,050	5,738			
Four years later	5,074	6,482	4,506	5,548	6,167	6,201				
Five years later	5,256	6,571	4,583	5,789	6,295					
Six years later	5,289	6,607	4,713	5,885						
Seven years later	5,369	6,653	4,771							
Eight years later	5,411	6,738								
Nine years later	5,446									
Reestimated ceded losses and allocated loss adjustment expenses	-	-	759	1,038	1,489	516	66	271	116	1,290
Reestimated incurred claims and allocated loss adjustment expenses										
End of policy year	7,348	7,861	8,044	9,976	9,676	10,182	9,134	9,130	9,544	9,301
One year later	6,153	8,244	6,639	8,669	9,382	9,038	8,206	8,524	9,671	
Two years later	6,526	8,657	6,530	7,808	8,736	8,453	7,726	7,964		
Three years later	6,598	8,654	6,253	7,300	8,045	8,165	7,342			
Four years later	6,573	8,579	6,123	7,020	7,869	7,926				
Five years later	6,528	8,400	5,868	7,039	7,764					
Six years later	6,520	8,191	5,770	7,036						
Seven years later	6,513	8,033	5,662							
Eight years later	6,371	7,947								
Nine years later	6,276									
Increase (decrease) in estimated incurred claims and expenses from end of policy year	(1,072)	86	(2,382)	(2,940)	(1,912)	(2,256)	(1,792)	(1,166)	127	-

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, 2022 and 2021, respectively:

	Workers' Compensation	
	Years Ended June 30,	
	2022	2021
	(in thousands)	(in thousands)
Unpaid losses and loss adjustment expenses at beginning of year	\$ 33,385	\$ 33,659
Incurred losses and loss adjustment expenses:		
Provision for insured losses of the current year	9,301	9,544
Change in provision for insured losses of prior years	(1,562)	(2,501)
Total incurred losses and loss adjustment expenses	<u>7,739</u>	<u>7,043</u>
Payments:		
Losses and loss adjustment expenses attributable to insured losses of the current year	2,624	2,975
Losses and loss adjustment expenses attributable to insured losses of the prior years	<u>4,899</u>	<u>4,342</u>
Total payments	<u>7,523</u>	<u>7,317</u>
Total unpaid losses and loss adjustment expenses at end of year	\$ <u>33,601</u>	\$ <u>33,385</u>