TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Financial Statements and Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

MAKE A GOOD BUSINESS BETTER

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

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TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Board of Directors and Senior Management

July 1, 2017 – June 30, 2018

Board of Directors

Chairman	Kenneth Wilber, Mayor, City of Portland, TN
Vice-Chairman	Garry Welch, City Manager, City of Savannah, TN (7/1/2017-3/5/2018)
Director	Randy Brundige, Mayor, City of Martin, TN
Director	Curtis Hayes, Mayor, City of Livingston, TN
Director	John Holden, Mayor, City of Dyersburg, TN
Director	Bo Perkinson, Council Member, City of Athens, TN (Ex-Officio)
Director	Victor Lay, City Administrator, City of Spring Hill, TN
Director	Tom Rowland, Mayor, City of Cleveland, TN
Director	Kay Senter, Vice-Mayor, City of Morristown, TN

Senior Management

President/CEO	Dawn R. Crawford, CPA
Executive Vice President/CFO/ Director of Human Resources/ Corporate Secretary	Charles DeMore, CPA
Controller	Amanda Shrum, CPA
Director of Communications and Research	Halie Gallik
Director of Information Technology	Anthony Ponessa
Director of Loss Control	Michael Fann
Director of Underwriting	Jon Calvin

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors of
Tennessee Municipal League Risk Management Pool:

We have audited the accompanying statements of net position of the Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the years ended June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

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 audits. We conducted our audits 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 audits 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
October 30, 2018

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Management's Discussion and Analysis

The Tennessee Municipal League Risk Management Pool ("The Pool") offers this overview and analysis of the financial activities for the fiscal year ended June 30, 2018. The information presented in this report should be considered in conjunction with the Pool's audited financial statements.

The Pool is a public entity risk pool organized in 1979 as a not-for-profit tax-exempt corporation under the Tennessee Governmental Tort Liability Act. The Pool provides workers' compensation, liability and property insurance and risk management services to participating governmental entities in the State of Tennessee.

2018 Fiscal Year Highlights

- The Pool had 493 members at 2018 year-end, representing coverage for more than 34,000 local government employees and coverage for over 18,000 government buildings valued at approximately $8.8 billion.

- Total Pool assets and deferred outflows of resources of $277,074,620 exceeded liabilities and deferred inflows of resources by $118,158,998 at June 30, 2018.

- Claim loss development in older claim years has improved substantially as demonstrated by an independent actuarial review of Pool claim reserves at 2018 year-end. The favorable loss development resulted in a $7 million reduction in Pool claim reserves based on the actuarial report.

- The Pool's Board of Directors declared a dividend of $5,000,000 to members for the ensuing 2019 policy year.

Overview of the Financial Statements

The Pool's annual financial report consists of management's discussion and analysis, the independent auditors' report, the basic audited financial statements that include notes which more fully explain information in the financial statements, required supplementary information and the independent auditors' report on internal control and compliance. The Pool's financial statements are presented on a comparative basis using the full accrual method of accounting similar to those used by private-sector companies.

The Statements of Net Position present information about the Pool's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at year-end. The Statements of Revenues, Expenses and Changes in Net Position present the results of the Pool's operations and changes in its net position over the course of the fiscal year. The Statements of Cash Flows present the various sources and uses of cash provided by and used in the Pool's operating, investing and capital activities without regard to the timing of earnings and obligation events or depreciation. The Notes to the Financial Statements provide required disclosures and other information essential to a full understanding of material data provided in the financial statements, including information about the Pool's significant accounting policies and account balances, material risks, obligations, contingencies and subsequent events, if any. The Required Supplementary Information presents additional information required by generally accepted accounting principles and applicable regulatory agencies.

While the Pool is not legally required to adopt or adhere to an annual budget, an annual pro-forma Statement of Revenues and Expenses and a budget for general and administrative expenses are approved by the Board of Directors each year as strategic management tools. All budget-to-actual variances of general and administrative expenses are reviewed monthly by management for operational accountability.

Financial Analysis

The following table presents the Pool's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at the end of the current fiscal year and the two prior fiscal years.

Condensed Statements of Net Position
At June 30,
(in millions of dollars)

			Net Increase (Decrease)			Net Increase (Decrease)	
	2018	**2017**	**$**	**%**	**2016**	**$**	**%**
Current assets	$ 272.8	$ 282.1	$ (9.3)	-3.3%	$ 269.6	$ 12.5	4.6%
Capital assets	3.2	1.2	2.0	166.7%	1.3	(0.1)	-7.7%
Total assets	276.0	283.3	(7.3)	-2.6%	270.9	12.4	4.6%
Deferred outflows of resources	1.1	1.1	-	-%	0.9	0.2	-%
Total assets and deferred outflows	$ 277.1	$ 284.4	$ (7.3)	-2.6%	$ 271.8	$ 12.6	4.6%
Current liabilities	$ 157.7	$ 179.3	$(21.6)	-12.0%	$ 164.8	$ 14.5	8.8%
Noncurrent liabilities	1.2	1.3	(0.1)	-%	0.9	0.4	-%
Total liabilities	158.9	180.6	(21.7)	-12.0%	165.7	14.9	8.8%
Deferred inflows of resources	-	-	-	-%	0.4	(0.4)	-%
Investment in capital assets	3.2	1.2	2.0	166.7%	1.3	(0.1)	-7.7%
Unrestricted	115.0	102.6	12.4	12.1%	104.4	(1.8)	-1.7%
Total net position	118.2	103.8	14.4	13.9%	105.7	(1.9)	-1.8%
Total liabilities, deferred inflows and net position	$ 277.1	$ 284.4	$ (7.3)	-2.6%	$ 271.8	$ 12.6	4.6%

The Pool had total assets of $276.0 million at June 30, 2018, which is 2.6% less than the previous year. Current assets consist primarily of cash, cash equivalents and investments totaling $262.4 million; premiums and interest receivable of $3.6 million and $3.8 million, respectively; and reinsurance on recoverable paid losses of $3.0 million. The Pool's investable assets at June 30, 2018 consisted of municipal bonds and U.S. agency bonds of $254 million and cash, cash equivalents and money market funds of $8.4 million. Deferred outflows of resources totaling approximately $1.1 million are related to the Pool's net pension obligation and are actuarially-determined.

The Pool's total liabilities of $158.9 million at June 30, 2018 were comprised of current liabilities of $157.7 million and noncurrent liabilities of $1.2 million. Current liabilities consisted primarily of reserve for losses and loss adjustment expenses totaling $137 million at 2018 year-end, a decrease of $7.5 million from the prior year. The reserve for losses represents Pool members' claim losses reported for workers' compensation, liability and property lines of coverage. The reserve for losses also includes an actuarially-determined estimate of ultimate costs (referred to as "incurred but not reported" or "IBNR") of such claims, offset by expected reinsurance recoveries on the outstanding claims. The actuarially-determined estimate of IBNR and related reserve for unallocated loss adjustment expense ("ULAE") declined substantially by approximately $7.0 million in 2018 due to significant improvement in claim loss development of older claim years.

Noncurrent liabilities of $1.2 million consist of the Pool's net pension liability at June 30, 2018 for the Pool's participation in a defined benefit pension plan administrated by the State of Tennessee Consolidated Retirement System. The Pool's net pension liability has been actuarially-determined in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions.

Net position is the residual measure of assets and deferred outflows of resources net of liabilities and deferred inflows of resources and totaled $118.2 million at June 30, 2018. Net position fluctuates annually due to the Pool's operating results (referred to as "change in net position") for a given fiscal year as well as member dividends that may be declared by the Board of Directors.

During 2018 the Pool's net position increased by $14.4 million due to the current year's change in net position of $19.4 million as reduced by a $5 million dividend declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2019.

To preserve the Pool's future financial stability, the Board of Directors has committed the Pool's unrestricted net position for specific purposes as presented in the following table:

Net Position
At June 30,
(in millions of dollars)

	2018	2017	2016
Investment in capital assets	$ 3.2	$ 1.2	$ 1.3
Unrestricted:			
Committed for capitalization	40.0	40.0	40.0
Committed for member credits	8.3	3.2	8.5
Committed for capital outlay	7.5	-	-
Committed for property/casualty catastrophe	30.0	30.0	30.0
Committed for market value stabilization	29.2	29.4	25.9
Total unrestricted net position	115.0	102.6	104.4
Total net position	$ 118.2	$103.8	$105.7

The following table presents the Pool's revenues, expenses and changes in net position for the current and two prior fiscal years.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal year ended June 30,
(in millions of dollars)

			Net Increase (Decrease)			Net Increase (Decrease)	
	2018	**2017**	**$**	**%**	**2016**	**$**	**%**
Net earned premiums	$ 62.2	$ 60.4	$ 1.8	3.0%	$59.3	$ 1.1	1.9%
Investment income-interest, net	8.6	8.4	0.2	2.4%	8.6	(0.2)	-2.3%
Investment income-net increase (decrease) in fair value of investments	(6.2)	(10.6)	4.4	-41.5%	14.2	(24.8)	-174.6%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	64.8	58.4	6.4	11.0%	82.3	(23.9)	-29.0%
Operating expenses	45.4	55.4	(10.0)	-18.1%	62.8	(7.4)	-11.8%
Operating income (loss)	19.4	3.0	16.4	546.7%	19.5	(16.5)	-84.6%
Nonoperating revenues (expenses)	-	-	-	- %	-	-	- %
Change in net position	$ 19.4	$ 3.0	$ 16.4	546.7%	$19.5	$ (16.5)	-84.6%

Operating revenues consist of earned premiums net of reinsurance premiums ceded plus net investment income and other income.

Earned premiums represent premiums charged to members for workers' compensation, liability and property insurance coverage pursuant to insurance policy contracts. Premiums are determined through the Pool's underwriting process that takes into consideration each member's risk exposures (such as payroll volume, operating budget, physical properties owned, etc.) as applied to a premium base rate. Each member is also rated on actual loss experience (referred to as experience modifications) and compliance with Pool loss control surveys and recommendations (referred to as schedule modifications). Gross earned premiums totaled $72.0 million for 2018 and represent a slight increase of 1.6% or $1.2 million over the previous year due to the growth in members' insured exposures upon which premium is determined, such as member employee payroll bases as well as real estate and personal property values.

Reinsurance premiums ceded totaled $9.9 million which is a 5.9% reduction from the prior year.

Investment income is a substantial part of operating income and is comprised of two different components: (a) interest earned on investments; and, (b) changes in the fair (market) value of investments. Net interest earned on investments is based on stated coupon rates of Pool investments and totaled $8.6 million for 2018.

Changes in the fair value of investments include both "realized" and "unrealized" gains and losses on investments. Realized gains and losses are the actual profit or loss which occurs when an investment security is called or redeemed. During 2018, the Pool realized $1.3 million in net gains (or profit) on the disposal of investments.

Unrealized gains and losses on investments are not actual profit or loss transactions but result from daily fluctuations in the market price of securities and the securities' cost. Such market changes can be extremely volatile and influenced by world events unrelated to the Pool's operations. Because no money is actually received or paid in unrealized investment gain and loss transactions, they are considered as "paper" gains and losses. However, GASB Statement No. 31 requires unrealized gains and losses on investments to be recorded in the Pool's financial records. At June 30, 2018, the Pool had net unrealized investment losses totaled approximately $7.3 million compared to $10.5 million in the prior year. Consequently, the total change in fair value of investments for fiscal year 2018 was a decrease of $6.2 million.

Because the Pool operates in a competitive business environment and has the intent and ability to hold investment securities to maturity, Pool management elects not to distort actual operating results with unrealized or "paper" gains and losses on investments when making internal management and operational decisions. The following proforma schedule presents operating income as determined without regard to unrealized investment gains and losses and, consequently, does not conform to GASB Statement No. 31:

Management's Proforma Schedule of Operating Income (Loss)
Fiscal year ended June 30,
(in millions of dollars)

			Net Increase (Decrease)			Net Increase (Decrease)	
	2018	**2017**	**$**	**%**	**2016**	**$**	**%**
Net earned premiums	$ 62.2	$ 60.4	$ 1.8	3.0%	$59.3	1.1	1.9%
Investment income-interest, net	8.4	8.0	0.4	5.0%	8.3	(0.3)	-3.6%
Investment income-realized gains	1.3	0.3	1.0	333.3%	3.2	(2.9)	-90.6%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	72.1	68.9	3.2	4.6%	71.0	(2.1)	-3.0%
Operating expenses	45.4	55.4	(10.0)	-18.1%	62.7	(7.3)	-11.6%
Operating income	26.7	13.5	13.2	97.8%	8.3	5.2	62.7%
Nonoperating revenues (expenses)	-	-	-	- %	-	-	- %
Change in net position before change in fair value of investments	26.7	13.5	13.2	97.8%	8.3	5.2	62.7%
Change in fair value of investments - unrealized gains (losses)	(7.3)	(10.5)	3.2	-30.5%	11.2	(21.7)	193.8%
Change in net position	$ 19.4	$ 3.0	$ 16.4	546.7%	$19.5	$ (16.5)	84.6%

Operating expenses consist of losses and loss adjustment expenses, policy acquisition costs and general and administrative costs.

Losses and loss adjustment expenses include actual claim payments the Pool has made for members' claims as well as adjustments in claim reserves. Claim case reserves are adjusted as claims develop and mature and more information about potential loss amounts is known. Changes in reserves for claims incurred but not reported ("IBNR") is also part of this expense category as determined by independent actuaries on an annual basis. Total losses and loss adjustment expenses for fiscal year 2018 decreased $9.3 million or 22.8% from the prior year to $31.8 million. The decrease was due primarily to the impact of favorable claim loss development in all three lines of coverage in older claim years, resulting in a $14.6 million actuarial adjustment reducing IBNR and ULAE reserves.

Policy acquisition costs are expenses incurred by the Pool that are part of the cost of the policy and include agents' commissions, property inspections, property appraisals and contract fees for workers' compensation premium audits. Policy acquisition costs totaling $5.6 million for 2018 were expensed when incurred as required by GASB Statement No. 65, Items Previously Reported as Assets and Liabilities.

In providing insurance coverage and risk management services to its members, the Pool incurs general and administrative and contractual expenses that are budgeted and approved by the Board of Directors annually. As previously mentioned, all budget-to-actual variances are analyzed and reviewed by management on a monthly basis. General and administrative expenses were $8.0 million for fiscal year 2018 and include personnel and operating costs of services and programs provided to the Pool's membership as approved by the Board of Directors.

Capital Assets

The Pool's premises, property and equipment had a total cost of $6.7 million and a book value (after accumulated depreciation) of $3.2 million at June 30, 2018. These capital assets consist of land, building and improvements, computer hardware and software, and office furniture and equipment used in Pool operations. In 2018 the Pool acquired $2.3 million in new assets, including $2.1 million for land and design fees for a new multi-story office building and $112,400 for software program enhancements. The Pool has no outstanding debt associated with capital assets.

Long-term Debt

The Pool's only long-term debt consists of its net pension liability which is actuarially-determined annually by the State of Tennessee Consolidated Retirement System. The Pool's net pension liability totaled $1.2 million and was approximately 89% funded based on the most recent actuarial valuation date.

Economic Factors and Other Matters

- The Pool's Board of Directors approved to keep premium base rates unchanged for policies beginning effective July 1, 2018.
- The Pool has formed service teams each comprised of underwriting, member services and loss control employees to better serve its membership within each of Tennessee's three grand divisions.
- The Pool's Board of Directors approved the purchase of land for and the construction of a new multi-story office building to meet ongoing and future operational needs. Construction is anticipated to be completed early in fiscal year 2020.

Requests for Information

This report is designed to provide an overview of the Pool's financial activities and to demonstrate the Pool's transparency and accountability to its members and other interested readers. Questions and requests for additional financial information should be addressed to the Executive Vice President & Chief Financial Officer, TML Risk Management Pool, 5100 Maryland Way, Brentwood, Tennessee 37027.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Net Position

June 30, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Current assets:		
Cash and cash equivalents	$ 8,350,178	$ 22,806,139
Investments	254,048,624	235,083,432
Premiums receivable	3,620,015	16,195,448
Accrued interest and other receivables	3,796,450	3,647,472
Reinsurance recoverable on paid losses	2,989,576	4,453,817
Total current assets	272,804,843	282,186,308
Premises, property and equipment, net	3,186,997	1,149,387
Total assets	275,991,840	283,335,695
Deferred outflows of resources - pension	1,082,780	1,063,911
	$ 277,074,620	$ 284,399,606

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current liabilities:		
Reserve for losses and loss adjustment expenses	$ 136,677,481	$ 144,178,810
Premiums billed in advance	-	14,534,294
Unearned premiums	14,097,687	13,997,458
Dividends payable	5,075,340	4,106,011
Accounts payable and accrued liabilities	1,864,832	2,464,443
Total current liabilities	157,715,340	179,281,016
Net pension liability	1,194,542	1,338,849
Total liabilities	158,909,882	180,619,865
Deferred inflows of resources - pension	5,740	-
Net position:		
Investment in capital assets	3,186,997	1,149,387
Unrestricted	114,972,001	102,630,354
Total net position	118,158,998	103,779,741
	$ 277,074,620	$ 284,399,606

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Gross earned premiums	$ 72,051,081	$ 70,889,041
Reinsurance premiums ceded	(9,870,211)	(10,489,923)
Net earned premiums	62,180,870	60,399,118
Investment income - interest earnings, net	8,592,272	8,428,128
Investment income - net decrease in fair value of investments	(6,175,727)	(10,649,846)
Other income	176,307	225,738
Total operating revenues	64,773,722	58,403,138
Operating expenses:		
Losses and loss adjustment expenses	31,837,878	41,224,324
Policy acquisition costs	5,606,687	6,647,746
General and administrative expenses	7,982,553	7,505,527
Total operating expenses	45,427,118	55,377,597
Operating income	19,346,604	3,025,541
Nonoperating revenues (expenses):		
Gain on disposal of capital assets	900	-
Sponsorship fees	953	-
Software licenses fee	9,600	9,600
Total nonoperating revenues (expenses)	11,453	9,600
Total change in net position	19,358,057	3,035,141
Net position, beginning of year	103,779,741	105,704,436
Dividend declared	(5,000,000)	(5,000,000)
Member lapsed dividend credits	21,200	40,164
Net position, end of year	$ 118,158,998	$ 103,779,741

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts:		
Premiums received	$ 67,078,209	$ 68,523,543
Interest received	9,015,902	8,717,793
Special rating plan reimbursements	3,926,541	3,661,315
Reinsurance recoveries received	3,399,607	867,756
Claim recoveries received	1,289,522	1,693,253
Other cash receipts	886,205	183,294
Total cash receipts	85,595,986	83,646,954
Cash disbursements:		
Claim payments	41,975,684	46,405,970
General and administrative	10,137,879	9,833,109
Reinsurance premiums	9,896,718	10,489,923
Claims administration	4,605,814	4,438,909
Policy acquisition	5,997,481	5,814,121
Total cash disbursements	72,613,576	76,982,032
Net cash provided by operating activities	12,982,410	6,664,922
Cash flows from capital activities:		
Purchases of premises, property and equipment	(2,298,352)	(84,377)
Proceeds from disposal of premises, property and equipment	900	-
Net cash used in capital activities	(2,297,452)	(84,377)
Cash flows from investing activities:		
Purchases of investments	(83,911,293)	(140,367,172)
Proceeds from sales and maturities of investments	58,770,374	114,800,448
Net cash used in investing activities	(25,140,919)	(25,566,724)
Net decrease in cash and cash equivalents	(14,455,961)	(18,986,179)
Cash and cash equivalents, beginning of year	22,806,139	41,792,318
Cash and cash equivalents, end of year	$ 8,350,178	$ 22,806,139

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Cash Flows (continued)

Years ended June 30, 2018 and 2017

	2018	2017
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 19,346,604	$ 3,025,541
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	259,844	245,934
Net amortization of premium paid on investments	218,428	451,345
Net realized gain on sales of investments	(1,303,859)	(324,120)
Net unrealized loss on investments	7,261,158	10,522,621
Gain on disposal of premises, property and equipment	(900)	-
Software licenses fee	9,600	9,600
Sponsorship fees	953	-
(Increase) decrease in premiums receivable	12,575,433	(12,687,593)
Increase in accrued interest and other receivables	(148,978)	(552,660)
(Increase) decrease in reinsurance recoverable on paid losses	1,464,241	(3,390,914)
Increase in deferred outflows of resources	(18,869)	(212,961)
Decrease in reserve for losses and loss adjustment expenses	(7,501,329)	(66,238)
Increase (decrease) in premiums billed in advance	(14,534,294)	13,819,469
Increase in unearned premiums	100,229	251,669
Decrease in dividends payable	(4,007,673)	(4,912,195)
Increase (decrease) in accounts payable and accrued liabilities	(599,611)	411,846
Increase (decrease) in net pension liability	(144,307)	440,123
Increase (decrease) in deferred inflows of resources	5,740	(366,545)
Net cash provided by operating activities	$ 12,982,410	$ 6,664,922

See accompanying notes to the financial statements.

(1) Nature of organization

The Tennessee Municipal League Risk Management Pool (the "Pool") is a not-for-profit corporation that was created in 1979 as a public entity risk pool to provide liability, property and workers' compensation insurance and risk management services for certain governmental entities in the State of Tennessee. Liability coverage provided by the Pool includes comprehensive general liability, personal injury liability, automobile liability, automobile physical damage, law enforcement liability, errors and omissions liability, employment benefit liability, employment practices liability, unmanned aerial vehicles (drones) and privacy and network security liability. Property coverage includes all risk on real property and personal property, electronic data processing equipment, mobile equipment, equipment breakdown (boiler and machinery), computer fraud, employee dishonesty, business interruption, crime, forgery and alteration, theft, disappearance and destruction, and increased cost of construction, subject to specified sub-limits. Workers' compensation coverage conforms to the workers' compensation law of Tennessee, excluding the provisions of the state law dealing with non-occupational disability benefits.

As part of the coverage, the Pool provides risk management services to its members with emphasis on loss control. The Pool also provides claims management services and insurance above certain self-insured retention levels to participating members. Participants in these services are not general policyholders, and the Pool receives premiums for claims management services and retention-type contracts, respectively.

All corporate powers of the Pool are vested in and exercised by a nine-member Board of Directors comprised of municipal elected officials and city managers/administrators from cities and towns that are members of the Pool. The Pool's operations alone constitute the reporting entity since the Pool is not financially accountable for any other entities, and the Pool has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the Pool. Pool membership consisted of 493 governmental entities (including 315 cities and towns) at June 30, 2018.

(2) Summary of significant accounting policies

A summary of the Pool's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

(a) Basis of presentation, measurement focus, and basis of accounting

The Pool's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), the standard-setting body responsible for establishing governmental accounting and financial reporting principles. GASB periodically updates its Codification of Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Standards and Interpretations), constitutes GAAP for public entity risk pools.

In 2018, the Pool adopted GASB Statement No. 85 - Omnibus 2017, effective for fiscal years beginning after June 15, 2017. This statement addresses various issues that were identified during implementation and application of certain GASB statements, particularly one concerning fair value measurement regarding the classification of real estate held by insurance entities.

In 2017, the Pool adopted GASB Statement No. 82, Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73, effective for fiscal years beginning after June 15, 2016. This statement addresses certain issues that were raised with respect to GASB Statements No. 67, 68 and 73 regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an actuarial Standard Practice for Financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee plan (plan member) contribution requirements.

When both restricted and unrestricted resources are available for use, it is the Pool's policy to use restricted resources first, then unrestricted resources as they are needed.

The Pool's accounts are organized on the basis of an enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability, or other purposes.

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied. The Pool's basic financial statements are presented in accordance with GAAP for proprietary funds which uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time a liability is incurred, regardless of the timing of related cash flows.

(b) <u>Revenues and expenses</u>

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal ongoing revenues of the Pool are net earned insurance premiums, investment income and other income. Investment income, consistent with prior years, is reported as operating revenue because it is used extensively in the operations of the Pool. Operating expenses include losses and loss adjustment expenses, policy acquisition costs and general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) <u>Cash and cash equivalents</u>

Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with original maturities of three months or less.

Cash equivalents include the Pool's deposits in the State of Tennessee Local Government Investment Pool ("LGIP"), an external investment pool that is part of the State of Tennessee State Pooled Investment Fund ("SPIF"). Administration of and responsibility for the SPIF vests with the State Treasurer while investment policy is set by the State Funding Board composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State and Treasurer. The SPIF, which includes the LGIP, elects to measure for financial reporting purposes all of its investments and securities at amortized cost and transacting with participants at a stable net asset value of $1. Deposits in the LGIP are available daily as needed, with the exception of withdrawals in excess of $5 million which require 24 hour advance notice.

(d) Investments

The Pool presents its investments in securities at fair value. Realized gains and losses on sales of investments are recognized based on the specific identification method at the date of sale. Interest income is recognized when earned.

(e) Policy acquisition costs

Policy acquisition costs consist of commissions incurred at policy or contract issue date. These costs vary with, and are primarily related to, the acquisition of business and are expensed in the period incurred.

(f) Premises, property and equipment

Premises, property and equipment are recorded at cost and consist of land, building and improvements, vehicles, computer hardware and software, and office furniture and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. The Pool capitalizes assets with an individual cost of $1,000 or more and an estimated useful life of one year or more. Maintenance and repairs are expensed as incurred.

(g) Deferred outflows and inflows of resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense) until then. In addition to liabilities, the Statements of Net Position will also sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The deferred outflows and inflows reported by the Pool relate to pension results from the actuarially-determined pension liability. (See Note 9).

(h) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses is estimated as losses are incurred. The reserve consists of amounts for unpaid reported losses, net of salvage and subrogation and reinsurance recoveries, and estimates for incurred but not reported (“IBNR”) losses. The estimates for IBNR were developed by management based on a consulting actuarial evaluation of the Pool's expected loss experience with consideration given to the Pool's historical loss experience and general industry information. Insurance liabilities are based on estimates and the ultimate liability may vary from such estimates. Adjustments to these estimates are reflected in expenses as determined.

(i) Employee pension plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pool's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Pool's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value. (See Note 9).

(j) Risk management and insurance arrangements

In addition to the loss related to operational risks, the Pool is exposed to various risk of loss related to theft of, damage to, and destruction of assets; illness or injuries to employees; and natural disasters. The Pool purchases commercial insurance for these additional types of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past five fiscal years.

(k) Recognition of premium

Premium is earned on a pro-rata basis over the term of the policy, which is generally one year. Unearned premium represents the portion of premium applicable to the unexpired portion of insurance policies in force. Premiums billed in advance at June 30, 2017 represented premiums billed in July 2017 for insurance policies becoming effective in fiscal year 2018. No such amounts were reported at June 30, 2018.

(l) Income taxes

The Pool has received a favorable determination letter from the Internal Revenue Service and is exempt from income taxes under Section 115 of the Internal Revenue Code.

(m) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(n) Events occurring after reporting date

The Pool has evaluated events and transactions that occurred between June 30, 2018 and October 30, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Deposits and investments

The Pool's cash and cash equivalent bank balances totaling $9,987,149 and $24,263,706 at June 30, 2018 and 2017, respectively (less outstanding checks that are subtracted from bank balances to determine a carrying value of $8,350,178 and $22,806,139 at June 30, 2018 and 2017, respectively) represent a variety of time deposits with banks and include bank balances that are FDIC insured or collateralized with securities held by the Pool or by its agent in the Pool's name.

The Board of Directors has authorized management to invest in obligations of the U.S. Treasury and U.S. government agencies, municipal bonds, mortgage-related securities, LGIP, short-term investment funds, corporate bonds, and domestic equity securities.

At June 30, 2018, the Pool had the following investments:

	Fair Value	Average Weighted Maturity (in years)	Average Weighted Call Term (in years)
U.S. Government Agencies:			
FFCB	$ 53,701,908	13.1	10.5
FHLB	52,613,986	15.0	12.9
US Treasury	4,306,250	28.2	28.2
Total U.S. Government Agencies	110,622,144		
Municipal Bonds	143,426,480	15.1	8.6
Total	$ 254,048,624		

At June 30, 2017, the Pool had the following investments:

	Fair Value	Average Weighted Maturity (in years)	Average Weighted Call Term (in years)
U.S. Government Agencies:			
FFCB	$ 30,156,605	15.1	8.6
FHLB	41,065,491	16.5	11.2
US Treasury	4,401,956	29.2	29.2
Total U.S. Government Agencies	75,624,052		
Municipal Bonds	159,459,380	16.8	8.2
Total	$ 235,083,432		

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. One of the ways the Pool manages its exposures to interest rate risk is by purchasing a combination of shorter and longer term investments and by monitoring and managing the average maturity and call terms of the portfolios. As of June 30, 2018 and 2017, the investments of the Pool had average weighted maturities and call terms as noted in the preceding table.

Credit risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation. The Pool's investment policy requires the average quality of investments to remain at a rating at or above "Aa", as defined by Moody, Standard and Poor, or an equivalent rating agency. All fixed income securities must have a rating of "A" or better, by at least two of the rating agencies. Obligations of U.S. government agencies are not implicitly guaranteed by the U.S. government but are rated by Moody as "AA". As of June 30, 2018 and 2017, the Pool's investments in municipal bonds had credit ratings as follows:

	Municipal Bonds	
Rating	**2018**	**2017**
AAA	$ 21,484,144	$ 13,173,587
AA	101,031,084	118,428,474
A	20,911,252	27,857,319
	$ 143,426,480	$ 159,459,380

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Pool's investment in a single issuer. The Pool's investment policy limits the amount that can be invested in domestic equity securities and corporate bonds to 10% of investable assets.

Custodial credit risk

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or of a counterparty (e.g. broker-dealer) to a transaction, the Pool will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Pool's investments are registered in the Pool's name as public funds with a financial institution that participates in the Tennessee Bank Collateral Pool administered by the Tennessee State Treasurer. At June 30, 2018 and 2017, all investments were adequately insured or registered and collateralized or held by the Pool or its agent in the Pool's name.

Fair value measurement

The Pool categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1 - Investments reflect prices quoted in active markets for identical assets;
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3 – Investments reflect prices based on unobservable sources.

The Pool had the following recurring fair value measurements as of June 30, 2018:

		Fair Value Measurements Using		
Investments by fair value level		**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Government Agencies	$ 110,622,144	$ 110,622,144	$ -	$ -
Municipal Bonds	143,426,480	$ 143,426,480	-	-
Total Investments	$ 254,048,624	$ 254,048,624	$ -	$ -

Investments measured at amortized cost

Local Government Investment Pool	$ 6,021,800

The Pool had the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurements Using		
Investments by fair value level		**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Government Agencies	$ 75,624,052	$ 75,624,052	$ -	$ -
Municipal Bonds	159,459,380	159,459,380	-	-
Total Investments	$ 235,083,432	$ 235,083,432	$ -	$ -

Investments measured at amortized cost

Local Government Investment Pool	$ 11,270,219

Investment income

Investment income consisted of interest earned on investments and changes in fair value of investments. Interest earned on investments is based on the stated coupon rate of the securities, net of investment fees. The net decrease in fair value of investments for the fiscal years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Realized gains, net	$ 1,303,859	$ 324,120
Amortization of premium	(240,022)	(465,908)
Accretion of discounts	21,594	14,563
Unrealized losses, net	(7,261,158)	(10,522,621)
Net decrease in fair value of investments	$ (6,175,727)	$ (10,649,846)

The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

(4) Premises, property and equipment

Premises, property and equipment activity for the fiscal year ended June 30, 2018 is as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 402,627	$1,957,084	$ -	$ 2,359,711
Construction in progress	-	221,917	-	221,917
Total capital assets, not being depreciated	$ 402,627	$2,179,001	$ -	$ 2,581,628
Capital assets, being depreciated:				
Building and improvements	1,640,195	-	-	1,640,195
Furniture and equipment	359,796	17,616	(57,200)	320,212
Computer system	2,158,555	100,837	(63,462)	2,195,930
Total capital assets, being depreciated	4,158,546	118,453	(120,662)	4,156,337
Less accumulated depreciation:				
Building and improvements	1,425,423	49,046	-	1,474,469
Furniture and equipment	352,019	4,026	(57,200)	298,845
Computer system	1,634,344	206,772	(63,462)	1,777,654
Total accumulated depreciation	3,411,786	259,844	(120,662)	3,550,968
Capital assets, being depreciated, net	746,760	(141,391)	-	605,369
Capital assets, net	$1,149,387	$2,037,610	$ -	$ 3,186,997

Premises, property and equipment activity for the fiscal year ended June 30, 2017 is as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	$ 402,627	$ -	$ -	$ 402,627
Capital assets, being depreciated:				
Building and improvements	1,640,195	-	-	1,640,195
Furniture and equipment	356,150	3,646	-	359,796
Computer system	2,077,824	80,731	-	2,158,555
Total capital assets, being depreciated	4,074,169	84,377	-	4,158,546
Less accumulated depreciation:				
Building and improvements	1,372,751	52,672	-	1,425,423
Furniture and equipment	344,628	7,391	-	352,019
Computer system	1,448,473	185,871	-	1,634,344
Total accumulated depreciation	3,165,852	245,934	-	3,411,786
Capital assets, being depreciated, net	908,317	(161,557)	-	746,760
Capital assets, net	$1,310,944	$ (161,557)	$ -	$ 1,149,387

Depreciation charged to operating expenses is as follows for the fiscal years ended June 30:

	2018	2017
Losses and loss adjustment expenses	$ 92,052	$ 73,331
General and administrative expenses	167,792	172,603
Total depreciation expense	$ 259,844	$ 245,934

(5) Reserve for Losses and Loss Adjustment Expenses

Reserve for losses and loss adjustment expenses is comprised of the following at June 30:

	2018	2017
Reserve for reported claims	$ 81,908,376	$ 84,201,583
Reserve for incurred but not reported claims	69,351,048	75,822,239
Reserve for unallocated loss adjustment expenses	8,272,893	8,844,227
Less: reinsurance recoverable	(22,854,836)	(24,689,239)
Total reserve for losses and loss adjustment expenses	$ 136,677,481	$ 144,178,810

As discussed in Note 2, the Pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following table represents changes in those aggregate liabilities for the Pool during the past two years. Reserves are stated on a net basis after deductions for losses recoverable from reinsurers.

	2018	2017
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 144,178,810	$ 144,245,048
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	46,254,820	46,517,506
Decrease in provision for insured events of prior fiscal years	(19,227,063)	(9,845,173)
Unallocated claims adjustment expenses	4,810,121	4,551,991
Total incurred claims and claim adjustment expeneses	31,837,878	41,224,324
Reinsurance:		
Reinsurance recoveries received attributable to insured events of current fiscal year	402,250	-
Reinsurance recoveries received attributable to insured events of prior fiscal years	3,574,897	984,764
Change in reinsurance recoverable on paid losses	(1,464,242)	3,390,915
Total reinsurance	2,512,905	4,375,679
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	13,629,302	16,076,217
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	23,412,689	25,038,033
Unallocated claim adjustment expenses	4,810,121	4,551,991
Total payments	41,852,112	45,666,241
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 136,677,481	$ 144,178,810

The Pool has accumulated a base of mature reported loss data, supplemented with industry data, to project ultimate losses. Estimates of incurred losses for all lines of business and policy years involve estimation of future events and costs, which may differ from amounts ultimately realized due to a number of factors. Estimated loss reserves have been developed by management of the Pool with assistance from a consulting actuary. Management believes the reserve for losses and loss adjustment expenses is reasonably stated for all obligations as of June 30, 2018 and 2017. However, adjustments to these estimates may nevertheless be required and would be reflected as additions or reductions to expenses in the period the adjustment is determined.

(6) Premiums Written and Reinsurance

Premiums written for the fiscal years ended June 30, 2018 and June 30, 2017 were as follows:

	2018	2017
Premiums written	$ 72,153,408	$ 71,140,710
Premiums ceded	(9,870,211)	(10,489,923)
Net premiums written	$ 62,283,197	$ 60,650,787

The Pool limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain risks with various reinsurance companies. Ceded reinsurance is treated as the risk and liability of the assuming companies. In general, such reinsurance contracts limit the Pool's retention on individual occurrences as follows:

a. The Pool's workers compensation reinsurance retention amount was $1,350,000 per occurrence for fiscal years 2018 and 2017.

b. For fiscal years 2018 and 2017, the Pool's reinsurance retention amount was $700,000 per occurrence for events arising from general liability, personal injury liability, errors and omissions liability, law enforcement liability, employment benefit liability, employment practices liability, unmanned aerial vehicles (drones) and auto liability and privacy and network security liability.

c. For fiscal years 2018 and 2017, the Pool's property reinsurance retention amount was as follows: flood, earthquake, tornado, wind, named windstorm, hail, sleet, lightning and rain, - $500,000 per occurrence; all other events, including auto physical damage and crime - $300,000 per occurrence.

This reinsurance coverage does not relieve the Pool from its obligations to its members. Failure of the reinsurer to honor its obligations could result in losses to the Pool and its members. Accordingly, the Pool evaluates the financial condition of any reinsurers to minimize its losses because of potential reinsurer insolvency.

Estimated amounts recoverable from reinsurers of $22,854,836 and $24,689,239 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2018 and 2017, respectively. The Pool remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(7) Net Position

The Board of Directors has committed the Pool's unrestricted net position for the purposes and amounts as presented below. The Board of Directors may, at its discretion, adjust or remove these amounts.

	2018	2017
Investment in capital assets	$ 3,186,997	$ 1,149,387
Unrestricted:		
Committed for capitalization	40,000,000	40,000,000
Committed for member credits	8,311,930	3,209,126
Committed to capital outlay	7,500,000	-
Committed for property/casualty catastrophe	30,000,000	30,000,000
Total operational commitments	85,811,930	73,209,126
Commited for market value stablization	29,160,071	29,421,228
Total unrestricted net position	114,972,001	102,630,354
Net position, end of year	$ 118,158,998	$ 103,779,741

During the year ended 2018, the Board declared a $5,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2018 through June 30, 2019. Lapsed dividends totaling $20,200 were returned to net position in 2018.

Also during 2018, the Board approved the design and construction of a new multi-story office building for which net position of $7.5 million has been committed for the estimated cost of construction and build-outs.

During the year ended 2017, the Board declared a $5,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2017 through June 30, 2018. Also, lapsed dividends totaling $40,164 were returned to net position in 2017.

(8) Related Party Transactions

The formation of the Pool was sponsored by the Tennessee Municipal League (the "League"), and the Pool is governed by a Board of Directors who are ratified by the League's Board of Directors. The League receives an annual sponsorship fee from the Pool of 1.90% of net earned premiums, subject to a 4.0% cap that is based on a percentage of the prior year's fee. Sponsorship fees paid to the League totaled $1,181,437 and $1,147,583 in 2018 and 2017, respectively, and are included in policy acquisition costs on the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

(9) Employee pension plan

a. General information about the pension plan

Plan description

Employees of the Pool are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated, Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index ("CPI") during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	7
Active employees	29
	46

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Pool has adopted a noncontributory retirement plan for its employees. The Pool makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2018, the employer contributions for the Pool were $545,924 based on a rate of 15.83% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Pool's state shared taxes, if applicable, if required employer contributions are not remitted. The employer's actuarially determined contributions ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

b. Net pension liability

The Pool's net pension liability at June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.46% based on age, including inflation, averaging 4.0%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions

In 2017, the following assumptions were changed: decreased inflation rate from 3.0% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost of living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.0%; and, modified mortality assumptions.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Pool will be made at the actuarially-determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

c. Changes in the net pension liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 6/30/2016:	$ 10,137,493	$ 8,798,644	$ 1,338,849
Changes for the year:			
Service cost	202,026	-	202,026
Interest	762,920	-	762,920
Differences between expected and actual experience	137,083	-	137,083
Changes in assumptions	264,836	-	264,836
Contributions from employer	-	507,080	(507,080)
Net investment income	-	1,006,625	(1,006,625)
Benefit payments, including refunds of employee contributions	(334,508)	(334,508)	-
Administrative expense	-	(2,533)	2,533
Net changes	1,032,357	1,176,664	(144,307)
Balance at 6/30/2017:	$ 11,169,850	$ 9,975,308	$ 1,194,542

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the Pool calculated using the discount rate of 7.25%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
The Pool's net pension liability (asset)	$ 2,638,256	$ 1,194,542	$ (12,373)

d. Pension expense (income) and deferred outflows of resources and deferred inflows of resources related to pensions

Pension expense

For the years ended June 30, 2018 and 2017, the Pool recognized pension expense of $388,488 and $367,697, respectively.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2018 the Pool reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 316,159	$ -
Net difference between projected and actual earnings on pension plan investments	-	5,740
Changes in assumptions	220,697	-
Contributions subsequent to the measurement date of June 30, 2017	545,924	-
Total	$ 1,082,780	$ 5,740

For the year ended June 30, 2017 the Pool reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 259,200	$ -
Net difference between projected and actual earnings on pension plan investments	297,631	-
Contributions subsequent to the measurement date of June 30, 2016	507,080	-
Total	$ 1,063,911	$ -

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2017 and 2016" will be recognized as a reduction to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2019	$	87,284
2020		209,465
2021		129,894
2022		37,484
2023		66,986
Thereafter		-

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

e. Payable to the pension plan

At June 30, 2018 and 2017, the Pool did not owe any outstanding contributions to the pension plan.

(10) Commitments and Contingencies

In the normal course of operations, the Pool is involved in litigation related to certain claims. In the opinion of management, the disposition of these matters will not have a material adverse effect on the Pool's financial position.

Subsequent to June 30, 2018, the Pool entered into a contract for the construction of a multi-story office building for an estimated cost of $4.4 million. Contracts for the build-out and furnishings of interior space have not yet been completed but are estimated to cost $2.0 - 2.5 million. Construction is expected to be completed in fiscal year 2020.

(11) Operating Leases

The Pool leases certain office equipment and office and storage space from various third-parties under operating lease agreements with fixed rental payments. Total rental expenses under these operating leases were $38,386 and $36,534 for 2018 and 2017, respectively.

Future minimum rents under long-term operating leases are $38,376 for fiscal year ending June 30, 2019; $14,732 for fiscal year ending June 30, 2020; $4,656 for fiscal years ending June 30, 2021 and 2022; and, $3,492 for fiscal year ending June 30, 2023.

(12) Subsequent Event

Subsequent to June 30, 2018, the Pool's board of directors voted to change the legal name of the organization to Public Entity Partners effective September 26, 2018.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Ten-Year Claims Development Information

Year ended June 30, 2018

The table below illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of losses (net of losses assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last ten fiscal years. The rows of the table are defined as follows: (1) Net earned required premium and investment revenues – This line shows the total of each fiscal year's net earned premium revenues and investment revenues. (2) Unallocated expenses – This line shows each fiscal year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims. (3) Estimated incurred claims and expenses, end of accident year – This line shows the Pool's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) Net paid (cumulative) – This section of ten rows shows the cumulative amounts paid net of recoveries as of the end of successive years for each policy year. (5) Re-estimated incurred claims and expenses – This section of ten rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) Increase (decrease) in estimated incurred claims and expenses from end of accident year – This line compares the latest re-estimated incurred claims amount (line 5) to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally estimated. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Net earned required premium and investment revenues	$67,407,104	$66,071,645	$64,062,890	$60,983,901	$61,902,588	$62,816,826	$66,741,692	$82,273,191	$58,412,738	$64,785,175
2. Unallocated expenses	13,462,216	13,928,489	14,073,693	14,719,391	15,478,609	17,449,760	16,878,932	16,843,422	18,705,261	18,399,361
3. Estimated incurred claims and expense, end of accident year	43,738,304	46,827,211	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807	46,517,506	46,254,820
4. Net Paid (cumulative) as of:										
End of accident year	10,383,927	11,960,924	14,170,671	13,554,782	13,312,473	13,084,348	13,208,337	12,053,539	15,918,968	13,629,302
One year later	22,503,451	21,946,111	28,567,327	22,089,817	22,634,009	23,347,626	24,079,927	22,764,176	26,579,123	
Two years later	26,581,822	28,850,196	32,547,163	26,887,613	27,545,762	27,922,722	28,934,633	26,261,766		
Three years later	29,468,494	31,061,738	34,977,023	29,124,795	30,406,417	29,951,595	30,875,714			
Four years later	31,113,644	32,610,625	38,284,196	29,910,731	31,202,054	30,663,176				
Five years later	32,598,083	33,610,677	39,130,026	30,599,401	32,090,091					
Six years later	33,066,340	33,959,333	41,392,517	31,048,974						
Seven years later	33,805,178	34,402,347	41,075,438							
Eight years later	34,116,712	34,627,643								
Nine years later	34,322,046									
5. Re-estimated incurred claims and expenses:										
End of accident year	43,738,304	46,827,211	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807	46,517,506	46,254,820
One year later	42,588,900	45,209,547	47,774,196	43,177,868	43,553,794	46,024,778	46,723,332	46,885,944	44,239,441	
Two years later	40,180,438	42,870,101	46,907,918	40,536,108	40,606,116	43,189,636	43,694,843	41,620,255		
Three years later	38,843,097	40,802,207	45,765,147	38,581,460	40,368,831	40,543,901	40,663,865			
Four years later	38,947,087	40,869,336	47,232,903	37,605,162	38,606,920	39,195,784				
Five years later	39,125,187	39,716,596	47,174,143	36,746,152	37,563,976					
Six years later	37,870,138	39,214,612	46,574,720	35,582,627						
Seven years later	37,900,916	38,541,785	45,227,792							
Eight years later	37,388,685	37,662,669								
Nine years later	36,858,956									
6. Increase (decrease) in estimated incurred claims and expense from end of accident year	(6,349,619)	(8,285,426)	(4,066,500)	(10,761,829)	(7,967,779)	(5,276,156)	(2,982,104)	1,186,137	(2,278,065)	

See independent auditors' report.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2018

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 41,900,798	$ 100,111,298	$ 2,166,714	$ 144,178,810
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	22,671,288	19,762,846	3,820,686	46,254,820
Increase (decrease) in provision for insured events of prior fiscal years	(7,089,896)	(11,678,610)	(458,557)	(19,227,063)
Unallocated claims adjustment expenses	1,947,107	1,941,973	921,041	4,810,121
Total incurred claims and claim adjustment expenses	17,528,499	10,026,209	4,283,170	31,837,878
Reinsurance:				
Reinsurance recoveries received attributable to insured events of current fiscal year	-	-	402,250	402,250
Reinsurance recoveries received attributable to insured events of prior fiscal years	1,445,980	524,578	1,604,339	3,574,897
Change in reinsurance recoverable on paid losses	(379,629)	164,595	(1,249,208)	(1,464,242)
Total reinsurance	1,066,351	689,173	757,381	2,512,905
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	6,650,012	4,828,881	2,150,409	13,629,302
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	12,928,533	8,614,884	1,869,272	23,412,689
Unallocated claim adjustment expenses	1,947,107	1,941,973	921,041	4,810,121
Total payments	21,525,652	15,385,738	4,940,722	41,852,112
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 38,969,996	$ 95,440,942	$ 2,266,543	$ 136,677,481

See independent auditors' report.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2017

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 42,629,491	$ 98,381,177	$ 3,234,380	$ 144,245,048
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	21,257,903	20,819,603	4,440,000	46,517,506
Increase (decrease) in provision for insured events of prior fiscal years	(3,895,217)	(5,080,030)	(869,926)	(9,845,173)
Unallocated claims adjustment expenses	1,819,925	1,841,168	890,898	4,551,991
Total incurred claims and claim adjustment expenses	19,182,611	17,580,741	4,460,972	41,224,324
Reinsurance:				
Reinsurance recoveries received attributable to insured events of current fiscal year	-	-	-	-
Reinsurance recoveries received attributable to insured events of prior fiscal years	151,103	533,661	300,000	984,764
Change in reinsurance recoverable on paid losses	1,394,972	260,766	1,735,177	3,390,915
Total reinsurance	1,546,075	794,427	2,035,177	4,375,679
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	7,250,457	5,074,697	3,751,063	16,076,217
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	12,386,997	9,729,182	2,921,854	25,038,033
Unallocated claim adjustment expenses	1,819,925	1,841,168	890,898	4,551,991
Total payments	21,457,379	16,645,047	7,563,815	45,666,241
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 41,900,798	$ 100,111,298	$ 2,166,714	$ 144,178,810

See independent auditors' report.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Based on Participation in the Public Employee Pension Plan of
Tennessee Consolidated Retirement System

Last Fiscal Year Ended June 30,

	2014	2015	2016	2017
Total pension liability:				
Service Cost	$ 154,134	$ 180,845	$ 211,832	$ 202,026
Interest	609,688	652,233	701,015	762,920
Changes in benefit terms	-	-	-	-
Differences between actual and expected experience	50,864	61,392	231,407	137,083
Change of assumptions	-	-	-	264,836
Benefit payments, including refunds of employee contributions	(281,807)	(266,470)	(283,590)	(334,508)
Net change in total pension liability	532,879	628,000	860,664	1,032,357
Total pension liability, beginning	8,115,950	8,648,829	9,276,829	10,137,493
Total pension liability, ending (a)	$ 8,648,829	$ 9,276,829	$ 10,137,493	$ 11,169,850
Plan fiduciary net position:				
Contributions from employer	$ 416,207	$ 444,391	$ 481,504	$ 507,080
Contributions from employees	-	-	-	-
Net investment income	1,118,570	247,692	224,807	1,006,625
Benefit payments, including refunds of employee contributions	(281,807)	(266,470)	(283,590)	(334,508)
Administrative expense	(1,407)	(1,421)	(2,180)	(2,533)
Net change in plan fiduciary net position	1,251,563	424,192	420,541	1,176,664
Plan fiduciary net position, beginning	6,702,348	7,953,911	8,378,103	8,798,644
Plan fiduciary net position, ending (b)	$ 7,953,911	$ 8,378,103	$ 8,798,644	$ 9,975,308
Net Pension Liability (Asset), ending (a) - (b)	$ 694,918	$ 898,726	$ 1,338,849	$ 1,194,542
Plan fiduciary net position as a percentage of total pension liability:	91.97%	90.31%	86.79%	89.31%
Covered-employee payroll:	$ 2,699,019	$ 2,921,704	$ 3,165,707	$ 3,333,863
Net pension liability (asset) as a percentage of covered-employee payroll:	25.75%	30.76%	42.29%	35.83%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See independent auditors' report.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Schedule of Contributions Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System

Last Fiscal Year Ended June 30,

	2014	2015	2016	2017	2018
Actuarially determined contribution	$ 416,207	$ 444,391	$ 481,504	$ 507,080	$ 545,924
Contribution in relation to the actuarially determined contribution	416,207	444,391	481,504	507,080	545,924
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 2,699,019	$ 2,921,704	$ 3,165,707	$ 3,333,863	$ 3,448,666
Contributions as a percentage of covered-employee payroll	15.42%	15.42%	15.21%	15.21%	15.83%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Required Supplementary Information:

Valuation Date - Actuarially determined contribution rates for 2018 were calculated based on the June 30, 2017 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method:	Entry age normal
Amortization method:	Level dollar, closed (not to exceed 20 years)
Remaining amortization period:	Varies by year
Asset valuation:	10-year smoothed within a 20% corridor to market value
Inflation:	3.0 percent
Salary increases:	Graded salary ranges from 8.97 to 3.71% based on age, including inflation
Investment rate of return:	7.5%, net of investment expense, including inflation
Retirement age:	Pattern of retirement determined by experience study
Mortality:	Customized tables based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustment:	2.50%

See independent auditors' report.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Tennessee Municipal League Risk Management Pool

We have audited, in accordance with the 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, the financial statements of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no prior findings reported.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

LBMC, PC

Brentwood, Tennessee
October 30, 2018