

**PUBLIC ENTITY PARTNERS**

**Financial Statements and Supplementary Information**

**June 30, 2022 and 2021**

**(With Independent Auditors' Report Thereon)**



# **PUBLIC ENTITY PARTNERS**

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**Board of Directors and Senior Management**

**July 1, 2021 - June 30, 2022**

**Board of Directors**

Curtis Hayes, Chairman  
Town of Livingston

Randy Brundige, Vice Chairman  
City of Martin

Victor Lay  
Town of Nolensville

Christa Martin  
City of Columbia

Sam Tharpe  
City of Paris

Todd Smith  
Town of Greeneville

Lois Preece  
City of Niota

John Holden  
City of Dyersburg

Ken Moore  
City of Franklin



**Board of Directors and Senior Management (continued)**

**July 1, 2021 - June 30, 2022**

**Senior Management**

Michael G. Fann, President

George Dalton, Vice President of Risk Services

Amanda Shrum, Chief Financial Officer

Celeste Taylor, Director of Human Resources

Halie Gallik, Director of Communications & Research/Corporate Secretary

Anthony Ponessa, Director of Information Technology

Callie Westerfield, Director of Member Services

Chester Darden, Director of Loss Control

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Public Entity Partners

### **Opinion**

We have audited the accompanying statements of net position of Public Entity Partners (the "Company") as of June 30, 2022 and 2021, 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 Public Entity Partners' basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, 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.

### **Basis for Opinion**

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. 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 Company 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.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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 Company's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* 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.

In performing an audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, 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 Company'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 Company'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**

### *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 Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section and other information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the introductory section.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2022 on our consideration of the Company'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 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 the Company's 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 Company's internal control over financial reporting and compliance.

*LBM, PC*

Brentwood, Tennessee  
November 30, 2022



## **PUBLIC ENTITY PARTNERS**

### **Management's Discussion and Analysis**

Public Entity Partners ("PE Partners" or "the Company") offers this overview and analysis of the financial activities for the fiscal year ended June 30, 2022. The information presented in this report should be considered in conjunction with the PE Partners' audited financial statements.

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

#### **2022 Fiscal Year Highlights**

- PE Partners had 497 insured members on June 30, 2022, including 315 cities and towns which represents approximately 91% of the state. PE Partners insure more than 40,000 local government employees and more than 20,000 government properties valued at approximately \$11.2 billion.
- Total assets and deferred outflows of resources of \$270,962,025 exceeded liabilities and deferred inflows of resources by \$109,557,843 on June 30, 2022.
- PE Partners' Board of Directors declared a dividend of \$8,000,000 to members for the ensuing 2023 policy year.

#### **Overview of the Financial Statements**

PE Partners' 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. PE Partners' 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 PE Partners' 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 PE Partners' 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 PE Partners' 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 PE Partners' 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 PE Partners 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 PE Partners' 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)                                     |              |              |                            |               |              |                            |              |
|  | 2022         | 2021         | Net Increase<br>(Decrease) |               | 2020         | Net Increase<br>(Decrease) |              |
|  | \$           | \$           | \$                         | %             | \$           | \$                         | %            |
| Current assets   | \$ 259.2     | \$ 312.5     | \$(53.3)                   | -17.1%        | \$ 314.5     | \$ (2.0)                   | -0.6%        |
| Capital assets   | 9.2          | 9.2          | -                          | 0.0%          | 9.4          | (0.2)                      | -2.1%        |
| Total assets   | <u>268.4</u> | <u>321.7</u> | <u>(53.3)</u>              | <u>-16.6%</u> | <u>323.9</u> | <u>(2.2)</u>               | <u>-0.7%</u> |
| Current liabilities  | \$ 159.4     | \$ 161.0     | \$ (1.6)                   | -1.0%         | \$ 178.8     | \$ (17.8)                  | -10.0%       |
| Noncurrent liabilities                                       | 0.2          | 1.2          | (1.0)                      | -%            | 0.8          | 0.4                        | 50.0%        |
| Total liabilities  | <u>159.6</u> | <u>162.2</u> | <u>(2.6)</u>               | <u>-1.0%</u>  | <u>179.6</u> | <u>(17.4)</u>              | <u>40.0%</u> |
| Net deferred inflows/outflows<br>of resources - pension plan | <u>0.8</u>   | <u>1.3</u>   | <u>(0.5)</u>               | <u>-%</u>     | <u>0.9</u>   | <u>0.4</u>                 | <u>-%</u>    |
| Investment in capital assets                                 | 9.2          | 9.2          | -                          | 0.0%          | 9.4          | (0.2)                      | -2.1%        |
| Unrestricted   | <u>100.4</u> | <u>151.6</u> | <u>(51.2)</u>              | <u>-33.9%</u> | <u>135.8</u> | <u>15.8</u>                | <u>11.7%</u> |
| Total net position   | <u>109.6</u> | <u>160.8</u> | <u>(51.2)</u>              | <u>-32.0%</u> | <u>145.2</u> | <u>15.6</u>                | <u>10.8%</u> |

PE Partners had total assets of \$268.4 million at June 30, 2022, which is 16.6% less than the previous year. Current assets consist primarily of cash, cash equivalents and investments totaling \$244.5 million; premiums, interest, other receivables and prepaid reinsurance of \$10.8 million, and reinsurance on recoverable paid losses of \$3.8 million. PE Partners' investable assets at June 30, 2022 consisted of municipal bonds and U.S. agency bonds of \$234.9 million and cash, cash equivalents and money market funds of \$9.6 million. Deferred outflows of resources totaling approximately \$2.6 million are related to PE Partners' net pension obligation and are actuarially-determined.

PE Partners' total liabilities of \$159.6 million at June 30, 2022 were comprised of current liabilities of \$159.4 million and noncurrent liabilities of \$.2 million. Current liabilities consisted primarily of reserve for losses and loss adjustment expenses totaling \$134.1 million at 2022 year-end, a decrease of \$2.5 million from the prior year. The reserve for losses represents 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") increased by \$1.6 million in 2022.

Noncurrent liabilities of \$.2 million include PE Partners' net pension liability of \$.2 million at June 30, 2022 for PE Partners' participation in a defined benefit pension plan administrated by the State of Tennessee Consolidated Retirement System. PE Partners' 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 \$109.6 million at June 30, 2022. Net position fluctuates annually due to PE Partners' 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 2022 PE Partners' net position decreased by \$51.3 million due to the current year's reduction in net position of \$43.3 million and \$8 million dividend declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2023.

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

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

|   | <u>2022</u>            | <u>2021</u>           | <u>2020</u>            |
|---|------------------------|-----------------------|------------------------|
| Investment in capital assets                | \$ 9.2                 | \$ 9.2                | \$ 9.4                 |
| Unrestricted:                               |                        |                       |                        |
| Committed for capitalization                | 40.0                   | 40.0                  | 40.0                   |
| Committed for member credits                | 20.3                   | 36.0                  | 18.4                   |
| Committed for property/casualty catastrophe | 30.0                   | 30.0                  | 30.0                   |
| Committed for market value stabilization    | 10.0                   | 45.6                  | 47.4                   |
| Total unrestricted net position             | <u>100.3</u>           | <u>151.6</u>          | <u>135.8</u>           |
| Total net position                          | <u><u>\$ 109.5</u></u> | <u><u>\$160.8</u></u> | <u><u>\$ 145.2</u></u> |

The following table presents PE Partners' 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)**

|   | <u>2022</u>             | <u>2021</u>           | <u>Net Increase<br/>(Decrease)</u> |                       | <u>2020</u>          | <u>Net Increase<br/>(Decrease)</u> |                     |
|---|-------------------------|-----------------------|------------------------------------|-----------------------|----------------------|------------------------------------|---------------------|
|   | <u>\$</u>               | <u>\$</u>             | <u>\$</u>                          | <u>%</u>              | <u>\$</u>            | <u>\$</u>                          | <u>%</u>            |
| Net earned premiums                       | \$ 67.5                 | \$ 66.2               | \$ 1.3                             | 2.0%                  | \$66.1               | \$ 0.1                             | 0.2%                |
| Investment income-interest, net           | 9.1                     | 8.8                   | 0.3                                | 3.4%                  | 8.5                  | 0.3                                | 3.5%                |
| Investment income-net increase (decrease) |                         |                       |                                    |                       |                      |                                    |                     |
| in fair value of investments              | (57.2)                  | 1.5                   | (58.7)                             | -3913.3%              | 9.3                  | (7.8)                              | -83.9%              |
| Other income                              | 0.2                     | -                     | 0.2                                | 0.0%                  | 0.2                  | (0.2)                              | -100.0%             |
| Total operating revenues                  | <u>19.6</u>             | <u>76.5</u>           | <u>(56.9)</u>                      | <u>-74.4%</u>         | <u>84.1</u>          | <u>(7.6)</u>                       | <u>-9.0%</u>        |
| Operating expenses                        | 62.9                    | 53.5                  | 9.4                                | 17.6%                 | 68.8                 | (15.3)                             | -22.2%              |
| Operating income (loss)                   | <u>(43.3)</u>           | <u>23.0</u>           | <u>(66.3)</u>                      | <u>-288.3%</u>        | <u>15.3</u>          | <u>7.7</u>                         | <u>50.3%</u>        |
| Nonoperating revenues (expenses)          | <u>-</u>                | <u>-</u>              | <u>-</u>                           | <u>- %</u>            | <u>1.8</u>           | <u>(1.8)</u>                       | <u>- %</u>          |
| Change in net position                    | <u><u>\$ (43.3)</u></u> | <u><u>\$ 23.0</u></u> | <u><u>\$(66.3)</u></u>             | <u><u>-288.3%</u></u> | <u><u>\$17.1</u></u> | <u><u>\$ 5.9</u></u>               | <u><u>34.6%</u></u> |

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 PE Partners' 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 approved by the Board of Directors. Each member is also rated on actual loss experience (referred to as experience modifications) and compliance with PE Partners' loss control surveys and

recommendations (referred to as schedule modifications). Gross earned premiums totaled \$80.4 million for 2022 and represent a slight increase of \$1.8 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 \$12.9 million which is a 5% increase 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 investments and totaled \$9.1 million for 2022.

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 2022, PE Partners realized \$6 million in net losses 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 PE Partners' 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 PE Partners' financial records. At June 30, 2022, PE Partners had net unrealized investment losses totaling \$50.6 million compared to \$1.8 million of net unrealized losses in the prior year. Consequently, the total change in fair value of investments for fiscal year 2022 was a decrease of \$57.2 million.

Because PE Partners operates in a competitive business environment and has the ability to hold investment securities to maturity, 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 (loss) 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)**

|  | <u>2022</u>      | <u>2021</u>    | <u>Net Increase</u><br><u>(Decrease)</u> |                | <u>2020</u>   | <u>Net Increase</u><br><u>(Decrease)</u> |              |
|--|------------------|----------------|--|----------------|---------------|--|--------------|
|  |                  |                | <u>\$</u>                                | <u>%</u>       |               | <u>\$</u>                                | <u>%</u>     |
| Net earned premiums  | \$ 67.5          | \$ 66.3        | \$ 1.2                                   | 1.8%           | \$66.1        | \$ 0.2                                   | 0.3%         |
| Investment income-interest, net                                      | 8.5              | 8.0            | 0.5                                      | 6.3%           | 8.3           | (0.3)                                    | -3.6%        |
| Investment income-realized gains (losses)                            | (6.0)            | 4.0            | (10.0)                                   | -250.0%        | 6.1           | (2.1)                                    | -34.4%       |
| Other income   | 0.2              | -              | 0.2                                      | - %            | 0.2           | (0.2)                                    | - %          |
| Total operating revenues   | 70.2             | 78.3           | (8.1)                                    | -10.3%         | 80.7          | (2.4)                                    | -3.0%        |
| Operating expenses   | 62.9             | 53.5           | 9.4                                      | 17.6%          | 68.8          | (15.3)                                   | -22.2%       |
| Operating income (loss)  | 7.3              | 24.8           | (17.5)                                   | -70.6%         | 11.9          | 12.9                                     | 108.4%       |
| Nonoperating revenues  | -                | -              | -  | - %            | 1.8           | (1.8)                                    | - %          |
| Change in net position before<br>change in fair value of investments | 7.3              | 24.8           | (17.5)                                   | -70.6%         | 13.7          | 11.1                                     | 81.0%        |
| Change in fair value of investments -<br>unrealized gains (losses)   | (50.6)           | (1.8)          | (48.8)                                   | 2711.1%        | 3.4           | (5.2)                                    | -152.9%      |
| Change in net position   | <u>\$ (43.3)</u> | <u>\$ 23.0</u> | <u>\$ (66.3)</u>                         | <u>-288.3%</u> | <u>\$17.1</u> | <u>\$ 5.9</u>                            | <u>34.5%</u> |

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 PE Partners 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 2022 increased \$8.2 million from the prior year to \$46.3 million due primarily to the estimated cost of existing claims and claims administration.

Policy acquisition costs are expenses incurred by PE Partners 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 \$6.9 million for 2022 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, PE Partners 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 \$9.7 million for fiscal year 2022 and include personnel and operating costs of services and programs provided to PE Partners' membership as approved by the Board of Directors.

## **Capital Assets**

PE Partners' premises, property, and equipment had a total cost of \$11.6 million and a book value (after accumulated depreciation) of \$9.2 million at June 30, 2022. These capital assets consist of land, building and improvements, construction in progress, computer hardware and software, and office furniture and equipment used in Company operations.

The Company has no outstanding debt associated with capital assets.

## **Long-term Debt**

PE Partners has a net pension liability which is actuarially-determined annually by the State of Tennessee Consolidated Retirement System. PE Partners' net pension liability totaled \$201,000 and was approximately 98.8% funded, based on the most recent actuarial valuation date.

## **Economic Factors and Other Matters**

For fiscal year 2023, PE Partners' Board of Directors approved base rates changes as follows:

- Worker's Compensation: 9.5% decrease
- Liability: 0.23% increase among all lines
- Property: No Change

## **Requests for Information**

This report is designed to provide an overview of PE Partners' financial activities and to demonstrate PE Partners' transparency and accountability to its members and other interested readers. Questions and requests for additional financial information should be addressed to the Chief Financial Officer, Public Entity Partners, 562 Franklin Road, Ste. 200, Franklin, Tennessee 37069.

**PUBLIC ENTITY PARTNERS**

**Statements of Net Position**

**June 30, 2022 and 2021**

**Assets and Deferred Outflows of Resources**

|   | <u><b>2022</b></u>           | <u><b>2021</b></u>           |
|---|------------------------------|------------------------------|
| <b>Current assets:</b>                      |                              |                              |
| Cash and cash equivalents                   | \$ 9,621,422                 | \$ 34,541,622                |
| Investments                                 | 234,888,762                  | 270,132,355                  |
| Premiums receivable                         | 3,120,290                    | 2,961,200                    |
| Accrued interest and other receivables      | 3,535,398                    | 3,624,878                    |
| Prepaid reinsurance and other expenses      | 4,177,774                    | -                            |
| Reinsurance recoverable on paid losses      | 3,825,553                    | 1,283,403                    |
|   | <hr/>                        | <hr/>                        |
| Total current assets                        | 259,169,199                  | 312,543,458                  |
| <b>Premises, property, and equipment</b>    |                              |                              |
| Non-depreciable                             | 1,957,084                    | 1,957,084                    |
| Depreciable                                 | 7,228,261                    | 7,223,293                    |
|   | <hr/>                        | <hr/>                        |
| Total premises, property, and equipment     | 9,185,345                    | 9,180,377                    |
|   | <hr/>                        | <hr/>                        |
| Total assets                                | 268,354,544                  | 321,723,835                  |
| <b>Deferred outflows of resources:</b>      |                              |                              |
| Pension changes in investment experience    | 1,222,703                    | 547,278                      |
| Pension changes in investment earnings, net | -                            | 96,642                       |
| Pension changes in actuarial assumptions    | 631,967                      | 88,280                       |
| Employer pension contributions              | 752,811                      | 670,862                      |
|   | <hr/>                        | <hr/>                        |
| Total deferred outflows of resources        | 2,607,481                    | 1,403,062                    |
|   | <hr/>                        | <hr/>                        |
|   | <u><b>\$ 270,962,025</b></u> | <u><b>\$ 323,126,897</b></u> |

**Liabilities, Deferred Inflows of Resources, and Net Position**

|   |                              |                              |
|---|------------------------------|------------------------------|
| <b>Current liabilities:</b>                     |                              |                              |
| Reserve for losses and loss adjustment expenses | \$ 134,097,677               | \$ 136,606,706               |
| Unearned premiums                               | 14,978,886                   | 14,704,305                   |
| Dividends payable                               | 8,107,462                    | 7,673,104                    |
| Accounts payable and accrued liabilities        | 2,238,497                    | 2,104,478                    |
|   | <hr/>                        | <hr/>                        |
| Total current liabilities                       | 159,422,522                  | 161,088,593                  |
| <b>Net pension liability</b>                    | <hr/>                        | <hr/>                        |
|   | 200,738                      | 1,158,277                    |
|   | <hr/>                        | <hr/>                        |
| Total liabilities                               | 159,623,260                  | 162,246,870                  |
|   | <hr/>                        | <hr/>                        |
| <b>Deferred inflows of resources:</b>           |                              |                              |
| Pension changes in investment experience        | 26,661                       | 35,549                       |
| Pension changes in investment earnings, net     | 1,754,261                    | -                            |
|   | <hr/>                        | <hr/>                        |
| Total deferred inflows of resources             | 1,780,922                    | 35,549                       |
|   | <hr/>                        | <hr/>                        |
| <b>Net position:</b>                            |                              |                              |
| Investment in capital assets                    | 9,185,345                    | 9,180,377                    |
| Unrestricted                                    | 100,372,498                  | 151,664,101                  |
|   | <hr/>                        | <hr/>                        |
| Total net position                              | 109,557,843                  | 160,844,478                  |
|   | <hr/>                        | <hr/>                        |
|   | <u><b>\$ 270,962,025</b></u> | <u><b>\$ 323,126,897</b></u> |

See accompanying notes to the financial statements.

**PUBLIC ENTITY PARTNERS**

**Statements of Revenues, Expenses, and Changes in Net Position**

**Years ended June 30, 2022 and 2021**

|  | <u>2022</u>           | <u>2021</u>           |
|--|-----------------------|-----------------------|
| <b>Operating revenues:</b>   |                       |                       |
| Gross earned premiums  | \$ 80,424,915         | \$ 78,575,946         |
| Reinsurance premiums ceded   | <u>(12,935,347)</u>   | <u>(12,310,020)</u>   |
| Net earned premiums  | 67,489,568            | 66,265,926            |
| Investment income - interest earnings, net                               | 9,102,384             | 8,765,053             |
| Investment income - net increase (decrease) in fair value of investments | <u>(57,228,454)</u>   | <u>1,481,241</u>      |
| Other income   | <u>232,040</u>        | <u>25,376</u>         |
| Total operating revenues   | <u>19,595,538</u>     | <u>76,537,596</u>     |
| <b>Operating expenses:</b>   |                       |                       |
| Losses and loss adjustment expenses                                      | 46,256,456            | 38,046,467            |
| Policy acquisition costs   | 6,890,849             | 6,534,607             |
| General and administrative expenses                                      | <u>9,735,218</u>      | <u>8,946,990</u>      |
| Total operating expenses   | <u>62,882,523</u>     | <u>53,528,064</u>     |
| Operating income (loss)  | <u>(43,286,985)</u>   | <u>23,009,532</u>     |
| <b>Nonoperating revenues (expenses):</b>                                 |                       |                       |
| Gain (loss) on disposal of depreciable capital assets                    | 350                   | (28)                  |
| Software licenses fee  | <u>-</u>              | <u>4,893</u>          |
| Total nonoperating revenues  | <u>350</u>            | <u>4,865</u>          |
| Total change in net position   | <u>(43,286,635)</u>   | <u>23,014,397</u>     |
| Net position, beginning of year  | 160,844,478           | 145,245,008           |
| Dividends declared   | (8,000,000)           | (7,500,000)           |
| Member lapsed dividend credits   | <u>-</u>              | <u>85,073</u>         |
| Net position, end of year  | <u>\$ 109,557,843</u> | <u>\$ 160,844,478</u> |

See accompanying notes to the financial statements.



**PUBLIC ENTITY PARTNERS**

**Statements of Cash Flows**

**Years ended June 30, 2022 and 2021**

|   | <u>2022</u>         | <u>2021</u>          |
|---|---------------------|----------------------|
| <b>Cash flows from operating activities:</b>                |                     |                      |
| <b>Cash receipts:</b>                                       |                     |                      |
| Premiums received   | \$ 74,649,715       | \$ 66,632,889        |
| Interest received   | 9,199,927           | 8,762,911            |
| Special rating plan reimbursements                          | 5,176,785           | 4,558,258            |
| Reinsurance recoveries received                             | 1,109,342           | 7,751,945            |
| Claim recoveries received                                   | 2,399,092           | 1,616,869            |
| Other cash receipts   | 757,330             | 674,094              |
|   | <hr/>               | <hr/>                |
| <b>Total cash receipts</b>                                  | <b>93,292,191</b>   | <b>89,996,966</b>    |
|   | <hr/>               | <hr/>                |
| <b>Cash disbursements:</b>                                  |                     |                      |
| Claim payments  | 54,496,727          | 48,925,238           |
| General and administrative                                  | 12,960,528          | 19,293,154           |
| Reinsurance premiums  | 17,191,334          | 12,243,605           |
| Claims administration                                       | 5,799,250           | 5,793,233            |
| Policy acquisition  | 5,354,209           | 5,032,081            |
|   | <hr/>               | <hr/>                |
| <b>Total cash disbursements</b>                             | <b>95,802,048</b>   | <b>91,287,311</b>    |
|   | <hr/>               | <hr/>                |
| <b>Net cash used in operating activities</b>                | <b>(2,509,857)</b>  | <b>(1,290,345)</b>   |
|   | <hr/>               | <hr/>                |
| <b>Cash flows from capital activities:</b>                  |                     |                      |
| Purchases of premises, property, and equipment              | (425,482)           | (86,530)             |
|   | <hr/>               | <hr/>                |
| <b>Net cash used in capital activities</b>                  | <b>(425,482)</b>    | <b>(86,530)</b>      |
|   | <hr/>               | <hr/>                |
| <b>Cash flows from investing activities:</b>                |                     |                      |
| Purchases of investments                                    | (191,895,050)       | (267,323,589)        |
| Proceeds from sales and maturities of investments           | 169,910,189         | 285,048,279          |
|   | <hr/>               | <hr/>                |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(21,984,861)</b> | <b>17,724,690</b>    |
|   | <hr/>               | <hr/>                |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>(24,920,200)</b> | <b>16,347,815</b>    |
|   | <hr/>               | <hr/>                |
| <b>Cash and cash equivalents, beginning of year</b>         | <b>34,541,622</b>   | <b>18,193,807</b>    |
|   | <hr/>               | <hr/>                |
| <b>Cash and cash equivalents, end of year</b>               | <b>\$ 9,621,422</b> | <b>\$ 34,541,622</b> |
|   | <hr/>               | <hr/>                |

See accompanying notes to the financial statements.

**PUBLIC ENTITY PARTNERS**

**Statements of Cash Flows (continued)**

**Years ended June 30, 2022 and 2021**

|  | <u>2022</u>           | <u>2021</u>           |
|--|-----------------------|-----------------------|
| Reconciliation of operating income (loss) to net cash used in operating activities:        |                       |                       |
| Operating income (loss)  | \$ (43,286,985)       | \$ 23,009,532         |
| Adjustments to reconcile operating income (loss) to net cash used in operating activities: |                       |                       |
| Depreciation   | 420,866               | 337,079               |
| Net amortization of premium paid on investments  | 635,753               | 747,695               |
| Net realized (gain) losses on sales of investments   | 5,991,884             | (4,042,664)           |
| Net unrealized losses on investments   | 50,600,817            | 1,813,729             |
| Decrease (increase) in premiums receivable   | (159,090)             | 105,556               |
| Decrease in accrued interest and other receivables   | (4,088,294)           | 198,122               |
| Decrease (increase) in reinsurance recoverable on paid losses                              | (2,542,150)           | 1,728,214             |
| Decrease (increase) in net deferred outflows of resources                                  | (1,204,419)           | (294,125)             |
| Increase (decrease) in reserve for losses and loss adjustment expenses                     | (2,509,029)           | (4,394,621)           |
| Increase (decrease) in unearned premiums   | 274,581               | 484,811               |
| Decrease in dividends payable  | (7,565,644)           | (20,818,771)          |
| Increase (decrease) in accounts payable and accrued liabilities                            | 134,019               | (384,332)             |
| Increase (decrease) in net pension liability   | (957,539)             | 321,840               |
| Increase (decrease) in deferred inflows of resources                                       | 1,745,373             | (102,410)             |
| Net cash used in operating activities  | <u>\$ (2,509,857)</u> | <u>\$ (1,290,345)</u> |

See accompanying notes to the financial statements.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

#### **(1) Nature of organization**

Public Entity Partners 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. In September 2018, the Board of Directors voted to change the company's name from Tennessee Municipal League Risk Management Pool.

Liability coverage provided by Public Entity Partners 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), privacy and network security liability, ransomware, social engineering, and data restoration expense coverage. 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 laws of Tennessee, excluding the provisions of the state law dealing with non-occupational disability benefits.

As part of the coverage, Public Entity Partners provides risk management services to its members with emphasis on loss control. Public Entity Partners 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 Public Entity Partners receives premiums for claims management services and retention-type contracts, respectively.

All corporate powers of Public Entity Partners 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 Public Entity Partners. Public Entity Partners' operations alone constitute the reporting entity since Public Entity Partners is not financially accountable for any other entities, and Public Entity Partners has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of Public Entity Partners. Pool membership consisted of 497 governmental entities (including 315 cities and towns) at June 30, 2022.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

#### **(2) Summary of significant accounting policies**

A summary of Public Entity Partners' significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

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

Public Entity Partners' 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.

When both restricted and unrestricted resources are available for use, it is Public Entity Partners' policy to use restricted resources first then unrestricted resources as they are needed.

Public Entity Partners' 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. Public Entity Partners' 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.

In 2022, Public Entity Partners adopted GASB Statement No. 87 - Leases, effective for fiscal years beginning after June 15, 2021. This statement seeks to improve accounting and financial reporting for leases by governments and increase the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. (See Note 11).

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

(b) Revenues and expenses

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 Public Entity Partners 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 Public Entity Partners. 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) Cash and cash equivalents

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 Public Entity Partners' 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

Public Entity Partners 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.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

(f) Premiums receivable

Premiums receivable consists of premiums due from members for workers' compensation, liability, and property coverages, which are billed when a member insurance policy is issued. In the event a member does not pay the assessed premium, the policy is canceled. Accordingly, no allowance for uncollectible premiums receivable is necessary.

(g) 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. Public Entity Partners capitalizes assets with an individual cost of \$10,000 or more and an estimated useful life of one year or more. Maintenance and repairs are expensed as incurred.

(h) 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. The deferred outflows related to pension results from the actuarially-determined pension liability. 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 inflows related to pension results from the actuarially-determined pension liability. (See Note 9).

(i) 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 Public Entity Partners' expected loss experience with consideration given to Public Entity Partners' 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.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

(j) 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 Public Entity Partners' participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from Public Entity Partners' 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).

(k) Risk management and insurance arrangements

In addition to the loss related to operational risks, Public Entity Partners 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. Public Entity Partners 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.

(l) 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 represents premium billed in the current fiscal year for insurance policies becoming effective in the next fiscal year.

(m) Income taxes

Public Entity Partners 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.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

(n) Use of 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 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.

(o) Reclassifications

Certain reclassifications have been made to the 2021 financial statements in order for them to conform to the 2022 presentation. These reclassifications have no effect on net position or change in net position as previously reported.

(p) Events occurring after reporting date

Public Entity Partners has evaluated events and transactions that occurred between June 30, 2022 and November 30, 2022, 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**

Public Entity Partners' cash and cash equivalent bank balances totaling \$12,759,100 and \$36,273,545 at June 30, 2022 and 2021, respectively (less outstanding checks that are subtracted from bank balances to determine a carrying value of \$9,621,422 and \$34,541,622 at June 30, 2022 and 2021, respectively) represent a variety of time deposits with banks and include bank balances that are FDIC insured or collateralized with securities held by Public Entity Partners or by its agent in Public Entity Partners' 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, the State of Tennessee Local Government Investment Pool ("LGIP"), short-term investment funds, corporate bonds, and domestic equity securities.



# **PUBLIC ENTITY PARTNERS**

## **Notes to the Financial Statements**

**June 30, 2022 and 2021**

At June 30, 2022, Public Entity Partners had the following investments:

|                           | <u><b>Fair Value</b></u>     | <u><b>Average<br/>Weighted<br/>Maturity<br/>(in years)</b></u> | <u><b>Average<br/>Weighted<br/>Call Term<br/>(in years)</b></u> |
|---------------------------|------------------------------|--|---|
| U.S. Government Agencies: |                              |  |   |
| FSCB                      | \$ 1,961,629                 | 19.8   | 0.8   |
| Corporate Bonds           | 19,025,194                   | 22.4   | 20.8  |
| Municipal Bonds           | 213,901,939                  | 18.7   | 7.9   |
| Total                     | <u><u>\$ 234,888,762</u></u> |  |   |

At June 30, 2021, Public Entity Partners had the following investments:

|                           | <u><b>Fair Value</b></u>     | <u><b>Average<br/>Weighted<br/>Maturity<br/>(in years)</b></u> | <u><b>Average<br/>Weighted<br/>Call Term<br/>(in years)</b></u> |
|---------------------------|------------------------------|--|---|
| U.S. Government Agencies: |                              |  |   |
| FHLB                      | \$ 13,866,825                | 15.2   | 0.3   |
| Corporate Bonds           | 17,020,864                   | 26.9   | 24.4  |
| Municipal Bonds           | 239,244,666                  | 18.6   | 8.9   |
| Total                     | <u><u>\$ 270,132,355</u></u> |  |   |

### *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 Public Entity Partners 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

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

portfolios. As of June 30, 2022 and 2021, the investments of Public Entity Partners had average weighted maturities and call terms as noted in the preceding tables.

#### *Credit risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation. Public Entity Partners' investment policy requires the average quality of investments to remain at a rating at or above "B", as defined by Moody, Standard and Poor, or an equivalent rating agency. All fixed income securities must have a rating of "B" 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, 2022 and 2021, Public Entity Partners' investments in corporate bonds had credit ratings as follows:

| <u>Rating</u> | <u>Corporate Bonds</u> |                      |
|---------------|------------------------|----------------------|
|               | <u>2022</u>            | <u>2021</u>          |
| AA            | \$ 5,097,009           | \$ 9,053,448         |
| A             | 13,928,185             | 6,845,600            |
| BBB           | -                      | 1,121,816            |
|               | <u>\$ 19,025,194</u>   | <u>\$ 17,020,864</u> |

As of June 30, 2022 and 2021, Public Entity Partners' investments in municipal bonds had credit ratings as follows:

| <u>Rating</u> | <u>Municipal Bonds</u> |                       |
|---------------|------------------------|-----------------------|
|               | <u>2022</u>            | <u>2021</u>           |
| AAA           | \$ 29,787,452          | \$ 30,551,159         |
| AA            | 116,706,929            | 134,018,670           |
| A             | 59,918,193             | 69,619,699            |
| BBB           | 7,489,365              | 5,055,138             |
|               | <u>\$ 213,901,939</u>  | <u>\$ 239,244,666</u> |

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

As of June 30, 2022 and 2021, Public Entity Partners' investments in agency bonds had credit ratings as follows:

| <u>Rating</u> | <u>US Government Agencies</u> |               |
|---------------|-------------------------------|---------------|
|               | <u>2022</u>                   | <u>2021</u>   |
| AAA           | \$ 1,961,629                  | \$ 13,866,825 |

#### *Concentration of credit risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of Public Entity Partners' investment in a single issuer. Public Entity Partners' 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, Public Entity Partners will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Public Entity Partners' investments are registered in Public Entity Partners' 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, 2022 and 2021, all investments were adequately insured or registered and collateralized or held by Public Entity Partners or its agent in Public Entity Partners' name.

#### *Fair value measurement*

Public Entity Partners 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.

# PUBLIC ENTITY PARTNERS

## Notes to the Financial Statements

June 30, 2022 and 2021

Public Entity Partners had the following fair value measurements as of June 30, 2022:

|   |                       | Fair Value Measurements Using  |   |  |
|---|-----------------------|--|---|--|
|   |                       | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>Investments by fair value level</u>        |                       |  |   |  |
| U.S. Government Agencies                      | \$ 1,961,629          | \$ 1,961,629   | \$ -  | \$ -   |
| Corporate Bonds                               | 19,025,194            | 19,025,194   |   |  |
| Municipal Bonds                               | 213,901,939           | 213,901,939  | -   | -  |
| Total Investments                             | <u>\$ 234,888,762</u> | <u>\$ 234,888,762</u>  | <u>\$ -</u>   | <u>\$ -</u>  |
| <u>Investments measured at amortized cost</u> |                       |  |   |  |
| Local Government Investment Pool              | <u>\$ 1,009,221</u>   |  |   |  |

Public Entity Partners had the following fair value measurements as of June 30, 2021:

|   |                       | Fair Value Measurements Using  |   |  |
|---|-----------------------|--|---|--|
|   |                       | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>Investments by fair value level</u>        |                       |  |   |  |
| U.S. Government Agencies                      | \$ 13,866,825         | \$ 13,866,825  | \$ -  | \$ -   |
| Corporate Bonds                               | 17,020,864            | 17,020,864   |   |  |
| Municipal Bonds                               | 239,244,666           | 239,244,666  | -   | -  |
| Total Investments                             | <u>\$ 270,132,355</u> | <u>\$ 270,132,355</u>  | <u>\$ -</u>   | <u>\$ -</u>  |
| <u>Investments measured at amortized cost</u> |                       |  |   |  |
| Local Government Investment Pool              | <u>\$ 1,007,134</u>   |  |   |  |

### 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,

# PUBLIC ENTITY PARTNERS

## Notes to the Financial Statements

June 30, 2022 and 2021

net of investment fees. The net increase in fair value of investments for the fiscal years ended June 30, 2022 and 2021 consisted of the following:

|  | <u>2022</u>            | <u>2021</u>         |
|--|------------------------|---------------------|
| Realized gains (losses), net                         | \$ (5,991,884)         | \$ 4,042,664        |
| Amortization of premium                              | (649,936)              | (759,457)           |
| Accretion of discounts                               | 14,183                 | 11,763              |
| Unrealized losses, net                               | (50,600,817)           | (1,813,729)         |
| Net increase (decrease) in fair value of investments | <u>\$ (57,228,454)</u> | <u>\$ 1,481,241</u> |

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, 2022 is as follows:

|   | <u>Balance<br/>June 30, 2021</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance<br/>June 30, 2022</u> |
|---|----------------------------------|------------------|------------------|----------------------------------|
| Capital assets, not being depreciated:  |                                  |                  |                  |                                  |
| Land                                    | \$ 1,957,084                     | \$ -             | \$ -             | \$ 1,957,084                     |
| Capital assets, being depreciated:      |                                  |                  |                  |                                  |
| Building and improvements               | 7,028,861                        | 406,886          | -                | 7,435,747                        |
| Furniture and equipment                 | 490,392                          | -                | -                | 490,392                          |
| Computer system                         | 1,750,700                        | 18,596           | (5,637)          | 1,763,659                        |
| Total capital assets, being depreciated | <u>9,269,953</u>                 | <u>425,482</u>   | <u>(5,637)</u>   | <u>9,689,798</u>                 |
| Less accumulated depreciation:          |                                  |                  |                  |                                  |
| Building and improvements               | 254,638                          | 283,666          | -                | 538,304                          |
| Furniture and equipment                 | 194,417                          | 81,011           | -                | 275,428                          |
| Computer system                         | 1,597,605                        | 55,837           | (5,637)          | 1,647,805                        |
| Total accumulated depreciation          | <u>2,046,660</u>                 | <u>420,514</u>   | <u>(5,637)</u>   | <u>2,461,537</u>                 |
| Capital assets, being depreciated, net  | <u>7,223,293</u>                 | <u>4,968</u>     | <u>-</u>         | <u>7,228,261</u>                 |
| Capital assets, net                     | <u>\$ 9,180,377</u>              | <u>\$ 4,968</u>  | <u>\$ -</u>      | <u>\$ 9,185,345</u>              |

# PUBLIC ENTITY PARTNERS

## Notes to the Financial Statements

June 30, 2022 and 2021

Premises, property, and equipment activity for the fiscal year ended June 30, 2021 is as follows:

|   | Balance<br>June 30, 2020 | Additions    | Disposals | Balance<br>June 30, 2021 |
|---|--------------------------|--------------|-----------|--------------------------|
| Capital assets, not being depreciated:  |                          |              |           |                          |
| Land                                    | \$ 1,957,084             | \$ -         | \$ -      | \$ 1,957,084             |
| Capital assets, being depreciated:      |                          |              |           |                          |
| Building and improvements               | 6,985,931                | 42,930       | -         | 7,028,861                |
| Furniture and equipment                 | 490,392                  | -            | -         | 490,392                  |
| Computer system                         | 1,947,403                | 43,600       | (240,303) | 1,750,700                |
| Total capital assets, being depreciated | 9,423,726                | 86,530       | (240,303) | 9,269,953                |
| Less accumulated depreciation:          |                          |              |           |                          |
| Building and improvements               | 63,268                   | 191,370      | -         | 254,638                  |
| Furniture and equipment                 | 113,040                  | 81,377       | -         | 194,417                  |
| Computer system                         | 1,773,548                | 64,332       | (240,275) | 1,597,605                |
| Total accumulated depreciation          | 1,949,856                | 337,079      | (240,275) | 2,046,660                |
| Capital assets, being depreciated, net  | 7,473,870                | (250,549)    | (28)      | 7,223,293                |
| Capital assets, net                     | \$ 9,430,954             | \$ (250,549) | \$ (28)   | \$ 9,180,377             |

Depreciation charged to operating expenses in 2022 and 2021 is as follows:

|                                     | 2022       | 2021       |
|-------------------------------------|------------|------------|
| Losses and loss adjustment expenses | \$ 21,863  | \$ 31,562  |
| General and administrative expenses | 398,651    | 305,517    |
| Total depreciation expense          | \$ 420,514 | \$ 337,079 |

# PUBLIC ENTITY PARTNERS

## Notes to the Financial Statements

June 30, 2022 and 2021

### (5) Reserve for Losses and Loss Adjustment Expenses

Reserve for losses and loss adjustment expenses is comprised of:

|   | <u>2022</u>           | <u>2021</u>           |
|---|-----------------------|-----------------------|
| Reserve for reported claims                           | \$ 93,478,425         | \$ 93,937,088         |
| Reserve for incurred but not reported claims          | 50,450,190            | 53,992,849            |
| Reserve for unallocated loss adjustment expenses      | 9,500,000             | 7,572,104             |
| Less: reinsurance recoverable                         | <u>(19,330,938)</u>   | <u>(18,895,335)</u>   |
| Total reserve for losses and loss adjustment expenses | <u>\$ 134,097,677</u> | <u>\$ 136,606,706</u> |

As discussed in Note 2, Public Entity Partners 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 Public Entity Partners during the past two years. Reserves are stated on a net basis after deductions for losses recoverable from reinsurers.

|  | <u>2022</u>           | <u>2021</u>           |
|--|-----------------------|-----------------------|
| <b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>         | <u>\$ 136,606,706</u> | <u>\$ 141,001,327</u> |
| <b>Incurred claims and claim adjustment expenses:</b>                                      |                       |                       |
| Provision for insured events of the current fiscal year                                    | 51,515,002            | 47,867,634            |
| Decrease in provision for insured events of prior fiscal years                             | (11,080,988)          | (15,614,400)          |
| Unallocated claims adjustment expenses   | <u>5,822,442</u>      | <u>5,793,233</u>      |
| Total incurred claims and claim adjustment expenses  | <u>46,256,456</u>     | <u>38,046,467</u>     |
| <b>Reinsurance:</b>  |                       |                       |
| Reinsurance recoveries received attributable to insured events of prior fiscal years       | 1,486,999             | 7,751,945             |
| Change in reinsurance recoverable on paid losses   | <u>2,542,153</u>      | <u>(1,728,214)</u>    |
| Total reinsurance  | <u>4,029,152</u>      | <u>6,023,731</u>      |
| <b>Payments:</b>   |                       |                       |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | 21,156,069            | 12,664,302            |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | 25,816,126            | 30,007,284            |
| Unallocated claim adjustment expenses  | <u>5,822,442</u>      | <u>5,793,233</u>      |
| Total payments   | <u>52,794,637</u>     | <u>48,464,819</u>     |
| <b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>               | <u>\$ 134,097,677</u> | <u>\$ 136,606,706</u> |

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

Public Entity Partners 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 Public Entity Partners 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, 2022 and 2021. 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 years ended June 30, 2022 and 2021 were as follows:

|                      | <u>2022</u>          | <u>2021</u>          |
|----------------------|----------------------|----------------------|
| Premiums written     | \$ 80,699,496        | \$ 79,060,756        |
| Premiums ceded       | (12,935,347)         | (12,310,020)         |
| Net premiums written | <u>\$ 67,764,149</u> | <u>\$ 66,750,736</u> |

Public Entity Partners 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 Public Entity Partners' retention on individual occurrences as follows:

- Public Entity Partners' workers compensation reinsurance retention amount was \$1,350,000 per occurrence for fiscal years 2022 and 2021.
- For fiscal years 2022 and 2021, Public Entity Partners' 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.
- For fiscal years 2022 and 2021, Public Entity Partners' 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.



## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

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

Estimated amounts recoverable from reinsurers of \$19,330,938 and \$18,895,335 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2022 and 2021, respectively. Public Entity Partners 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 Public Entity Partners' unrestricted net position for the purposes and amounts as presented below. The Board of Directors may, at its discretion, adjust or remove these amounts.

|   | <u>2022</u>           | <u>2021</u>           |
|---|-----------------------|-----------------------|
| Investment in capital assets                | <u>\$ 9,185,345</u>   | <u>\$ 9,180,377</u>   |
| Unrestricted:                               |                       |                       |
| Committed for capitalization                | 40,000,000            | 40,000,000            |
| Committed for member credits                | 20,329,463            | 36,020,249            |
| Committed for property/casualty catastrophe | 30,000,000            | 30,000,000            |
| Total operational commitments               | <u>90,329,463</u>     | <u>106,020,249</u>    |
| Committed for market value stabilization    | 10,043,035            | 45,643,852            |
| Total unrestricted net position             | <u>100,372,498</u>    | <u>151,664,101</u>    |
| Net position, end of year                   | <u>\$ 109,557,843</u> | <u>\$ 160,844,478</u> |

During fiscal year 2022, the Board declared a \$8,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2022 through June 30, 2023.

During fiscal year 2021, the Board declared a \$7,500,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2021 through June 30, 2022. Lapsed dividends totaling \$85,073 were returned to net position in 2021.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

#### **(8) Related Party Transactions**

The formation of Public Entity Partners was sponsored by the Tennessee Municipal League (the "League"), and Public Entity Partners is governed by a Board of Directors who are ratified by the League's Board of Directors. For fiscal year 2022, the Board of Directors approved a four-year plan that provided a flat \$1,400,000 contribution to Tennessee Municipal League for the fiscal year ending June 30, 2022. For fiscal year ending June 30, 2021, the League received an annual sponsorship contribution from Public Entity Partners of 2.5% of net earned premiums, subject to a 4.0% cap that is based on a percentage of the prior year's contribution. Sponsorship contributions totaled \$1,400,000 in 2022 and 2021 and are included in policy acquisition costs on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Public Entity Partners sponsored the formation of TN HealthWorks, a Tennessee not-for-profit corporation, to provide self-insured employee benefit programs to officials and employees of qualifying Tennessee governmental entities. The Chairman of the Board of Directors and the President/CEO of Public Entity Partners serve on the Board of Directors of TN HealthWorks. During fiscal year 2021, Public Entity Partners received sponsorship fees on behalf of TN HealthWorks in the amount of \$4,893. No such fees were received on behalf of TN HealthWorks for fiscal year 2022. The Board of Directors of Public Entity Partners approved payments totaling \$6,002 for filing of form ACA 6056 and registration of its domain name in fiscal year 2021. No such payments were made for fiscal year 2022. As of June 30, 2021, Public Entity Partners no longer sponsors TN Healthworks.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

#### (9) Employee pension plan

##### a. General information about the pension plan

###### *Plan description*

Employees of Public Entity Partners 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 <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>.

###### *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 nonservice-related disability eligibility. The service related and nonservice-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.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

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 2<sup>nd</sup> 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, 2021, the following employees were covered by the benefit terms:

|  |           |
|--|-----------|
| Inactive employees or beneficiaries currently receiving benefits | 16        |
| Inactive employees entitled to but not yet receiving benefits    | 7         |
| Active employees   | <u>34</u> |
|  | <u>57</u> |

#### *Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Public Entity Partners has adopted a noncontributory retirement plan for its employees. Public Entity Partners makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the fiscal year ended June 30, 2022, the employer contributions for Public Entity Partners were \$752,811 based on a rate of 16.20% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Public Entity Partners' 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.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

b. Net pension liability

Public Entity Partners' net pension liability (asset) was measured as of June 30, 2021, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions*

The total pension liability as of June 30, 2021, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Inflation                 | 2.25%   |
| Salary increases          | Graded salary ranges from 8.72 to 3.44% based on age, including inflation, averaging 4.0% |
| Investment rate of return | 6.75%, net of pension plan investment expenses, including inflation                       |
| Cost of living adjustment | 2.125%  |

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

The actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2016 through June 30, 2020. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

*Changes of assumptions.* In 2021, the following assumptions were changed: decreased inflation rate from 2.50 percent to 2.25 percent; decreased the investment rate of return from 7.25 percent to 6.75 percent; decreased the cost-of-living adjustment from 2.25 percent to 2.125 percent; and modified mortality assumptions.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

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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, 2020 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 2.25%. 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:

| <u>Asset Class</u>                    | <u>Long-Term Expected<br/>Real Rate of Return</u> | <u>Target<br/>Allocation</u> |
|---------------------------------------|---|------------------------------|
| U.S. equity                           | 4.88%   | 31%                          |
| Developed market international equity | 5.37%   | 14%                          |
| Emerging market international equity  | 6.09%   | 4%                           |
| Private equity and strategic lending  | 6.57%   | 20%                          |
| U.S. fixed income                     | 1.20%   | 20%                          |
| Real estate                           | 4.38%   | 10%                          |
| Short-term securities                 | 0.00%   | 1%                           |
|                                       |   | <hr/> 100%                   |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 6.75% based on a blending of the factors described above.

#### *Discount rate*

The discount rate used to measure the total pension liability was 6.75%. 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 Public Entity Partners 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.

# **PUBLIC ENTITY PARTNERS**

## **Notes to the Financial Statements**

**June 30, 2022 and 2021**

**c. Changes in the net pension liability**

|  | <b>Total Pension<br/>Liability<br/>(a)</b> | <b>Plan Fiduciary<br/>Net Position<br/>(b)</b> | <b>Net Pension<br/>Liability<br/>(a) - (b)</b> |
|--|--|--|--|
| <b>Balance at 6/30/2020</b>                                      | <b>\$ 13,857,474</b>                       | <b>\$ 12,699,197</b>                           | <b>\$ 1,158,277</b>                            |
| Changes for the year:  |  |  |  |
| Service cost   | 251,465                                    | -  | 251,465  |
| Interest   | 1,001,863                                  | -  | 1,001,863                                      |
| Differences between expected<br>and actual experience            | 1,019,062                                  | -  | 1,019,062                                      |
| Changes in assumptions   | 705,391                                    | -  | 705,391  |
| Contributions from employer                                      | -  | 672,459  | (672,459)                                      |
| Net investment income  | -  | 3,285,030                                      | (3,285,030)                                    |
| Benefit payments, including refunds<br>of employee contributions | (580,267)                                  | (580,267)                                      | -  |
| Administrative expense   | -  | (2,831)  | 2,831  |
| Administrative expense   | -  | (19,338)                                       | 19,338   |
| <b>Net changes</b>   | <b>2,397,514</b>                           | <b>3,355,053</b>                               | <b>(957,539)</b>                               |
| <b>Balance at 6/30/2021</b>                                      | <b>\$ 16,254,988</b>                       | <b>\$ 16,054,250</b>                           | <b>\$ 200,738</b>                              |

*Sensitivity of the net pension liability to changes in the discount rate*

The following presents the net pension liability (asset) of Public Entity Partners calculated using the discount rate of 6.75%, 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 (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

|   | <b>1% Decrease<br/>(5.75%)</b> | <b>Current<br/>Discount Rate<br/>(6.75%)</b> | <b>1% Increase<br/>(7.75%)</b> |
|---|--------------------------------|--|--------------------------------|
| Public Entity Partners' net pension liability (asset) | <b>\$ 2,362,052</b>            | <b>\$ 200,738</b>                            | <b>\$ (1,598,146)</b>          |

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2022 and 2021

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

*Pension expense*

For the fiscal years ended June 30, 2022 and 2021, Public Entity Partners recognized pension expense of \$337,823 and \$596,167, respectively.

*Deferred outflows of resources and deferred inflows of resources*

For the fiscal year ended June 30, 2022, Public Entity Partners reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience                                  | \$ 1,222,703                         | \$ 26,661                           |
| Net difference between projected and actual earnings<br>on pension plan investments | 164,953                              | 1,919,214                           |
| Changes in assumptions  | 631,967                              | -                                   |
| Contributions subsequent to the measurement<br>date of June 30, 2021                | 752,811                              |                                     |
| Total   | <u>\$ 2,772,434</u>                  | <u>\$ 1,945,875</u>                 |



## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

**June 30, 2022 and 2021**

For the fiscal year ended June 30, 2021, Public Entity Partners reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Differences between expected and actual experience                                  | \$ 547,278                                    | \$ 35,549                                    |
| Net difference between projected and actual earnings<br>on pension plan investments | 219,938                                       | 123,296                                      |
| Changes in assumptions  | 88,280  | -  |
| Contributions subsequent to the measurement<br>date of June 30, 2020                | 670,862                                       |  |
| Total   | <u>\$ 1,526,358</u>                           | <u>\$ 158,845</u>                            |

The amount shown above for "Contributions subsequent to the measurement dates of June 30, 2021 and 2020" 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:

|      |           |
|------|-----------|
| 2023 | \$ 15,059 |
| 2024 | (30,798)  |
| 2025 | (75,916)  |
| 2026 | (122,013) |
| 2027 | 287,409   |

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, 2022 and 2021, Public Entity Partners did not owe any outstanding contributions to the pension plan.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

#### **(10) Commitments and Contingencies**

In the normal course of operations, Public Entity Partners 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 Public Entity Partners' financial position.

In March 2022, Public Entity Partners entered a three-year contract with a third-party vendor for subscription services for an online claims processing and reporting system in the amount of \$1.3 million payable in equal yearly installments of \$408,700. During fiscal year 2022, the first installments were paid and are included in losses and loss adjustment expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position for the respective years. The three-year contract expires in March 2025.

Public Entity Partners entered a five-year contract with J. Russel Farrar on July 1, 2016, for lobbying services. The contract, unless either party notifies the other of termination, is extended for one additional year with the passage of each year. There has been no change or termination of the contract terms, therefore, the contract remains in effect. Upon approval by the President/CEO and the Board of Directors, the contract allows for yearly increases to the contract amount. The contract fee for 2022 was \$237,206. The contract fee for 2021 was \$228,062.

Public Entity Partners entered a five-year contract with J. Russel Farrar on July 1, 2016, for general counsel services. The contract, unless either party notifies the other of termination, is extended for one additional year with the passage of each year. There has been no change or termination of the contract terms since the origination of the contract. Upon approval by the President/CEO and the Board of Directors, the contract allows for yearly increases to the contract amount. The contract fee for 2022 was \$356,985. The contract fee for 2021 was \$343,222.

Public Entity Partners entered a five-year contract with Public Risk Services in June 2014 for third-party administration services for all Public Entity Partner claims payment and processing. The contract is to renew automatically at the conclusion of each year for an additional year unless notice is given by either party to terminate. There has been no change or termination of the contract terms since the origination of the contract. The contract has an automatic yearly increase of 2.9%, however, additional increases can be approved by the President/CEO and Board of Directors. The contract fee for 2022 was \$4,985,088. The contract fee for 2021 was \$4,733,601.

## **PUBLIC ENTITY PARTNERS**

### **Notes to the Financial Statements**

**June 30, 2022 and 2021**

#### **(11) Leases**

Public Entity Partners has adopted GASB Statement No. 87, Leases. In thoroughly reviewing the lease commitments and receivables of the entity, it was determined that when calculating the present values of the future cash inflows and outflows from leases, the overall impact to the financial statements is immaterial.

Public Entity Partners 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 \$41,535 and \$44,625 for 2022 and 2021, respectively.

Future minimum rents under long-term operating leases are \$42,492 for fiscal year ending June 30, 2023, \$43,017 for fiscal year ending June 30, 2024, \$31,992 for fiscal year ending June 30, 2025, and \$17,304 for fiscal year ending June 30, 2026 and June 30, 2027.

Public Entity Partners also entered a lease arrangement in November 2021 for rental of office space of approximately 2,250 square feet to Savant Learning Systems. The lease is a three-year lease with the option to extend for an additional two years. Total rental expenses under this lease were \$30,870 for 2022. Future minimum rent incomes are \$46,305 for year ending June 30, 2023 and June 30, 2024 and \$15,435 for year ending June 30, 2025 if option is not made to extend.

#### **(12) Economic Condition**

At the time this report was issued, Public Entity Partners had experienced limited disruptions in operations for the year ending June 30, 2022, related to Covid-19 as in-person interactions with our members resumed and business operated at the pre-pandemic norms. Public Entity Partners experienced limited disruptions in operations for the year ending June 30, 2021 as the major shift was reduced in-person interaction with our members. From a financial standpoint, increased claim exposure was incurred due primarily to our insured first responders.

It is not possible to predict the ultimate impact of the Covid-19 outbreak on Public Entity Partners' future financial condition or results of operations. Taking a proactive approach, management will continue to monitor the situation and implement strategies designed to mitigate any potential future impacts the conditions may have on the Company.

**PUBLIC ENTITY PARTNERS**

**Ten-Year Claims Development Information**

**Year ended June 30, 2022**

The table below illustrates how PE Partners' 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 PE Partners 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 PE Partners including overhead and claims expense not allocable to individual claims. (3) Estimated incurred claims and expenses, end of accident year – This line shows PE Partners' 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.

|  | <u>2013</u>                       | <u>2014</u>         | <u>2015</u>         | <u>2016</u>         | <u>2017</u>         | <u>2018</u>         | <u>2019</u>         | <u>2020</u>         | <u>2021</u>         | <u>2022</u>         |
|--|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>1. Net earned required premium and investment revenues</b>                                    | <b>\$61,902,588</b>               | <b>\$62,816,826</b> | <b>\$66,741,692</b> | <b>\$82,273,191</b> | <b>\$58,412,738</b> | <b>\$64,785,175</b> | <b>\$88,288,076</b> | <b>\$85,915,361</b> | <b>\$76,542,462</b> | <b>\$19,595,887</b> |
| <b>2. Unallocated expenses</b>   | <b>15,478,609</b>                 | <b>17,449,760</b>   | <b>16,878,932</b>   | <b>16,843,422</b>   | <b>18,705,261</b>   | <b>18,399,361</b>   | <b>20,116,565</b>   | <b>23,478,393</b>   | <b>21,274,830</b>   | <b>22,448,509</b>   |
| <b>3. Estimated incurred claims and expense, end of accident year</b>                            | <b>46,574,698</b>                 | <b>45,820,056</b>   | <b>46,676,947</b>   | <b>45,699,807</b>   | <b>46,517,506</b>   | <b>46,254,820</b>   | <b>45,282,440</b>   | <b>50,322,356</b>   | <b>47,867,634</b>   | <b>51,515,002</b>   |
| <b>4. Net Paid (cumulative) as of:</b>   |                                   |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| End of accident year   | 13,312,473                        | 13,084,348          | 13,208,337          | 12,053,539          | 15,918,968          | 13,629,302          | 15,607,208          | 15,271,316          | 12,664,302          | 21,156,069          |
| One year later   | 22,634,009                        | 23,347,626          | 24,079,927          | 22,764,176          | 26,579,123          | 24,140,530          | 24,136,191          | 27,466,141          | 24,111,273          |                     |
| Two years later  | 27,545,762                        | 27,922,722          | 28,934,633          | 26,261,766          | 28,851,024          | 29,793,846          | 29,313,194          | 32,653,154          |                     |                     |
| Three years later  | 30,406,417                        | 29,951,595          | 30,875,714          | 27,914,268          | 30,227,226          | 32,911,736          | 32,898,229          |                     |                     |                     |
| Four years later   | 31,202,054                        | 30,663,176          | 31,835,404          | 28,746,106          | 30,659,068          | 34,382,959          |                     |                     |                     |                     |
| Five years later   | 32,090,091                        | 31,442,972          | 32,319,266          | 29,274,995          | 30,729,779          |                     |                     |                     |                     |                     |
| Six years later  | 32,904,926                        | 31,770,542          | 32,408,797          | 30,404,702          |                     |                     |                     |                     |                     |                     |
| Seven years later  | 33,207,822                        | 31,851,664          | 32,547,435          |                     |                     |                     |                     |                     |                     |                     |
| Eight years later  | 33,675,779                        | 32,037,708          |                     |                     |                     |                     |                     |                     |                     |                     |
| Nine years later   | 33,693,202                        |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>5. Re-estimated incurred claims and expenses:</b>   |                                   |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| End of accident year   | 46,574,698                        | 45,820,056          | 46,676,947          | 45,699,807          | 46,517,506          | 46,254,820          | 45,282,440          | 50,322,356          | 47,867,634          | 51,515,002          |
| One year later   | 43,553,794                        | 46,024,778          | 46,723,332          | 46,885,944          | 44,239,441          | 42,933,250          | 46,222,837          | 47,425,470          | 45,142,176          |                     |
| Two years later  | 40,606,116                        | 43,189,636          | 43,694,843          | 41,620,255          | 39,814,023          | 43,152,817          | 43,874,124          | 46,473,274          |                     |                     |
| Three years later  | 40,368,831                        | 40,543,901          | 40,663,865          | 38,446,455          | 38,013,447          | 41,496,396          | 42,258,194          |                     |                     |                     |
| Four years later   | 38,606,920                        | 39,195,784          | 38,118,961          | 38,007,621          | 36,247,261          | 40,522,270          |                     |                     |                     |                     |
| Five years later   | 37,563,976                        | 37,083,169          | 37,306,343          | 35,975,981          | 34,691,692          |                     |                     |                     |                     |                     |
| Six years later  | 37,461,784                        | 36,415,099          | 35,960,084          | 35,661,259          |                     |                     |                     |                     |                     |                     |
| Seven years later  | 36,876,200                        | 35,445,080          | 35,115,785          |                     |                     |                     |                     |                     |                     |                     |
| Eight years later  | 36,517,011                        | 34,901,097          |                     |                     |                     |                     |                     |                     |                     |                     |
| Nine years later   | 36,134,103                        |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| <b>6. Increase (decrease) in estimated incurred claims and expense from end of accident year</b> | <b>(10,440,595)</b>               | <b>(10,918,959)</b> | <b>(11,561,162)</b> | <b>(10,038,548)</b> | <b>(11,825,814)</b> | <b>(5,732,550)</b>  | <b>(3,024,246)</b>  | <b>(3,849,082)</b>  | <b>(2,725,458)</b>  | <b>0</b>            |
|  | See independent auditors' report. |                     |                     |                     |                     |                     |                     |                     |                     |                     |

**PUBLIC ENTITY PARTNERS**

**Reconciliation of Claims Liabilities by Type of Contract**

**Year ended June 30, 2022**

|  | <b>Liability</b>     | <b>Workers'<br/>Compensation</b> | <b>Property</b>     | <b>Total</b>          |
|--|----------------------|----------------------------------|---------------------|-----------------------|
| <b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>         | \$ 46,406,126        | \$ 88,087,900                    | \$ 2,112,680        | \$ 136,606,706        |
| <b>Incurred claims and claim adjustment expenses:</b>                                      |                      |                                  |                     |                       |
| Provision for insured events of the current fiscal year                                    | 27,541,848           | 20,073,154                       | 3,900,000           | 51,515,002            |
| Decrease in provision for insured events of prior fiscal years                             | (519,323)            | (10,476,795)                     | (84,870)            | (11,080,988)          |
| Unallocated claims adjustment expenses   | 2,336,921            | 2,098,941                        | 1,386,580           | 5,822,442             |
| <b>Total incurred claims and claim adjustment expenses</b>                                 | <b>29,359,446</b>    | <b>11,695,300</b>                | <b>5,201,710</b>    | <b>46,256,456</b>     |
| <b>Reinsurance:</b>  |                      |                                  |                     |                       |
| Reinsurance recoveries received attributable to insured events of prior fiscal years       | 71,774               | 1,013,047                        | 402,178             | 1,486,999             |
| Change in reinsurance recoverable on paid losses   | 966,735              | (384,265)                        | 1,959,683           | 2,542,153             |
| <b>Total reinsurance</b>   | <b>1,038,509</b>     | <b>628,782</b>                   | <b>2,361,861</b>    | <b>4,029,152</b>      |
| <b>Payments:</b>   |                      |                                  |                     |                       |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | 9,434,832            | 6,475,904                        | 5,245,333           | 21,156,069            |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | 15,055,636           | 9,126,134                        | 1,634,356           | 25,816,126            |
| Unallocated claim adjustment expenses  | 2,336,921            | 2,098,941                        | 1,386,580           | 5,822,442             |
| <b>Total payments</b>  | <b>26,827,389</b>    | <b>17,700,979</b>                | <b>8,266,269</b>    | <b>52,794,637</b>     |
| <b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>               | <b>\$ 49,976,692</b> | <b>\$ 82,711,003</b>             | <b>\$ 1,409,982</b> | <b>\$ 134,097,677</b> |

**See independent auditors' report.**

**PUBLIC ENTITY PARTNERS**

**Reconciliation of Claims Liabilities by Type of Contract**

**Year ended June 30, 2021**

|  | <b>Liability</b>     | <b>Workers'<br/>Compensation</b> | <b>Property</b>     | <b>Total</b>          |
|--|----------------------|----------------------------------|---------------------|-----------------------|
| <b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>         | \$ 45,591,455        | \$ 92,902,986                    | \$ 2,506,886        | \$ 141,001,327        |
| <b>Incurred claims and claim adjustment expenses:</b>                                      |                      |                                  |                     |                       |
| Provision for insured events of the current fiscal year                                    | 22,465,275           | 21,202,359                       | 4,200,000           | 47,867,634            |
| Decrease in provision for insured events of prior fiscal years                             | (2,208,624)          | (12,907,118)                     | (498,658)           | (15,614,400)          |
| Unallocated claims adjustment expenses   | 2,331,769            | 2,229,846                        | 1,231,618           | 5,793,233             |
| <b>Total incurred claims and claim adjustment expenses</b>                                 | <b>22,588,420</b>    | <b>10,525,087</b>                | <b>4,932,960</b>    | <b>38,046,467</b>     |
| <b>Reinsurance:</b>  |                      |                                  |                     |                       |
| Reinsurance recoveries received attributable to insured events of prior fiscal years       | 86,691               | 2,330,200                        | 5,335,054           | 7,751,945             |
| Change in reinsurance recoverable on paid losses   | (143,598)            | (1,591,924)                      | 7,308               | (1,728,214)           |
| <b>Total reinsurance</b>   | <b>(56,907)</b>      | <b>738,276</b>                   | <b>5,342,362</b>    | <b>6,023,731</b>      |
| <b>Payments:</b>   |                      |                                  |                     |                       |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | 5,430,976            | 4,541,711                        | 2,691,615           | 12,664,302            |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years  | 13,954,097           | 9,306,892                        | 6,746,295           | 30,007,284            |
| Unallocated claim adjustment expenses  | 2,331,769            | 2,229,846                        | 1,231,618           | 5,793,233             |
| <b>Total payments</b>  | <b>21,716,842</b>    | <b>16,078,449</b>                | <b>10,669,528</b>   | <b>48,464,819</b>     |
| <b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>               | <b>\$ 46,406,126</b> | <b>\$ 88,087,900</b>             | <b>\$ 2,112,680</b> | <b>\$ 136,606,706</b> |

**See independent auditors' report.**

PUBLIC ENTITY PARTNERS

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

Last Fiscal Year Ended June 30,

|   | 2015                | 2016                 | 2017                 | 2018                 | 2019                 | 2020                 | 2021                 |
|---|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability:  |                     |                      |                      |                      |                      |                      |                      |
| Service Cost  | \$ 180,845          | \$ 211,832           | \$ 202,026           | \$ 216,302           | \$ 231,182           | \$ 255,410           | \$ 251,465           |
| Interest  | 652,233             | 701,015              | 762,920              | 811,653              | 879,498              | 926,309              | 1,001,863            |
| Changes in benefit terms  | -                   | -                    | -                    | -                    | -                    | -                    | -                    |
| Differences between actual and expected experience                      | 61,392              | 231,407              | 137,083              | 296,648              | (53,325)             | 377,629              | 1,019,062            |
| Change of assumptions   | -                   | -                    | 264,836              | -                    | -                    | -                    | 705,391              |
| Benefit payments, including refunds of employee contributions           | (266,470)           | (283,590)            | (334,508)            | (381,866)            | (425,535)            | (446,281)            | (580,267)            |
| Net change in total pension liability                                   | 628,000             | 860,664              | 1,032,357            | 942,737              | 631,820              | 1,113,067            | 2,397,514            |
| Total pension liability, beginning                                      | 8,648,829           | 9,276,829            | 10,137,493           | 11,169,850           | 12,112,587           | 12,744,407           | 13,857,474           |
| Total pension liability, ending (a)                                     | <u>\$ 9,276,829</u> | <u>\$ 10,137,493</u> | <u>\$ 11,169,850</u> | <u>\$ 12,112,587</u> | <u>\$ 12,744,407</u> | <u>\$ 13,857,474</u> | <u>\$ 16,254,988</u> |
| Plan fiduciary net position:  |                     |                      |                      |                      |                      |                      |                      |
| Contributions from employer   | \$ 444,391          | \$ 481,504           | \$ 507,080           | \$ 545,924           | \$ 563,164           | \$ 663,960           | \$ 672,459           |
| Contributions from employees  | -                   | -                    | -                    | -                    | -                    | -                    | -                    |
| Net investment income   | 247,692             | 224,807              | 1,006,625            | 834,699              | 821,215              | 595,500              | 3,285,030            |
| Benefit payments, including refunds of employee contributions           | (266,470)           | (283,590)            | (334,508)            | (381,866)            | (425,535)            | (446,281)            | (580,267)            |
| Administrative expense  | (1,421)             | (2,180)              | (2,533)              | (2,851)              | (22,088)             | (21,952)             | (22,169)             |
| Net change in plan fiduciary net position                               | 424,192             | 420,541              | 1,176,664            | 995,906              | 936,756              | 791,227              | 3,355,053            |
| Plan fiduciary net position, beginning                                  | 7,953,911           | 8,378,103            | 8,798,644            | 9,975,308            | 10,971,214           | 11,907,970           | 12,699,197           |
| Plan fiduciary net position, ending (b)                                 | <u>\$ 8,378,103</u> | <u>\$ 8,798,644</u>  | <u>\$ 9,975,308</u>  | <u>\$ 10,971,214</u> | <u>\$ 11,907,970</u> | <u>\$ 12,699,197</u> | <u>\$ 16,054,250</u> |
| Net Pension Liability, ending (a) - (b)                                 | <u>\$ 898,726</u>   | <u>\$ 1,338,849</u>  | <u>\$ 1,194,542</u>  | <u>\$ 1,141,373</u>  | <u>\$ 836,437</u>    | <u>\$ 1,158,277</u>  | <u>\$ 200,738</u>    |
| Plan fiduciary net position as a percentage of total pension liability: | 90.31%              | 86.79%               | 89.31%               | 90.58%               | 93.44%               | 91.64%               | 98.77%               |
| Covered-employee payroll:   | \$ 2,921,704        | \$ 3,165,707         | \$ 3,333,863         | \$ 3,448,666         | \$ 3,555,327         | \$ 4,101,054 **      | \$ 4,150,983         |
| Net pension liability as a percentage of covered-employee payroll:      | 30.76%              | 42.29%               | 35.83%               | 33.10%               | 23.53%               | 28.25%               | 4.84%                |

**\*\* Difference in covered payroll for FYE 2021 - reduction of \$9,860 for January 2021 reported payroll processed in August 2021 - total covered payroll \$4,141,123**

Changes in assumptions. In 2021, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, and mortality improvements. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment, salary growth and mortality improvements.

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.

**PUBLIC ENTITY PARTNERS**

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

**Last Fiscal Year Ended June 30,**

|   | <b><u>2014</u></b> | <b><u>2015</u></b> | <b><u>2016</u></b> | <b><u>2017</u></b> | <b><u>2018</u></b> | <b><u>2019</u></b> | <b><u>2020</u></b> | <b><u>2021</u></b> | <b><u>2022</u></b> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Actuarially determined contribution                                 | \$ 416,207         | \$ 444,391         | \$ 481,504         | \$ 507,080         | \$ 545,924         | \$ 563,164         | \$ 663,960         | \$ 670,862         | \$ 752,811         |
| Contribution in relation to the actuarially determined contribution | 416,207            | 444,391            | 481,504            | 507,080            | 545,924            | 563,164            | 663,960            | 670,862            | 752,811            |
| Contribution deficiency (excess)                                    | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        | <u>\$ -</u>        |
| Covered-employee payroll  | \$ 2,699,019       | \$ 2,921,704       | \$ 3,165,707       | \$ 3,333,863       | \$ 3,448,666       | \$ 3,555,327       | \$ 4,101,054       | \$ 4,141,123       | \$ 4,646,982       |
| Contributions as a percentage of covered-employee payroll           | 15.42%             | 15.21%             | 15.21%             | 15.21%             | 15.83%             | 15.84%             | 16.19%             | 16.20%             | 16.20%             |

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 the Required Supplementary Information:**

Valuation Date: Actuarially determined contribution rates for 2022 were calculated based on the June 30, 2020 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:                     | 2.25%  |
| Salary increases:              | Graded salary ranges from 8.72 to 3.44% based on age, including inflation, averaging 4.00%           |
| Investment rate of return:     | 6.75%, net of investment expense, including inflation  |
| Retirement age:                | Pattern of retirement determined by experience study   |
| Mortality:                     | Customized table based on actual experience including an adjustment for some anticipated improvement |
| Cost of living adjustment:     | 2.125%   |

Changes in Assumptions: In 2021, the following assumptions were changed: decreased inflation rate from 2.50% to 2.25%; decreased the investment rate of return from 7.25% to 6.75%; decreased the cost-of-living adjustment from 2.25% to 2.125%; and modified mortality assumptions.

**See independent auditors' report.**



**PUBLIC ENTITY PARTNERS**

**Additional Information On Employee Compensation As Required  
By Tennessee State Law (For Amounts In Excess of \$25,000)**

**July 1, 2021 Through June 30, 2022**

| Employee   | Earned Compensation |                |                | Fringe Benefits |
|--|---------------------|----------------|----------------|-----------------|
|  | Base Earnings       | Other Earnings | Total Earnings |                 |
| Michael, Fann - President & CEO                      | 317,764             | 51,905         | 369,669        | 52,675          |
| Dalton, George - Vice President of Risk Services     | 248,940             | 15,432         | 264,372        | 40,519          |
| Nichols, Embry - Vice President of Internal Services | 230,270             | 20,234         | 250,504        | 40,316          |
| Shrum, Amanda - Chief Financial Officer              | 220,552             | 18,955         | 239,507        | 37,609          |
|  |                     |                |                |                 |
| Anderson, Wayne                                      | 119,950             | 14,944         | 134,894        | 19,747          |
| Carr, Carrie   | 76,687              | 1,695          | 78,382         | 13,382          |
| Chambliss, Robert Paul                               | 124,486             | 14,978         | 139,464        | 20,382          |
| Darden, Chester                                      | 145,563             | 25,459         | 171,022        | 27,149          |
| Dean, Allen  | 129,231             | 1,717          | 130,948        | 20,935          |
| Dodson, Jason  | 119,950             | 1,673          | 121,623        | 19,432          |
| Earls, Joseph  | 79,455              | 1,832          | 81,287         | 12,872          |
| Felder, David  | 83,892              | 1,778          | 85,670         | 13,590          |
| Gallik, Halie  | 193,269             | 17,348         | 210,617        | 32,144          |
| Gibson, Dawn   | 124,012             | 9,853          | 133,865        | 20,090          |
| Graves, Marcus                                       | 89,038              | 1,694          | 90,732         | 15,304          |
| Gross, Carole  | 107,250             | 1,778          | 109,028        | 18,325          |
| Hatchel, James Bell                                  | 119,950             | 9,470          | 129,420        | 19,432          |
| Hayes, Phillip                                       | 89,038              | 1,727          | 90,765         | 14,424          |
| Helms, Nathan  | 43,059              | -              | 43,059         | 6,976           |
| Helton, Janine                                       | 119,950             | 1,778          | 121,728        | 20,037          |
| Hughes, Heather                                      | 76,628              | 1,832          | 78,460         | 12,414          |
| Lacewell, Andrew                                     | 119,950             | 14,944         | 134,894        | 19,931          |
| Lynch, Robert  | 107,250             | 15,032         | 122,282        | 17,375          |
| Magoon, William                                      | 139,279             | 15,005         | 154,284        | 22,563          |
| Mai, Anna  | 71,968              | 1,776          | 73,744         | 11,659          |
| Marshall, Matthew                                    | 89,038              | 14,894         | 103,932        | 14,424          |
| Mitchell, Tahtia                                     | 82,618              | 1,752          | 84,370         | 13,582          |
| Moore, Karen   | 61,336              | 1,673          | 63,009         | 10,853          |
| Pauley, Jacqueline                                   | 47,240              | 2,103          | 49,343         | 7,954           |
| Ponessa, Anthony                                     | 201,966             | 22,871         | 224,837        | 35,411          |
| Roman, Anthony                                       | 134,185             | 1,673          | 135,858        | 22,108          |
| Sengsavang, Sammy                                    | 64,167              | -              | 64,167         | 10,995          |
| Taylor, Celeste                                      | 193,269             | 24,464         | 217,733        | 35,013          |
| Turner, Amber  | 40,212              | 1,735          | 41,947         | 6,514           |
| Westerfield, Callie                                  | 183,524             | 17,589         | 201,113        | 31,523          |
| Yeager, Deborah                                      | 89,038              | 14,978         | 104,016        | 14,692          |
| Zhuang, Jia  | 155,744             | 1,778          | 157,522        | 26,031          |
|  |                     |                |                |                 |
|  | 4,639,718           | 368,349        | 5,008,067      | 778,382         |

See independent auditors' report

## Public Entity Partners

### Additional Information on Contractors/Professional Advisors/Personal Service Providers As Required by Tennessee State Law (For Amounts in Excess of \$2,500)

**July 1, 2021 through June 20, 2022**

| <b><u>Provider</u></b>            | <b><u>Description of Services</u></b>         | <b><u>Amount Paid</u></b> |
|-----------------------------------|---|---------------------------|
| 8X8, Inc.                         | Phone Software Support Services               | 33,027                    |
| Accuimage LLC                     | Document Scanning Services                    | 67,650                    |
| Act Security, Inc                 | Security Monitoring Services                  | 12,427                    |
| ADP, LLC                          | Payroll Processing Services                   | 11,941                    |
| Ahead, Inc                        | Software Support Services                     | 8,266                     |
| Arthur J. Gallagher Risk          | Reinsurance Brokerage Services                | 17,385,449                |
| Atiba Software, LLC               | Consulting & Software Development Services    | 3,840                     |
| Batson Nolan PLC                  | Legal Services for Claims Defense             | 14,878                    |
| BLR - Business & Legal Resources  | Professional Training Services                | 58,437                    |
| Callan LLC                        | Investment Performance Evaluation             | 27,750                    |
| Data Dimensions, LLC              | Ireview - Electronic Medical Payment Services | 3,000                     |
| Dex Imaging, Inc.                 | Copy Machine Support Services                 | 6,616                     |
| Dice Career Solutions, Inc.       | Recruitment Services                          | 7,500                     |
| Duncan, Margaret Mclean           | Lobbying Services                             | 48,333                    |
| Farrar & Bates, Lip               | Legal/Lobbying Services                       | 614,191                   |
| Farris Bobango, PLC               | Legal Services                                | 2,500                     |
| Fiserv Inc                        | Software Support Services                     | 4,695                     |
| Flexential Corp.                  | Technology Support Services                   | 107,366                   |
| Help/Systems LLC                  | Origami Consulting Services                   | 25,512                    |
| Housley, Judy                     | Consulting Services                           | 137,796                   |
| Huber & Lamb Appraisal Group      | Property Appraisal Services                   | 536,900                   |
| Hyland Software                   | Software Support Services                     | 17,008                    |
| Ice Data Pricing And              | Investment Valuation Services                 | 25,629                    |
| InfoArmor, Inc.                   | Identity Theft Monitoring Services            | 2,710                     |
| Interstate AC Services, LLC       | Commercial Maintenance & Repair Services      | 4,227                     |
| Iso Services, Inc.                | Claims Research Services                      | 9,760                     |
| Johnson, Erik                     | Tree Removal Services                         | 2,700                     |
| Lattimore, Black, Morgan, Cain    | Audit Services                                | 68,000                    |
| LBMC Technologies, LLC            | Technology Support Services                   | 84,862                    |
| Level 3 Communications            | Technology Support Services                   | 55,803                    |
| Marriott Franklin/Cool Springs    | Conference Services                           | 52,566                    |
| Martin & Zeffoss, Inc.            | Corporate Insurance Services                  | 29,985                    |
| Nashville Building Services, Inc  | Office Cleaning Services                      | 34,262                    |
| Oasis Computer Solutions Inc      | Software Consulting Services                  | 6,603                     |
| Origami Risk, LLC                 | Claims Software Services                      | 464,200                   |
| Overland Solutions, LLC           | Workers Compensation Audit Services           | 84,147                    |
| Parker, William Daniel            | Conference Training Services                  | 4,000                     |
| PluralSight, LLC                  | Professional Training Services                | 3,850                     |
| Praetorian Digital                | Professional Training Services                | 5,000                     |
| Price-Waterhouse-Coopers LLP      | Actuarial Services                            | 71,000                    |
| Public Risk Services Inc.         | Third-Party Administrator Services            | 4,985,088                 |
| Public Risk Services, Inc.        | Third-Party Administrator Services            | 22,352                    |
| Quality Management Services, LLC  | Professional Training Services                | 7,608                     |
| Randstad                          | Temporary Labor Services                      | 3,591                     |
| Randstad North America, Inc.      | Recruitment Services                          | 30,800                    |
| Savant Learning Systems, Inc.     | Professional Training Services                | 101,225                   |
| Spiro Graphics, Inc.              | Printing & Mailing Services                   | 12,651                    |
| Steelhead Building Group LLC      | General Construction Contractor Services      | 412,556                   |
| The Corporate Image               | Marketing/Branding Consulting Services        | 47,932                    |
| The Greathouse Company, LLC       | Groundskeeping                                | 26,745                    |
| Thyssenkrupp Elevator Corporation | Commercial Maintenance & Repair Services      | 2,896                     |
| TN Municipal League               | Organizational Sponsorship Fee                | 1,400,000                 |
| Trane                             | Commercial Maintenance & Repair Services      | 3,613                     |
| Turner, Roger                     | Building Maintenance Services                 | 15,893                    |
| Watson, Roach, Batson, Rowell,    | Legal Services for Claims Defense             | 14,791                    |

**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 of  
Public Entity Partners

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 Public Entity Partners as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated November 30, 2022.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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 Company'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 Company's financial statements are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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  
November 30, 2022