

PUBLIC ENTITY PARTNERS

Financial Statements and Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)



PUBLIC ENTITY PARTNERS

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Public Entity Partners

Board of Directors and Senior Management

July 1, 2019 – June 30, 2020

Board of Directors

Chairman	William Curtis Hayes, Mayor, City of Livingston, TN
Vice-Chairman	Randy Brundige, Mayor, City of Martin, TN
Director	John Holden, Mayor, City of Dyersburg, TN
Director	Jill Holland, Mayor, City of McKenzie, TN
Director	Victor Lay, City Administrator, City of Spring Hill, TN
Director	Dr. Christa Martin, Vice Mayor, City of Columbia, TN
Director	Lois Preece, Mayor, City of Niota, TN
Director	Todd Smith, City Administrator, Town of Greeneville, TN
Director	Samuel Tharpe, Commissioner, City of Paris, TN

Senior Management

President/CEO	Dawn R. Crawford, CPA	(through 2/2020)
President/CEO	Charles DeMore, CPA	(as of 3/2020)
Executive Vice President/CFO/ Director of Human Resources Corporate Secretary	Charles DeMore, CPA	(through 2/2020)
Chief Financial Officer	Amanda Shrum, CPA	(as of 3/2020)
Controller	Amanda Shrum, CPA	(through 2/2020)
Corporate Secretary	Halie Gallik	(as of 5/2020)
Director of Communications and Research	Halie Gallik	
Director of Information Technology	Anthony Ponessa	
Director of Loss Control	Michael Fann	
Director of Member Services	Callie Westerfield	
Director of Underwriting	Jon Calvin	

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Public Entity Partners

We have audited the accompanying statements of net position of Public Entity Partners as of and for the years ended June 30, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Public Entity Partners as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other 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 20, 2020 on our consideration of Public Entity Partners' 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 Public Entity Partners' 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 Public Entity Partners' internal control over financial reporting and compliance.

LBMC, PC

Brentwood, Tennessee
November 20, 2020



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, 2020. 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.

2020 Fiscal Year Highlights

- The construction of PE Partners new headquarters was completed in February 2020. PE Partners realized a gain of \$1.8 million on the sale of the Brentwood, TN office building.
- PE Partners had 495 insured members at June 30, 2020, including 315 cities and towns which represents approximately 91% of the state. PE Partners insure more than 35,000 local government employees and almost 19,000 government properties valued at approximately \$9.6 billion.
- Total assets and deferred outflows of resources of \$325,134,172 exceeded liabilities and deferred inflows of resources by \$145,245,008 at June 30, 2020.
- PE Partners' Board of Directors declared a dividend of \$14,000,000 to members for the ensuing 2021 policy year. On March 11, 2020, the World Health Organization declared the outbreak of the Coronavirus a pandemic. In response, the Board of Directors declared an additional \$7,000,000 Emergency Relief Dividend to assist our members during unprecedented shutdown of business operations due to the pandemic.

Overview of the Financial Statements

PE Partners' annual financial report consists of an introductory section, 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, other 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. Other information includes additional information as required by Tennessee state law.

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)							
	2020	2019	Net Increase		2018	Net Increase	
			(\$	%		\$	%
Current assets	\$ 314.5	\$ 298.2	\$ 16.3	5.5%	\$ 272.8	\$ 25.4	9.3%
Capital assets	9.4	6.4	3.0	46.9%	3.2	3.2	100.0%
Total assets	323.9	304.6	19.3	6.3%	276.0	28.6	10.4%
Deferred outflows of resources	1.2	1.2	-	-%	1.1	0.1	9.1%
Total assets and deferred outflow	<u>\$ 325.1</u>	<u>\$ 305.8</u>	<u>\$ 19.3</u>	6.3%	<u>\$ 277.1</u>	<u>\$ 28.7</u>	10.4%
Current liabilities	\$ 178.8	\$ 155.2	\$ 23.6	15.2%	\$ 157.7	\$ (2.5)	-1.6%
Noncurrent liabilities	0.8	1.5	(0.7)	-%	1.2	0.3	25.0%
Total liabilities	179.6	156.7	22.9	15.2%	158.9	(2.2)	-1.4%
Deferred inflows of resources	0.3	-	0.3	-%	-	-	-%
Investment in capital assets	9.4	6.4	3.0	46.9%	3.2	3.2	100.0%
Unrestricted	135.8	142.7	(6.9)	-4.8%	115.0	27.7	24.1%
Total net position	<u>145.2</u>	<u>149.1</u>	<u>(3.9)</u>	-2.6%	<u>118.2</u>	<u>30.9</u>	26.1%
Total liabilities, deferred inflows and net position	<u>\$ 325.1</u>	<u>\$ 305.8</u>	<u>\$ 19.3</u>	6.3%	<u>\$ 277.1</u>	<u>\$ 28.7</u>	10.4%

PE Partners had total assets of \$323.9 million at June 30, 2020, which is 6.3% more than the previous year. Current assets consist primarily of cash, cash equivalents and investments totaling \$304.6 million; premiums, interest and other receivable of \$6.9 million, and reinsurance on recoverable paid losses of \$3.0 million. PE Partners' investable assets at June 30, 2020 consisted of municipal bonds and U.S. agency bonds of \$286.4 million and cash, cash equivalents and money market funds of \$18.2 million.

Deferred outflows of resources totaling approximately \$1.2 million are related to PE Partners' net pension obligation and are actuarially determined.

PE Partners' total liabilities of \$179.6 million at June 30, 2020 were comprised of current liabilities of \$178.8 million and noncurrent liabilities of \$.8 million. Current liabilities consisted primarily of reserve for losses and loss adjustment expenses totaling \$141.0 million at 2020 year-end, an increase of \$9.8 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 \$2.7 million in 2020.

Noncurrent liabilities include PE Partners' net pension liability of \$.8 million at June 30, 2020 for PE Partners' participation in a defined benefit pension plan administered 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 \$145.2 million at June 30, 2020. 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 2020, PE Partners' net position decreased by \$3.9 million due to the current year's change in net position of \$17.1 million as reduced by a \$14.0 million dividend declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2021 and a \$7.0 million Emergency Relief Dividend declared to assist PE Partner's members during the COVID-19 pandemic.

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>2020</u>	<u>2019</u>	<u>2018</u>
Investment in capital assets	\$ 9.4	\$ 6.4	\$ 3.2
Unrestricted:			
Committed for capitalization	40.0	40.0	40.0
Committed for member credits	18.4	25.2	8.3
Committed for capital outlay	-	3.5	7.5
Committed for property/casualty catastrophe	30.0	30.0	30.0
Committed for market value stabilization	<u>47.4</u>	<u>44.0</u>	<u>29.2</u>
Total unrestricted net position	<u>135.8</u>	<u>142.7</u>	<u>115.0</u>
Total net position	<u>\$ 145.2</u>	<u>\$ 149.1</u>	<u>\$ 118.2</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>2020</u>	<u>2019</u>	<u>Net Increase</u>		<u>2018</u>	<u>Net Increase</u>	
			<u>(Decrease)</u>			<u>(Decrease)</u>	
	\$	\$	\$	%	\$	\$	%
Net earned premiums	\$ 66.1	\$ 63.8	\$ 2.3	3.6%	\$ 62.2	\$ 1.6	2.6%
Investment income-interest, net	8.5	9.1	(0.6)	-6.6%	8.6	0.5	5.8%
Investment income-net increase (decrease) in fair value of investments	9.3	15.2	(5.9)	-38.8%	(6.2)	21.4	-345.2%
Other income	<u>0.2</u>	<u>0.2</u>	<u>-</u>	0.0%	<u>0.2</u>	<u>-</u>	0.0%
Total operating revenues	84.1	88.3	(4.2)	-4.8%	64.8	23.5	36.3%
Operating expenses	<u>68.8</u>	<u>50.8</u>	<u>18.0</u>	35.4%	<u>45.4</u>	<u>5.4</u>	11.9%
Operating income	15.3	37.5	(22.2)	-59.2%	19.4	18.1	93.3%
Nonoperating revenues	<u>1.8</u>	<u>-</u>	<u>1.8</u>	- %	<u>-</u>	<u>-</u>	- %
Change in net position	<u>\$ 17.1</u>	<u>\$ 37.5</u>	<u>\$ (20.4)</u>	-54.4%	<u>\$ 19.4</u>	<u>\$ 18.1</u>	93.3%

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 \$76.1 million for 2020 and represent a slight increase of 3.6% or \$2.6 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 \$10.0 million which is a 3.7% 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 \$8.5 million for 2020.

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 2020, PE Partners realized \$6.1 million in net gains (or profit) on the disposal of investments.

Unrealized gains and losses on investments are not actual profit or loss transactions but result from daily fluctuations in the market price of securities and the securities' cost. Such market changes can be extremely volatile and influenced by world events unrelated to 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, 2020, PE Partners had net unrealized investment gains totaling \$3.4 million compared to \$14.9 million of net unrealized gains in the prior year. The total change in fair value of investments for fiscal year 2020 was an increase of \$9.3 million.

Because PE Partners operates in a competitive business environment and has the intent and 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)

	2020	2019	Net Increase (Decrease)		2018	Net Increase (Decrease)	
			\$	%		\$	%
Net earned premiums	\$ 66.1	\$ 63.8	\$ 2.3	3.6%	\$ 62.2	1.6	2.6%
Investment income-interest, net	8.3	8.9	(0.6)	-6.7%	8.4	0.5	6.0%
Investment income-realized gains	6.1	0.5	5.6	1120.0%	1.3	(0.8)	-61.5%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	80.7	73.4	7.3	9.9%	72.1	1.3	1.8%
Operating expenses	68.8	50.8	18.0	35.4%	45.4	5.4	11.9%
Operating income	11.9	22.6	(10.7)	-47.3%	26.7	(4.1)	-15.4%
Nonoperating revenues	1.8	-	1.8	- %	-	-	- %
Change in net position before change in fair value of investments	13.7	22.6	(8.9)	-39.4%	26.7	(4.1)	-15.4%
Change in fair value of investments- unrealized gains (losses)	3.4	14.9	(11.5)	-77.2%	(7.3)	22.2	304.1%
Change in net position	<u>\$ 17.1</u>	<u>\$ 37.5</u>	<u>\$ (20.4)</u>	-54.4%	<u>\$ 19.4</u>	<u>\$ 18.1</u>	-93.3%

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 2020 increased \$14.8 million or 41.1% from the prior year to \$50.8 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 \$6.5 million for 2020 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 \$11.5 million for fiscal year 2020 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 \$11.4 million and a book value (after accumulated depreciation) of \$9.4 million at June 30, 2020. 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.

PE Partners completed construction of a multi-story office building in Franklin, TN for approximately \$7.4 million, including build-out, equipment and furnishings, during FY 2020. 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 \$.8 million and was approximately 93% funded, based on the most recent actuarial valuation date.

Economic Factors and Other Matters

For fiscal year 2021, PE Partners' Board of Directors approved base rates changes as follows:

- o Worker's Compensation: 6.7% decrease
- o Liability: 1.7% decrease among all lines
- o Property: 15% increase

In August 2020, the Board of Directors approved the placement of Michael Fann as President/CEO of PE Partners to replace Charles DeMore effective September 1, 2020 upon retirement of Mr. DeMore.

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, 2020 and 2019

Assets and Deferred Outflows of Resources

	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 18,193,807	\$ 16,366,650
Investments	286,375,805	273,054,909
Premiums receivable	3,066,756	2,917,177
Accrued interest and other receivables	3,823,000	4,217,657
Reinsurance recoverable on paid losses	<u>3,011,617</u>	<u>1,643,718</u>
Total current assets	314,470,985	298,200,111
Premises, property and equipment		
Non-depreciable	1,957,084	5,978,427
Depreciable	<u>7,473,870</u>	<u>425,415</u>
Total premises, property and equipment	<u>9,430,954</u>	<u>6,403,842</u>
Total assets	323,901,939	304,603,953
Deferred outflows of resources - pension	<u>1,232,233</u>	<u>1,222,964</u>
	<u>\$ 325,134,172</u>	<u>\$ 305,826,917</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities:		
Reserve for losses and loss adjustment expenses	\$ 141,001,327	\$ 131,186,105
Unearned premiums	14,219,494	14,446,690
Dividends payable	21,081,841	6,571,248
Accounts payable and accrued liabilities	<u>2,488,810</u>	<u>2,975,076</u>
Total current liabilities	178,791,472	155,179,119
Contracts payable	-	323,125
Net pension liability	<u>836,437</u>	<u>1,141,373</u>
Total liabilities	<u>179,627,909</u>	<u>156,643,617</u>
Deferred inflows of resources - pension	<u>261,255</u>	<u>53,275</u>
Net position:		
Investment in capital assets	9,430,954	6,403,842
Unrestricted	<u>135,814,054</u>	<u>142,726,183</u>
Total net position	<u>145,245,008</u>	<u>149,130,025</u>
	<u>\$ 325,134,172</u>	<u>\$ 305,826,917</u>

See accompanying notes to the financial statements.

PUBLIC ENTITY PARTNERS

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Gross earned premiums	\$ 76,079,608	\$ 73,446,705
Reinsurance premiums ceded	<u>(9,957,555)</u>	<u>(9,604,222)</u>
Net earned premiums	66,122,053	63,842,483
Investment income - interest earnings, net	8,548,453	9,050,477
Investment income - net increase in fair value of investments	9,265,435	15,208,268
Other income	<u>186,972</u>	<u>173,093</u>
Total operating revenues	<u>84,122,913</u>	<u>88,274,321</u>
Operating expenses:		
Losses and loss adjustment expenses	50,888,327	36,059,818
Policy acquisition costs	6,458,472	6,612,634
General and administrative expenses	<u>11,483,576</u>	<u>8,157,450</u>
Total operating expenses	<u>68,830,375</u>	<u>50,829,902</u>
Operating income	<u>15,292,538</u>	<u>37,444,419</u>
Nonoperating revenues:		
Gain on disposal of capital assets	1,778,744	100
Sponsorship fees	3,200	4,055
Software licenses fee	<u>10,503</u>	<u>9,600</u>
Total nonoperating revenues	<u>1,792,447</u>	<u>13,755</u>
Total change in net position	<u>17,084,985</u>	<u>37,458,174</u>
Net position, beginning of year	149,130,025	118,158,998
Dividends declared	(21,000,000)	(6,500,000)
Member lapsed dividend credits	<u>29,998</u>	<u>12,853</u>
Net position, end of year	<u>\$ 145,245,008</u>	<u>\$ 149,130,025</u>

See accompanying notes to the financial statements.

PUBLIC ENTITY PARTNERS

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts:		
Premiums received	\$ 70,594,235	\$ 70,571,057
Interest received	9,217,310	9,613,383
Special rating plan reimbursements	3,613,672	3,203,565
Reinsurance recoveries received	1,764,304	2,880,160
Claim recoveries received	1,661,444	1,658,697
Other cash receipts	173,641	1,079,805
	<u>87,024,606</u>	<u>89,006,667</u>
Total cash receipts		
Cash disbursements:		
Claim payments	44,016,965	43,343,784
General and administrative	13,325,538	10,965,208
Reinsurance premiums	10,027,038	9,648,849
Claims administration	5,026,308	5,147,141
Policy acquisition	7,239,182	4,681,681
	<u>79,635,031</u>	<u>73,786,663</u>
Total cash disbursements		
Net cash provided by operating activities	<u>7,389,575</u>	<u>15,220,004</u>
Cash flows from capital activities:		
Purchases of premises, property and equipment	(3,801,513)	(3,405,617)
Proceeds from disposal of premises, property and equipment	2,294,556	100
	<u>(1,506,957)</u>	<u>(3,405,517)</u>
Net cash used in capital activities		
Cash flows from investing activities:		
Purchases of investments	(324,142,481)	(50,208,653)
Proceeds from sales and maturities of investments	320,087,020	46,410,638
	<u>(4,055,461)</u>	<u>(3,798,015)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	1,827,157	8,016,472
Cash and cash equivalents, beginning of year	16,366,650	8,350,178
Cash and cash equivalents, end of year	<u>\$ 18,193,807</u>	<u>\$ 16,366,650</u>

See accompanying notes to the financial statements.

PUBLIC ENTITY PARTNERS

Statements of Cash Flows (continued)

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,292,538	\$ 37,444,419
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	258,590	188,772
Net amortization of premium paid on investments	236,297	197,655
Net realized gain on sales of investments	(6,098,089)	(512,056)
Net unrealized gain on investments	(3,403,643)	(14,893,867)
Decrease (increase) in premiums receivable	(149,579)	702,838
Decrease (increase) in accrued interest and other receivables	394,657	(421,207)
Decrease (increase) in reinsurance recoverable on paid losses	(1,367,899)	1,345,858
Increase in deferred outflows of resources	(9,269)	(140,184)
Increase (decrease) in reserve for losses and loss adjustment expenses	9,815,222	(5,491,376)
Increase (decrease) in unearned premiums	(227,196)	349,003
Decrease in dividends payable	(6,445,707)	(4,977,586)
Increase (decrease) in accounts payable and accrued liabilities	(486,266)	1,110,244
Increase (decrease) in contracts payable	(323,125)	323,125
Decrease in net pension liability	(304,936)	(53,169)
Increase in deferred inflows of resources	207,980	47,535
	\$ 7,389,575	\$ 15,220,004
Net cash provided by operating activities	\$ 7,389,575	\$ 15,220,004

See accompanying notes to the financial statements.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(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 to Public Entity Partners.

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 law 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 495 governmental entities (including 315 cities and towns) at June 30, 2020.

(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:

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(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.

(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

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

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.

(f) Premises, property and equipment

Premises, property and equipment are recorded at cost and consist of land, building and improvements, vehicles, computer hardware and software, and office furniture and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. Public Entity Partners capitalizes assets with an individual cost of \$2,500 or more and an estimated useful life of one year or more. Maintenance and repairs are expensed as incurred.

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Notes to the Financial Statements

June 30, 2020 and 2019

(g) Deferred outflows and inflows of resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense) until then. 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).

(h) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses is estimated as losses are incurred. The reserve consists of amounts for unpaid reported losses, net of salvage and subrogation and reinsurance recoveries, and estimates for incurred but not reported ("IBNR") losses. The estimates for IBNR were developed by management based on a consulting actuarial evaluation of 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.

(i) Employee pension plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of 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).

(j) 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

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

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.

(k) Recognition of premium

Premium is earned on a pro-rata basis over the term of the policy, which is generally one year. Unearned premium represents the portion of premium applicable to the unexpired portion of insurance policies in force. Premiums billed in advance represents premium billed in the current fiscal year for insurance policies becoming effective in the next fiscal year.

(l) 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.

(m) 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.

(n) Events occurring after reporting date

Public Entity Partners has evaluated events and transactions that occurred between June 30, 2020 and November 20, 2020, 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 \$20,020,985 and \$18,725,745 at June 30, 2020 and 2019, respectively (less outstanding checks that are subtracted from bank balances to determine a carrying value of \$18,193,807 and \$16,366,650 at June 30, 2020 and 2019, 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.

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Notes to the Financial Statements

June 30, 2020 and 2019

Cash and cash equivalent balances at June 30, 2020 include two certificates of deposit totaling \$28,338 that have been pledged as collateral for two open letters of credit issued as warranty bonds related to the construction of a new office building. Each certificate of deposit bears interest at 2.23% and matures in March 2021.

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.

At June 30, 2020, Public Entity Partners had the following investments:

	<u>Fair Value</u>	<u>Average Weighted Maturity (in years)</u>	<u>Average Weighted Call Term (in years)</u>
U.S. Government Agencies:			
FFCB	\$ 24,048,855	15.1	0.3
FHLB	<u>39,612,769</u>	14.8	3.0
Total U.S. Government Agencies	63,661,624		
Municipal Bonds	222,714,181	18.6	8.9
Total	<u><u>\$286,375,805</u></u>		

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Notes to the Financial Statements

June 30, 2020 and 2019

At June 30, 2019, Public Entity Partners had the following investments:

	<u>Fair Value</u>	<u>Average Weighted Maturity (in years)</u>	<u>Average Weighted Call Term (in years)</u>
U.S. Government Agencies:			
FFCB	\$ 63,370,229	13.7	11.6
FHLB	70,508,372	14.3	10.9
US Treasury	<u>4,723,830</u>	27.2	27.2
Total U.S. Government Agencies	138,602,431		
Municipal Bonds	134,452,478	15.1	8.2
Total	<u>\$ 273,054,909</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 portfolios. As of June 30, 2020 and 2019, 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 "Aa", as defined by Moody, Standard and Poor, or an equivalent rating agency. All fixed income securities must have a rating of "A" or better, by at least two of the rating agencies. Obligations of U.S. government agencies are not implicitly guaranteed by the U.S. government but are rated by Moody as "AA". As of June 30, 2020 and 2019, Public Entity Partners' investments in municipal bonds had credit ratings as follows:

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Notes to the Financial Statements

June 30, 2020 and 2019

<u>Rating</u>	<u>Municipal Bonds</u>	
	<u>2020</u>	<u>2019</u>
AAA	\$ 44,636,403	\$ 28,964,285
AA	156,104,633	88,720,083
A	21,973,145	16,768,110
	<u>\$ 222,714,181</u>	<u>\$ 134,452,478</u>

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, 2020 and 2019, 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 generally accepted accounting principles. 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.

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Notes to the Financial Statements

June 30, 2020 and 2019

Public Entity Partners had the following recurring fair value measurements as of June 30, 2020:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
U.S. Government Agencies	\$ 63,661,624	\$ 63,661,624	\$ -	\$ -
Municipal Bonds	<u>222,714,181</u>	<u>222,714,181</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 286,375,805</u>	<u>\$ 286,375,805</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at amortized cost

Local Government Investment Pool \$ 1,005,694

Public Entity Partners had the following recurring fair value measurements as of June 30, 2019:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by fair value level</u>				
U.S. Government Agencies	\$ 138,602,431	\$ 138,602,431	\$ -	\$ -
Municipal Bonds	<u>134,452,478</u>	<u>134,452,478</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 273,054,909</u>	<u>\$ 273,054,909</u>	<u>\$ -</u>	<u>\$ -</u>

Investments measured at amortized cost

Local Government Investment Pool \$ 8,766,197

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Notes to the Financial Statements

June 30, 2020 and 2019

Investment income

Investment income consisted of interest earned on investments and changes in fair value of investments. Interest earned on investments is based on the stated coupon rate of the securities, net of investment fees. The net increase in fair value of investments for the fiscal years ended June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Realized gains	\$ 6,098,089	\$ 512,056
Amortization of premium	(256,507)	(228,966)
Accretion of discounts	20,210	31,311
Unrealized gains, net	<u>3,403,643</u>	<u>14,893,867</u>
Net increase in fair value of investments	<u>\$ 9,265,435</u>	<u>\$ 15,208,268</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.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(4) Premises, property and equipment

Premises, property and equipment activity for the fiscal years ended June 30, 2020 and 2019 is as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2020</u>
Non-depreciable:				
Land	\$ 2,359,711	\$ -	\$ (402,627)	\$ 1,957,084
Construction in progress	3,618,716	-	(3,618,716)	-
Total non-depreciable	<u>\$ 5,978,427</u>	<u>\$ -</u>	<u>\$ (4,021,343)</u>	<u>\$ 1,957,084</u>
Depreciable:				
Building and improvements	1,640,195	6,985,931	(1,640,195)	6,985,931
Furniture and equipment	326,000	398,899	(234,507)	490,392
Computer system	2,192,964	35,400	(280,961)	1,947,403
Total depreciable	<u>4,159,159</u>	<u>7,420,230</u>	<u>(2,155,663)</u>	<u>9,423,726</u>
Less accumulated depreciation:				
Building and improvements	1,522,101	94,918	(1,553,751)	63,268
Furniture and equipment	304,631	31,421	(223,012)	113,040
Computer system	1,907,012	132,251	(265,715)	1,773,548
Total accumulated depreciation	<u>3,733,744</u>	<u>258,590</u>	<u>(2,042,478)</u>	<u>1,949,856</u>
Depreciable, net	<u>425,415</u>	<u>7,161,640</u>	<u>(113,185)</u>	<u>7,473,870</u>
Total premises, property and equipment	<u>\$ 6,403,842</u>	<u>\$ 7,161,640</u>	<u>\$ (4,134,528)</u>	<u>\$ 9,430,954</u>

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Notes to the Financial Statements

June 30, 2020 and 2019

	Balance June 30, 2018	Additions	Disposals	Balance June 30, 2019
Non-depreciable:				
Land	\$ 2,359,711	\$ -	\$ -	\$ 2,359,711
Construction in progress	221,917	3,396,799	-	3,618,716
Total non-depreciable	\$ 2,581,628	\$ 3,396,799	\$ -	\$ 5,978,427
Depreciable:				
Building and improvements	1,640,195	-	-	1,640,195
Furniture and equipment	320,212	5,788	-	326,000
Computer system	2,195,930	3,030	(5,996)	2,192,964
Total depreciable	4,156,337	8,818	(5,996)	4,159,159
Less accumulated depreciation:				
Building and improvements	1,474,469	47,632	-	1,522,101
Furniture and equipment	298,845	5,786	-	304,631
Computer system	1,777,654	135,354	(5,996)	1,907,012
Total accumulated depreciation	3,550,968	188,772	(5,996)	3,733,744
Depreciable, net	605,369	(179,954)	-	425,415
Total premises, property and equipment	\$ 3,186,997	\$ 3,216,845	\$ -	\$ 6,403,842

Depreciation charged to operating expenses in 2020 and 2019 is as follows:

	2020	2019
Losses and loss adjustment expenses	\$ 195,241	\$ 65,684
General and administrative expenses	63,349	123,088
Total depreciation expense	\$ 258,590	\$ 188,772

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(5) Reserve for Losses and Loss Adjustment Expenses

Reserve for losses and loss adjustment expenses is comprised of:

	<u>2020</u>	<u>2019</u>
Reserve for reported claims	\$ 95,018,513	\$ 85,283,692
Reserve for incurred but not reported claims	63,172,624	61,038,403
Reserve for unallocated loss adjustment expenses	8,301,141	7,776,019
Less: reinsurance recoverable	<u>(25,490,951)</u>	<u>(22,912,009)</u>
Total reserve for losses and loss adjustment expenses	<u>\$ 141,001,327</u>	<u>\$ 131,186,105</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.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reserve for losses and loss adjustment expenses at beginning of fiscal year	<u>\$ 131,186,105</u>	<u>\$ 136,677,481</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	50,322,356	45,282,441
Decrease in provision for insured events of prior fiscal years	(4,970,372)	(14,569,104)
Unallocated claims adjustment expenses	<u>5,536,344</u>	<u>5,346,481</u>
Total incurred claims and claim adjustment expenses	<u>50,888,328</u>	<u>36,059,818</u>
Reinsurance:		
Reinsurance recoveries received attributable to insured events of prior fiscal years	1,763,293	3,688,099
Change in reinsurance recoverable on paid losses	<u>1,367,900</u>	<u>(1,345,858)</u>
Total reinsurance	<u>3,131,193</u>	<u>2,342,241</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	15,271,316	15,667,145
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	23,396,639	22,879,809
Unallocated claim adjustment expenses	<u>5,536,344</u>	<u>5,346,481</u>
Total payments	<u>44,204,299</u>	<u>43,893,435</u>
Reserve for losses and loss adjustment expenses at end of fiscal year	<u><u>\$ 141,001,327</u></u>	<u><u>\$ 131,186,105</u></u>

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, 2020 and 2019. 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.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(6) Premiums Written and Reinsurance

Premiums written for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Premiums written	\$ 75,852,412	\$ 73,795,709
Premiums ceded	<u>(9,957,555)</u>	<u>(9,604,222)</u>
Net premiums written	<u>\$ 65,894,857</u>	<u>\$ 64,191,487</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:

- a. Public Entity Partners' workers compensation reinsurance retention amount was \$1,350,000 per occurrence for fiscal years 2020 and 2019.
- b. For fiscal years 2020 and 2019, 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.
- c. For fiscal years 2020 and 2019, 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.

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 \$25,490,951 and \$22,912,009 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2020 and 2019, respectively. Public Entity Partners remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(7) Net Position

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

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>2020</u>	<u>2019</u>
Investment in capital assets	\$ 9,430,954	\$ 6,403,842
Unrestricted:		
Committed for capitalization	40,000,000	40,000,000
Committed for member credits	18,356,473	25,172,245
Committed to capital outlay	-	3,500,000
Committed for property/casualty catastrophe	30,000,000	30,000,000
Total operational commitments	88,356,473	98,672,245
Committed for market value stabilization	47,457,581	44,053,938
Total unrestricted net position	135,814,054	142,726,183
Net position, end of year	\$ 145,245,008	\$ 149,130,025

During the fiscal year 2020, the Board declared a \$14,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2020 through June 30, 2021. Lapsed dividends totaling \$29,998 were returned to net position in 2020.

During the fiscal year 2020, the Board also declared a \$7,000,000 emergency dividend in response to the coronavirus pandemic to be distributed by check to those active members as of July 1, 2020.

During the fiscal year 2019, the Board declared a \$6,500,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2019 through June 30, 2020. Also, lapsed dividends totaling \$12,853 were returned to net position in 2019.

(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. The League receives an annual sponsorship fee from Public Entity Partners of 1.90% of net earned premiums, subject to a 4.0% cap that is based on a percentage of the prior year's fee. Sponsorship fees totaled \$1,247,686 and \$1,213,007 in 2020 and 2019, respectively, and are included in policy acquisition costs on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

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Additionally, the Board of Directors also approved annual supplemental payments to the League in the amounts of \$100,000 and \$220,000 for fiscal years 2020 and 2019, respectively. The sponsorship fee supplement is 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 years 2020 and 2019, Public Entity Partners received sponsorship fees on behalf of TN HealthWorks in the amounts of \$10,503 and \$4,055, respectively. Also, the Board of Directors of Public Entity Partners approved the payment of directors' and officers' insurance costs for TN HealthWorks in the amount of \$15,000 and \$15,776 for fiscal years 2020 and 2019, respectively. Such costs are included in general and administrative expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

(9) Employee pension plan

a. General information about the pension plan

Plan description

Employees of 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/Reportingand-Investment-Policies>.

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Notes to the Financial Statements

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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.

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

Employees covered by benefit terms

At the measurement date of June 30, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	13
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>31</u>
	<u>50</u>

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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 year ended June 30, 2020, the employer contributions for Public Entity Partners were \$663,960 based on a rate of 16.19% 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.

b. Net pension liability

Public Entity Partners' net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.0%
Investment rate of return	7.25%, net of pension plan investment expenses, including inflation
Cost of living adjustment	2.25%

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

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The actuarial assumptions used in the June 30, 2019 actuarial valuation were based on the results of an actuarial experience study conducted as of June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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

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

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

Discount rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from 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

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to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

c. Changes in the net pension liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
	<u> </u>	<u> </u>	<u> </u>
Balance at 6/30/2018	<u>\$ 12,112,587</u>	<u>\$ 10,971,214</u>	<u>\$ 1,141,373</u>
Changes for the year:			
Service cost	231,182	-	231,182
Interest	879,498	-	879,498
Differences between expected and actual experience	(53,325)	-	(53,325)
Changes in assumptions	-	-	-
Contributions from employer	-	563,164	(563,164)
Contributions from employees	-	-	-
Net investment income	-	821,215	(821,215)
Benefit payments, including refunds of employee contributions	(425,535)	(425,535)	-
Administrative expense	-	(22,088)	22,088
Net changes	<u>631,820</u>	<u>936,756</u>	<u>(304,936)</u>
Balance at 6/30/2019	<u>\$ 12,744,407</u>	<u>\$ 11,907,970</u>	<u>\$ 836,437</u>

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Notes to the Financial Statements

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability	\$ 2,442,317	\$ 836,437	\$ (507,990)

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

Pension expense

For the years ended June 30, 2020 and 2019, Public Entity Partners recognized pension expense of \$557,735 and \$417,346, respectively.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2020 Public Entity Partners reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 353,675	\$ 44,437
Net difference between projected and actual earnings		
on pension plan investments	82,179	216,818
Changes in assumptions	132,419	-
Contributions subsequent to the measurement		
date of June 30, 2019	663,960	
Total	\$ 1,232,233	\$ 261,255

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Notes to the Financial Statements

June 30, 2020 and 2019

For the year ended June 30, 2019 Public Entity Partners reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 483,242	\$ -
Net difference between projected and actual earnings on pension plan investments	-	53,275
Changes in assumptions	176,558	-
Contributions subsequent to the measurement date of June 30, 2018	563,164	
Total	<u>\$ 1,222,964</u>	<u>\$ 53,275</u>

The amount shown above for "Contributions subsequent to the measurement dates of June 30, 2019 and 2018" 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:	
2020	\$ 224,568
2021	144,995
2022	52,585
2023	82,087
2024	36,230
2025	(8,888)

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, 2020 and 2019, Public Entity Partners did not owe any outstanding contributions to the pension plan.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(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 connection with the construction of the new office building, Public Entity Partners issued two letters of credit totaling \$28,338 for the benefit of a water utility company as warranty bonds related to the installation and maintenance of certain water main connections. Two certificates of deposit of an equal amount (each \$14,169) were pledged as collateral for the letters of credit. The performance bond expired in April 2020. The maintenance/warranty bond had not been released by the water utility company as of June 30, 2020.

Public Entity Partners is party to a three-year contract with a vendor for subscription services for an online claims processing and reporting system in the amount of \$1.1 million. During fiscal year 2020, the second contract installment was paid in the amount of \$325,125 and is included in losses and loss adjustment expenses on the accompanying Statements of Revenues, Expenses and Changes in Net Position. The remaining contract balance of \$323,125 is included in current payables.

(11) Operating leases

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 \$52,417 and \$54,716 for 2020 and 2019, respectively.

Future minimum rents under long-term operating leases are approximately \$45,000 for fiscal years ending June 30, 2021, 2022, 2023 and 2024; and \$34,000 for fiscal year ending June 30, 2025.

PUBLIC ENTITY PARTNERS

Notes to the Financial Statements

June 30, 2020 and 2019

(12) Current economic condition

As of the date this report was available to be issued, the United States, as well as many other countries around the world, was experiencing an infectious disease (COVID-19) outbreak, impacting individuals, governments, businesses, and financial markets with unprecedented disruption and risk.

Public Entity Partners has experienced limited disruption in operations related to the COVID-19 outbreak; the major shift was reduced in-person interaction with members. From a financial standpoint, increased claim exposure was incurred due primarily to Public Entity Partners' insured first responders.

It is not possible to predict the ultimate impact of the 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 these conditions may have on Public Entity Partners.

PUBLIC ENTITY PARTNERS

Ten-Year Claims Development Information

Year ended June 30, 2020

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>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
1. Net earned required premium and investment revenues	\$64,062,890	\$60,983,901	\$61,902,588	\$62,816,826	\$66,741,692	\$82,273,191	\$58,412,738	\$64,785,175	\$88,288,076	\$85,915,361
2. Unallocated expenses	14,073,693	14,719,391	15,478,609	17,449,760	16,878,932	16,843,422	18,705,261	18,399,361	20,116,565	23,478,393
3. Estimated incurred claims and expense, end of accident year	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807	46,517,506	46,254,820	45,282,440	50,322,356
4. Net Paid (cumulative) as of:										
End of accident year	14,170,671	13,554,782	13,312,473	13,084,348	13,208,337	12,053,539	15,918,968	13,629,302	15,667,145	15,271,316
One year later	28,567,327	22,089,817	22,634,009	23,347,626	24,079,927	22,764,176	26,579,123	24,140,530		
Two years later	32,547,163	26,887,613	27,545,762	27,922,722	28,934,633	26,261,766	28,851,024			
Three years later	34,977,023	29,124,795	30,406,417	29,951,595	30,875,714	27,914,268				
Four years later	38,284,196	29,910,731	31,202,054	30,663,176	31,835,404					
Five years later	39,130,026	30,599,401	32,090,091	31,442,972						
Six years later	41,392,517	31,048,974	32,904,926							
Seven years later	41,075,438	31,684,531								
Eight years later	40,400,800									
Nine years later										
5. Re-estimated incurred claims and expenses:										
End of accident year	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807	46,517,506	46,254,820	45,282,440	50,322,356
One year later	47,774,196	43,177,868	43,553,794	46,024,778	46,723,332	46,885,944	44,239,441	42,933,250		
Two years later	46,907,918	40,536,108	40,606,116	43,189,636	43,694,843	41,620,255	39,814,023			
Three years later	45,765,147	38,581,460	40,368,831	40,543,901	40,663,865	38,446,455				
Four years later	47,232,903	37,605,162	38,606,920	39,195,784	38,118,961					
Five years later	47,174,143	36,746,152	37,563,976	37,083,169						
Six years later	46,574,720	35,582,627	37,461,784							
Seven years later	45,227,792	36,032,013								
Eight years later	45,111,019									
Nine years later										
6. Increase (decrease) in estimated incurred claims and expense from end of accident year	(5,530,200)	(11,475,968)	(9,112,914)	(8,736,887)	(8,557,986)	(7,253,352)	(6,703,483)	(3,321,570)	940,397	

See independent auditors' report.

PUBLIC ENTITY PARTNERS

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2020

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	\$ 37,066,101	\$ 92,138,195	\$ 1,981,809	\$ 131,186,105
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	25,635,719	19,909,383	4,777,254	50,322,356
Decrease in provision for insured events of prior fiscal years	595,778	(5,021,906)	(544,244)	(4,970,372)
Unallocated claims adjustment expenses	2,284,638	2,189,420	1,062,286	5,536,344
Total incurred claims and claim adjustment expenses	28,516,135	17,076,897	5,295,296	50,888,328
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	-	659,363	1,103,930	1,763,293
Change in reinsurance recoverable on paid losses	1,516	1,796,524	(430,140)	1,367,900
Total reinsurance	1,516	2,455,887	673,790	3,131,193
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	7,038,437	5,331,387	2,901,492	15,271,316
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,669,222	11,247,186	1,480,231	23,396,639
Unallocated claim adjustment expenses	2,284,638	2,189,420	1,062,286	5,536,344
Total payments	19,992,297	18,767,993	5,444,009	44,204,299
Reserve for losses and loss adjustment expenses at end of fiscal year	\$ 45,591,455	\$ 92,902,986	\$ 2,506,886	\$ 141,001,327

See independent auditors' report.

PUBLIC ENTITY PARTNERS

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2019

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	\$ 38,969,996	\$ 95,440,942	\$ 2,266,543	\$ 136,677,481
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	20,716,602	20,003,087	4,562,752	45,282,441
Decrease in provision for insured events of prior fiscal years	(5,887,316)	(8,141,140)	(540,648)	(14,569,104)
Unallocated claims adjustment expenses	2,190,282	2,122,450	1,033,749	5,346,481
Total incurred claims and claim adjustment expenses	17,019,568	13,984,397	5,055,853	36,059,818
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	876,347	1,940,917	870,835	3,688,099
Change in reinsurance recoverable on paid losses	(801,704)	(862,443)	318,289	(1,345,858)
Total reinsurance	74,643	1,078,474	1,189,124	2,342,241
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	6,041,771	6,054,792	3,570,582	15,667,145
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,766,053	10,188,376	1,925,380	22,879,809
Unallocated claim adjustment expenses	2,190,282	2,122,450	1,033,749	5,346,481
Total payments	18,998,106	18,365,618	6,529,711	43,893,435
Reserve for losses and loss adjustment expenses at end of fiscal year	\$ 37,066,101	\$ 92,138,195	\$ 1,981,809	\$ 131,186,105

See independent auditors' report.

PUBLIC ENTITY PARTNERS

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

Last Fiscal Year Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total pension liability:						
Service Cost	\$ 154,134	\$ 180,845	\$ 211,832	\$ 202,026	\$ 216,302	\$ 231,182
Interest	609,688	652,233	701,015	762,920	811,653	879,498
Changes in benefit terms	-	-	-	-	-	-
Differences between actual and expected experience	50,864	61,392	231,407	137,083	296,648	(53,325)
Change of assumptions	-	-	-	264,836	-	-
Benefit payments, including refunds of employee contributions	<u>(281,807)</u>	<u>(266,470)</u>	<u>(283,590)</u>	<u>(334,508)</u>	<u>(381,866)</u>	<u>(425,535)</u>
Net change in total pension liability	532,879	628,000	860,664	1,032,357	942,737	631,820
 Total pension liability, beginning	8,115,950	8,648,829	9,276,829	10,137,493	11,169,850	12,112,587
 Total pension liability, ending (a)	<u>\$ 8,648,829</u>	<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>
 Plan fiduciary net position:						
Contributions from employer	\$ 416,207	\$ 444,391	\$ 481,504	\$ 507,080	\$ 545,924	\$ 563,164
Contributions from employees	-	-	-	-	-	-
Net investment income	1,118,570	247,692	224,807	1,006,625	834,699	821,215
Benefit payments, including refunds of employee contributions	<u>(281,807)</u>	<u>(266,470)</u>	<u>(283,590)</u>	<u>(334,508)</u>	<u>(381,866)</u>	<u>(425,535)</u>
Administrative expense	<u>(1,407)</u>	<u>(1,421)</u>	<u>(2,180)</u>	<u>(2,533)</u>	<u>(2,851)</u>	<u>(22,088)</u>
Net change in plan fiduciary net position	1,251,563	424,192	420,541	1,176,664	995,906	936,756
 Plan fiduciary net position, beginning	6,702,348	7,953,911	8,378,103	8,798,644	9,975,308	10,971,214
 Plan fiduciary net position, ending (b)	<u>\$ 7,953,911</u>	<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>
 Net Pension Liability, ending (a) - (b)	<u>\$ 694,918</u>	<u>\$ 898,726</u>	<u>\$ 1,338,849</u>	<u>\$ 1,194,542</u>	<u>\$ 1,141,373</u>	<u>\$ 836,437</u>
 Plan fiduciary net position as a percentage of total pension liability:	91.97%	90.31%	86.79%	89.31%	90.58%	93.44%
 Covered-employee payroll:	\$ 2,699,019	\$ 2,921,704	\$ 3,165,707	\$ 3,333,863	\$ 3,448,666	\$ 3,555,327
 Net pension liability as a percentage of covered-employee payroll:	25.75%	30.76%	42.29%	35.83%	33.10%	23.53%

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
Tennessee Consolidated Retirement System**

Last Fiscal Year Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actuarially determined contribution	\$ 416,207	\$ 444,391	\$ 481,504	\$ 507,080	\$ 545,924	\$ 563,164	\$ 663,960
Contribution in relation to the actuarially determined contribution	416,207	444,391	481,504	507,080	545,924	563,164	663,960
Contribution deficiency (excess)	<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
Contributions as a percentage of covered-employee payroll	15.42%	15.21%	15.21%	15.21%	15.83%	15.84%	16.19%

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

Notes to Required Supplementary Information:

Valuation Date: Actuarially determined contribution rates for 2020 were calculated based on the June 30, 2018 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: 2.50%
 Salary increases: Graded salary ranges from 8.72 to 3.44% based on age, including inflation, averaging 4.00%
 Investment rate of return: 7.25%, 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: 2.25%

Changes in Assumptions: In 2017, the following assumptions were changed: decreased inflation rate from 3.00% to 2.50%; decreased the investment rate of return from 7.50% to 7.25%; decreased the cost-of-living adjustment from 2.50% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4.00%; 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, 2019 Through June 30, 2020

Employee	Title	Compensation			Fringe Benefits
		Base	Other	Total	
Crawford, Dawn*	President/CEO	\$ 175,563	\$ 3,131,678	\$ 3,307,241	\$ 28,953
DeMore, Charles	President/CEO (formerly Executive Vice President & CFO & Director of Human Resources	329,291	60,246	389,537	53,035
Anderson, Wayne	Member Services Representative	109,989	14,151	124,140	17,422
Baron, Doris	Associate Underwriter	49,939	11,525	61,464	7,910
Calvin, Jonathan	Director of Underwriting	212,830	18,609	231,439	34,969
Chambliss, Paul	Loss Control Consultant	114,173	14,224	128,397	18,085
Confer, Paige	Administrative Assistant	53,286	900	54,186	8,441
Dalton, George	Associate Director of Loss Control	164,000	15,129	179,129	26,168
Darden, Chester	Loss Control Consultant	109,163	14,120	123,283	17,291
Dean, Allen	Network Engineer	123,006	930	123,936	19,484
Dodson, Jason	Applications Support Analyst	114,173	920	115,093	18,085
Earls, Joseph	Underwriting Clerk	69,564	973	70,537	11,019
Fann, Michael	Director of Loss Control	209,929	17,689	227,618	27,178
Gallik, Halie	Director of Communications & Research	143,500	15,995	159,495	23,113
Gibson, Dawn	Assistant Controller	122,527	1,211	123,738	19,408
Gross, Carole	Accounts Payable/Accounts Receivable Manager	87,125	973	88,098	16,616
Hatchel, James Bell	Underwriter	104,900	812	105,712	13,801
Hayes, Phillip	Systems Analyst	75,783	921	76,704	12,004
Helton, Janine	Underwriter	108,500	972	109,472	17,186
Housley, Judy	Loss Control Consultant	132,571	14,324	146,895	16,558
Hughes, Heather	Administrative Assistant	60,270	1,024	61,294	9,547
Lacewell, Andrew	Property Conservation Consultant	108,500	14,151	122,651	17,186
Lynch, Bob	Property Conservation Consultant	97,000	14,224	111,224	15,365
Magoon, Bill	Property Conservation Consultant	132,571	14,126	146,697	20,999
Mai, Anna	Underwriting Clerk	60,945	812	61,757	9,654
Mitchell, Tahtia	Executive Assistant	77,550	828	78,378	12,284
Moore, Karen	Accountant	94,775	813	95,588	15,012
Ponessa, Anthony	Director of Information Technology	183,960	46,019	229,979	30,059
Roman, Anthony	Senior Underwriter	127,722	921	128,643	20,231
Shrum, Amanda	Chief Financial Officer (formerly Controller)	172,667	5,764	178,431	27,350
Taylor, Celeste	Member Services Representative	109,989	14,224	124,213	17,422
Westerfield, Callie	Director of Member Services	162,108	15,381	177,489	25,678
Zhuang, Jia	Senior Systems Analyst/Programmer	148,243	882	149,125	23,482

*Other compensation for Ms. Dawn Crawford includes the buyout of a remainder of the 3-year employment contract.

Information provided as categorized in Tennessee Code Annotated,
Section 10-7-503 (d)(1)(F)(i-iii)

See independent auditors' report

PUBLIC ENTITY PARTNERS

**Additional Information On Contractors/Professional Advisors/Service Providers
As Required By Tennessee State Law (For Amounts In Excess of \$2,500)**

July 1, 2019 Through June 30, 2020

Service Provider

8X8, Inc.
906 Studio Architects Llc
Accuimage Llc
ADP, Llc
Agility Recovery Solutions
Ahead, Inc
Arthur J. Gallagher Risk
Batson Nolan Plc
Breach Point Consulting, Inc
Callan Llc
Clearline Networks, Llc
Color Burst Landscapes
Cummins Crosspoint
Curry, Roy M.
Data Blue, Llc
DevDigital, Llc
Dex Imaging, Inc.
Duncan, Margaret Mclean
Elite Reporting Services, Llc
Farrar & Bates, Llp
Farrar, J. Russell
Fiserv Inc
Flat Earth Networking, Inc.
Flexential Corp.
Flood Brothers, Inc.
Huber & Lamb Appraisal Group
Hyland Software
Ice Data Pricing
Iso Services, Inc.
Knighthorst Shredding, Llc
LBMC P.C.
LBMC Technologies, Llc
Level 3 Communications
Market Place, Llc, The
Martin & Zerfoss, Inc.
Nashville Building Services, Inc
National Office Wholesale, Llc
Oak Ridge Association Management, Llc
Oasis Computer Solutions Inc
Origami Risk, Llc
Overland Solutions, Inc.
Owings, Wilson & Coleman
Paul Hickey
Praetorian Digital
Price-Waterhouse-Coopers Llp
Public Risk Services, Inc.
Rainey, Kizer, Reviere & Bell
Ramsey, Ronald
Randstad
SHI International Corp
Spikes, Braniff & Cody. Inc.
Steelhead Building Group Llc
Tennessee Association of Chiefs Of Police
Tennessee Municipal League
The Corporate Image
The Greathouse Company, Llc
Trane
Ventiv Technology, Inc.
Wallspace Consulting
Watson, Roach, Batson, Rowell

Service Provided

Phone Software Support Services
Architectural Services
Document Scanning Services
Payroll Processing Services
Disaster Recovery Services
Software Support Services
Reinsurance Brokerage Services
Legal Services for Claims Defense
Conferences Services
Investment Performance Evaluation
Electrical Installations
Grounds Maintenance
Building Maintenance Services
Transcription Services
Technology Support Services
Website Design
Copy Machine Support Services
Lobbying Services
Transcription Services
Legal/Lobbying Services
Lobbying Services
Software Support Services
Security Review Services
Technology Support Services
Moving Services
Property Appraisal Services
Software Support Services
Investment Valuation Services
Claims Research Services
Document Shredding Services
Audit Services
Technology Support Services
Technology Support Services
Event Catering Services
Corporate Insurance Services
Office Cleaning Services
Moving Services
Conference Planning and Management Services
Software Consulting Services
Claims Software Services
Workers Compensation Audit Services
Municipal Legal Advisory Services
Website Design Consulting
Professional Training Services
Actuarial Services
Third-Party Administrator Services
Municipal Legal Advisory Services
Lobbying Services
Temporary Labor Services
Software Support Services
Legal Services for Claims Defense
General Construction Contractor Services
Conference Sponsorship
Organizational Sponsorship Fee
Marketing/Branding Consulting Services
Groundskeeping
Maintenance Services
Claims Software Support Services
Design Consulting
Legal Services for Claims Defense

Information provided as categorized in Tennessee Code Annotated,
Section 10-7-503 (d)(1)(F)(iv)

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, 2020, and the related notes to the financial statements, which collectively comprise Public Entity Partners' basic financial statements, and have issued our report thereon dated November 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Public Entity Partners' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Public Entity Partners' internal control. Accordingly, we do not express an opinion on the effectiveness of Public Entity Partners' 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 Public Entity Partners' 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 Public Entity Partners' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no prior findings reported.

Purpose of this Report

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

LBMC, PC

Brentwood, Tennessee
November 20, 2020