

**PUBLIC ENTITY PARTNERS**

**Financial Statements and Supplementary Information**

**June 30, 2019 and 2018**

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



# PUBLIC ENTITY PARTNERS

## Table of Contents

	<u>Page</u>
Board of Directors and Senior Management	i
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 9
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to the Financial Statements	14 - 37
Required Supplementary Information:	
Ten-Year Claims Development Information	38
Reconciliation of Claims Liabilities by Type of Contract	39 - 40
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of the Tennessee Consolidated Retirement System	41
Schedule of Contributions Based on Participation in the Public Employee Pension Plan of the Tennessee Consolidated Retirement System	42
Notes to the Required Supplementary Information	42
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	43 - 44

## Public Entity Partners

### Board of Directors and Senior Management

July 1, 2018 – June 30, 2019

#### Board of Directors

Chairman	William Curtis Hayes, Mayor, City of Livingston, TN (11/15/2018-present)
Chairman	Kenneth Wilber, Mayor, City of Portland, TN (7/1/2017-11/14/2018)
Vice-Chairman	Randy Brundige, Mayor, City of Martin, TN
Director	Wallace Cartwright, Mayor, City of Shelbyville, TN (Ex-Officio)
Director	John Holden, Mayor, City of Dyersburg, TN
Director	Victor Lay, City Administrator, City of Spring Hill, TN
Director	Dr. Christa Martin, Vice Mayor, City of Columbia, TN (3/18/2019-present)
Director	Lois Preece, Mayor, City of Niota, TN (11/15/2018-present)
Director	Todd Smith, City Administrator, Town of Greeneville, TN
Director	Samuel Tharpe, Commissioner, City of Parris, TN

#### Senior Management

President/CEO	Dawn R. Crawford, CPA
Executive Vice President/CFO/ Director of Human Resources/ Corporate Secretary	Charles DeMore, CPA
Controller	Amanda Shrum, CPA
Director of Communications and Research	Halie Gallik
Director of Information Technology	Anthony Ponessa
Director of Loss Control	Michael Fann
Director of 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 ("PE Partners") as of and for the years ended June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the PE 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 the PE Partners as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019 on our consideration of the PE 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 PE 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 the PE Partners' internal control over financial reporting and compliance.

*L B M C, P C*

Brentwood, Tennessee  
October 21, 2019



## 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, 2019. 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.

#### **2019 Fiscal Year Highlights**

- The Board of Directors voted to change the Company's name from Tennessee Municipal League Risk Management Pool to Public Entity Partners effective September 26, 2018.
- PE Partners had 495 insured members at June 30, 2019, including 315 cities and towns which represents approximately 91% of the state. PE Partners insures more than 35,000 local government employees and almost 19,000 government buildings valued at approximately \$9.2 billion.
- Total assets and deferred outflows of resources of \$305,826,917 exceeded liabilities and deferred inflows of resources by \$149,130,025 at June 30, 2019.
- For the second year in a row, claim loss development in older claim years has improved substantially as demonstrated by an independent actuarial review of the Company's claim reserves at year-end. The favorable loss development resulted in a \$5.5 million reduction in claim reserves based on the actuarial report for the fiscal year ended June 30, 2019.
- In 2019, the Board of Directors approved the construction and build-out of a new multi-story office building in Franklin, Tennessee that is expected to be completed in fiscal year 2020.
- During 2019, the Board of Directors approved the acquisition of a new web-hosted claims processing and reporting software system to address and better serve the Company's future organization-wide operational needs.
- The Board of Directors also approved the sale of the Brentwood, TN office building for an appraised amount of \$2.3 million. The timing of the sale has been structured to close in conjunction with the completion of the new office building.

- PE Partners' Board of Directors declared a dividend of \$6,500,000 to members for the ensuing 2020 policy year.

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

PE Partners' annual financial report consists of management's discussion and analysis, the independent auditors' report, the basic audited financial statements that include notes which more fully explain information in the financial statements, required supplementary information, 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)**

	<u>2019</u>	<u>2018</u>	<u>Net Increase</u>		<u>2017</u>	<u>Net Increase</u>	
			<u>(\$)</u>	<u>(%)</u>		<u>(\$)</u>	<u>(%)</u>
Current assets	\$ 298.2	\$ 272.8	\$ 25.4	9.3%	\$ 282.1	\$ (9.3)	-3.3%
Capital assets	6.4	3.2	3.2	100.0%	1.2	2.0	166.7%
Total assets	304.6	276.0	28.6	10.4%	283.3	(7.3)	-2.6%
Deferred outflows of resources	1.2	1.1	0.1	-%	1.1	-	-%
Total assets and deferred outflow:	<u>\$ 305.8</u>	<u>\$ 277.1</u>	<u>\$ 28.7</u>	10.4%	<u>\$ 284.4</u>	<u>\$ (7.3)</u>	-2.6%
Current liabilities	\$ 155.2	\$ 157.7	\$ (2.5)	-1.6%	\$ 179.3	\$ (21.6)	-12.0%
Noncurrent liabilities	1.5	1.2	0.3	-%	1.3	(0.1)	-%
Total liabilities	156.7	158.9	(2.2)	-1.6%	180.6	(21.7)	-12.0%
Deferred inflows of resources	-	-	-	-%	-	-	-%
Investment in capital assets	6.4	3.2	3.2	100.0%	1.2	2.0	166.7%
Unrestricted	142.7	115.0	27.7	24.1%	102.6	12.4	12.1%
Total net position	<u>149.1</u>	<u>118.2</u>	<u>30.9</u>	26.1%	<u>103.8</u>	<u>14.4</u>	13.9%
Total liabilities, deferred inflows and net position	<u>\$ 305.8</u>	<u>\$ 277.1</u>	<u>\$ 28.7</u>	10.4%	<u>\$ 284.4</u>	<u>\$ (7.3)</u>	-2.6%

PE Partners had total assets of \$304.6 million at June 30, 2019, which is 10.4% more than the previous year. Current assets consist primarily of cash, cash equivalents and investments totaling \$289.4 million; premiums and interest receivable of \$2.9 million and \$4.2 million, respectively; and reinsurance on recoverable paid losses of \$1.6 million. PE Partners' investable assets at June 30, 2019 consisted of municipal bonds and U.S. agency bonds of \$273.1 million and cash, cash equivalents and money market funds of \$16.3 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 \$156.7 million at June 30, 2019 were comprised of current liabilities of \$155.2 million and noncurrent liabilities of \$1.5 million. Current liabilities consisted primarily of reserve for losses and loss adjustment expenses totaling \$131.2 million at 2019 year-end, a decrease of \$5.5 million from the prior year. The reserve for losses represents members' claim losses reported for workers' compensation, liability and property lines of coverage. The reserve for losses also includes an actuarially-determined estimate of ultimate costs (referred to as "incurred but not reported" or "IBNR") of such claims, offset by expected reinsurance recoveries on the outstanding claims. The actuarially-determined estimate of IBNR and related reserve for unallocated loss adjustment expense ("ULAE") declined substantially by \$8.8 million in 2019 due to significant improvement in claim loss development of older claim years.

Noncurrent liabilities of \$1.5 million include PE Partners' net pension liability of \$1.1 million at June 30, 2019 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. Noncurrent liabilities also include the final installment of a contractual obligation of \$323,125 for a new claims administration system.



Net position is the residual measure of assets and deferred outflows of resources net of liabilities and deferred inflows of resources and totaled \$149.1 million at June 30, 2019. 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 2019, PE Partners' net position increased by \$30.9 million due to the current year's change in net position of \$37.5 million as reduced by a \$6.5 million dividend declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2020.

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:

<b>Net Position</b>			
<b>At June 30,</b>			
<b>(in millions of dollars)</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Investment in capital assets	\$ 6.4	\$ 3.2	\$ 1.2
Unrestricted:			
Committed for capitalization	40.0	40.0	40.0
Committed for member credits	25.2	8.3	3.2
Committed for capital outlay	3.5	7.5	-
Committed for property/casualty catastrophe	30.0	30.0	30.0
Committed for market value stabilization	44.0	29.2	29.4
Total unrestricted net position	<u>142.7</u>	<u>115.0</u>	<u>102.6</u>
Total net position	<u>\$ 149.1</u>	<u>\$ 118.2</u>	<u>\$ 103.8</u>

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

<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>							
<b>Fiscal year ended June 30,</b>							
<b>(in millions of dollars)</b>							
	<b>2019</b>	<b>2018</b>	<b>Net Increase (Decrease)</b>		<b>2017</b>	<b>Net Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>		<b>\$</b>	<b>%</b>
Net earned premiums	\$ 63.8	\$ 62.2	\$ 1.6	2.6%	\$60.4	\$ 1.8	3.0%
Investment income-interest, net	9.1	8.6	0.5	5.8%	8.4	0.2	2.4%
Investment income-net increase (decrease)							
in fair value of investments	15.2	(6.2)	21.4	-345.2%	(10.6)	4.4	-41.5%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	<u>88.3</u>	<u>64.8</u>	<u>23.5</u>	<u>36.3%</u>	<u>58.4</u>	<u>6.4</u>	<u>11.0%</u>
Operating expenses	<u>50.8</u>	<u>45.4</u>	<u>5.4</u>	<u>11.9%</u>	<u>55.4</u>	<u>(10.0)</u>	<u>-18.1%</u>
Operating income	<u>37.5</u>	<u>19.4</u>	<u>18.1</u>	<u>93.3%</u>	<u>3.0</u>	<u>16.4</u>	<u>546.7%</u>
Nonoperating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>- %</u>	<u>-</u>	<u>-</u>	<u>- %</u>
Change in net position	<u>\$ 37.5</u>	<u>\$ 19.4</u>	<u>\$ 18.1</u>	<u>93.3%</u>	<u>\$ 3.0</u>	<u>\$ 16.4</u>	<u>546.7%</u>

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

Earned premiums represent premiums charged to members for workers' compensation, liability and property insurance coverage pursuant to insurance policy contracts. Premiums are determined through PE Partners' underwriting process that takes into consideration each member's risk exposures (such as payroll volume, operating budget, physical properties owned, etc.) as applied to a premium base rate approved by the Board of Directors. Each member is also rated on actual loss experience (referred to as experience modifications) and compliance with PE Partners' loss control surveys and recommendations (referred to as schedule modifications). Gross earned premiums totaled \$73.4 million for 2019 and represent a slight increase of 1.9% or \$1.4 million over the previous year due to the growth in members' insured exposures upon which premium is determined, such as member employee payroll bases as well as real estate and personal property values.

Reinsurance premiums ceded totaled \$9.6 million which is a 2.7% reduction from the prior year.

Investment income is a substantial part of operating income and is comprised of two different components: (a) interest earned on investments; and, (b) changes in the fair (market) value of investments. Net interest earned on investments is based on stated coupon rates of investments and totaled \$9.1 million for 2019.

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 2019, PE Partners realized \$512,056 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, 2019, PE Partners had net unrealized investment gains totaling \$14.9 million compared to \$(7.3) million of net unrealized losses in the prior year. Consequently, the total change in fair value of investments for fiscal year 2019 was an increase of \$15.2 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)**

	<u>2019</u>	<u>2018</u>	<u>Net Increase</u>		<u>2017</u>	<u>Net Increase</u>	
			<u>(Decrease)</u>			<u>(Decrease)</u>	
	\$	\$	\$	%	\$	\$	%
Net earned premiums	\$ 63.8	\$ 62.2	\$ 1.6	2.6%	\$60.4	1.8	3.0%
Investment income-interest, net	8.9	8.4	0.5	6.0%	8.0	0.4	5.0%
Investment income-realized gains	0.5	1.3	(0.8)	-61.5%	0.3	1.0	333.3%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	<u>73.4</u>	<u>72.1</u>	<u>1.3</u>	<u>1.8%</u>	<u>68.9</u>	<u>3.2</u>	<u>4.6%</u>
Operating expenses	<u>50.8</u>	<u>45.4</u>	<u>5.4</u>	<u>11.9%</u>	<u>55.4</u>	<u>(10.0)</u>	<u>-18.1%</u>
<b>Operating income</b>	<u>22.6</u>	<u>26.7</u>	<u>(4.1)</u>	<u>-15.4%</u>	<u>13.5</u>	<u>13.2</u>	<u>97.8%</u>
Nonoperating revenues	-	-	-	- %	-	-	- %
Change in net position before change in fair value of investments	22.6	26.7	(4.1)	-15.4%	13.5	13.2	97.8%
Change in fair value of investments - unrealized gains (losses)	14.9	(7.3)	22.2	-304.1%	(10.5)	3.2	30.5%
Change in net position	<u>\$ 37.5</u>	<u>\$ 19.4</u>	<u>\$ 18.1</u>	<u>93.3%</u>	<u>\$ 3.0</u>	<u>\$ 16.4</u>	<u>-546.7%</u>

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

Losses and loss adjustment expenses include actual claim payments PE Partners has made for members' claims as well as adjustments in claim reserves. Claim case reserves are adjusted as claims develop and mature and more information about potential loss amounts is known. Changes in reserves for claims incurred but not reported ("IBNR") is also part of this expense category as determined by independent actuaries on an annual basis. Total losses and loss adjustment expenses for fiscal year 2019 increased \$4.2 million or 13.3% from the prior year to \$36.1 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 \$6.6 million for 2019 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 \$8.2 million for fiscal year 2019 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 \$10.1 million and a book value (after accumulated depreciation) of \$6.4 million at June 30, 2019. 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 is currently constructing a multi-story office building in Franklin, TN for approximately \$6.4 million, including build-out, equipment and furnishings, which is expected to be completed during FY 2020. Substantially all of the \$3.4 million increase in capital assets during FY 2019 is attributed to the new office building construction. 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 \$1.1 million and was approximately 91% funded, based on the most recent actuarial valuation date.

During 2019, the Company contracted to replace its claims processing and reporting system with an online subscription-based software system for \$1.1 million that is payable over three years. The contract balance of \$646,250 represents two remaining installments of \$323,125 each, payable in fiscal years 2020 and 2021, accordingly.

In connection with the construction of the new office building, the Company issued letters of credit totaling \$28,338 as warranty bonds related to the installation and maintenance of certain utility connections. The letters of credit expire in April 2020 and are collateralized by certificates of deposit of an equal amount.

## **Economic Factors and Other Matters**

For fiscal year 2020, PE Partners' Board of Directors approved a 2.70% decrease in premium base rates for workers compensation policies and voted to keep premium base rates for all other policy coverages unchanged.

## **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 Executive Vice President & Chief Financial Officer, Public Entity Partners, 5100 Maryland Way, Brentwood, Tennessee 37027.

**PUBLIC ENTITY PARTNERS**

**Statements of Net Position**

**June 30, 2019 and 2018**

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 16,366,650	\$ 8,350,178
Investments	273,054,909	254,048,624
Premiums receivable	2,917,177	3,620,015
Accrued interest and other receivables	4,217,657	3,796,450
Reinsurance recoverable on paid losses	<u>1,643,718</u>	<u>2,989,576</u>
<b>Total current assets</b>	<b>298,200,111</b>	<b>272,804,843</b>
 Premises, property and equipment, net	 <u>6,403,842</u>	 <u>3,186,997</u>
<b>Total assets</b>	<b>304,603,953</b>	<b>275,991,840</b>
 Deferred outflows of resources - pension	 <u>1,222,964</u>	 <u>1,082,780</u>
	<u><b>\$ 305,826,917</b></u>	<u><b>\$ 277,074,620</b></u>

Liabilities, Deferred Inflows of Resources and Net Position

<b>Current liabilities:</b>		
Reserve for losses and loss adjustment expenses	\$ 131,186,105	\$ 136,677,481
Unearned premiums	14,446,690	14,097,687
Dividends payable	6,571,248	5,075,340
Accounts payable and accrued liabilities	<u>2,975,076</u>	<u>1,864,832</u>
<b>Total current liabilities</b>	<b>155,179,119</b>	<b>157,715,340</b>
 Contracts payable	 323,125	 -
Net pension liability	<u>1,141,373</u>	<u>1,194,542</u>
<b>Total liabilities</b>	<b>156,643,617</b>	<b>158,909,882</b>
 Deferred inflows of resources - pension	 <u>53,275</u>	 <u>5,740</u>
 <b>Net position:</b>		
Investment in capital assets	6,403,842	3,186,997
Unrestricted	<u>142,726,183</u>	<u>114,972,001</u>
<b>Total net position</b>	<b>149,130,025</b>	<b>118,158,998</b>
	<u><b>\$ 305,826,917</b></u>	<u><b>\$ 277,074,620</b></u>

See accompanying notes to the financial statements.

**PUBLIC ENTITY PARTNERS**

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

**Years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating revenues:</b>		
Gross earned premiums	\$ 73,446,705	\$ 72,051,081
Reinsurance premiums ceded	<u>(9,604,222)</u>	<u>(9,870,211)</u>
<b>Net earned premiums</b>	<b>63,842,483</b>	<b>62,180,870</b>
Investment income - interest earnings, net	9,050,477	8,592,272
Investment income - net increase (decrease) in fair value of investments	15,208,268	(6,175,727)
Other income	<u>173,093</u>	<u>176,307</u>
<b>Total operating revenues</b>	<b><u>88,274,321</u></b>	<b><u>64,773,722</u></b>
<b>Operating expenses:</b>		
Losses and loss adjustment expenses	36,059,818	31,837,878
Policy acquisition costs	6,612,634	5,606,687
General and administrative expenses	<u>8,157,450</u>	<u>7,982,553</u>
<b>Total operating expenses</b>	<b><u>50,829,902</u></b>	<b><u>45,427,118</u></b>
<b>Operating income</b>	<b><u>37,444,419</u></b>	<b><u>19,346,604</u></b>
<b>Nonoperating revenues:</b>		
Gain on disposal of capital assets	100	900
Sponsorship fees	4,055	953
Software licenses fee	<u>9,600</u>	<u>9,600</u>
<b>Total nonoperating revenues</b>	<b><u>13,755</u></b>	<b><u>11,453</u></b>
<b>Total change in net position</b>	<b><u>37,458,174</u></b>	<b><u>19,358,057</u></b>
<b>Net position, beginning of year</b>	<b>118,158,998</b>	<b>103,779,741</b>
Dividend declared	(6,500,000)	(5,000,000)
Member lapsed dividend credits	<u>12,853</u>	<u>21,200</u>
<b>Net position, end of year</b>	<b><u>\$ 149,130,025</u></b>	<b><u>\$ 118,158,998</u></b>

See accompanying notes to the financial statements.

**PUBLIC ENTITY PARTNERS**

**Statements of Cash Flows**

**Years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
<b>Cash receipts:</b>		
Premiums received	\$ 70,571,057	\$ 67,078,209
Interest received	9,613,383	9,015,902
Special rating plan reimbursements	3,203,565	3,926,541
Reinsurance recoveries received	2,880,160	3,399,607
Claim recoveries received	1,658,697	1,289,522
Other cash receipts	<u>1,079,805</u>	<u>886,205</u>
<b>Total cash receipts</b>	<u>89,006,667</u>	<u>85,595,986</u>
<b>Cash disbursements:</b>		
Claim payments	43,343,784	41,975,684
General and administrative	10,965,208	10,137,879
Reinsurance premiums	9,648,849	9,896,718
Claims administration	5,147,141	4,605,814
Policy acquisition	<u>4,681,681</u>	<u>5,997,481</u>
<b>Total cash disbursements</b>	<u>73,786,663</u>	<u>72,613,576</u>
<b>Net cash provided by operating activities</b>	<u>15,220,004</u>	<u>12,982,410</u>
<b>Cash flows from capital activities:</b>		
Purchases of premises, property and equipment	(3,405,617)	(2,298,352)
Proceeds from disposal of premises, property and equipment	<u>100</u>	<u>900</u>
<b>Net cash used in capital activities</b>	<u>(3,405,517)</u>	<u>(2,297,452)</u>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(50,208,653)	(83,911,293)
Proceeds from sales and maturities of investments	<u>46,410,638</u>	<u>58,770,374</u>
<b>Net cash used in investing activities</b>	<u>(3,798,015)</u>	<u>(25,140,919)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>8,016,472</b>	<b>(14,455,961)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>8,350,178</u>	<u>22,806,139</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 16,366,650</u>	<u>\$ 8,350,178</u>

See accompanying notes to the financial statements.

**PUBLIC ENTITY PARTNERS**

**Statements of Cash Flows (continued)**

**Years ended June 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 37,444,419	\$ 19,346,604
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	188,772	259,844
Net amortization of premium paid on investments	197,655	218,428
Net realized gain on sales of investments	(512,056)	(1,303,859)
Net unrealized (gain) loss on investments	(14,893,867)	7,261,158
Gain on disposal of premises, property and equipment	(100)	(900)
Software licenses fee	9,600	9,600
Sponsorship fees	4,055	953
Decrease in premiums receivable	702,838	12,575,433
Increase in accrued interest and other receivables	(421,207)	(148,978)
Decrease in reinsurance recoverable on paid losses	1,345,858	1,464,241
Increase in deferred outflows of resources	(140,184)	(18,869)
Decrease in reserve for losses and loss adjustment expenses	(5,491,376)	(7,501,329)
Decrease in premiums billed in advance	-	(14,534,294)
Increase in unearned premiums	349,003	100,229
Decrease in dividends payable	(4,991,141)	(4,007,673)
Increase (decrease) in accounts payable and accrued liabilities	1,110,244	(599,611)
Increase in contracts payable	323,125	-
Decrease in net pension liability	(53,169)	(144,307)
Increase in deferred inflows of resources	47,535	5,740
	\$ 15,220,004	\$ 12,982,410
Net cash provided by operating activities	\$ 15,220,004	\$ 12,982,410

See accompanying notes to the financial statements.



## **PUBLIC ENTITY PARTNERS**

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

**June 30, 2019 and 2018**

#### **(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 corporation'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. Public Entity Partners' membership consisted of 495 governmental entities (including 315 cities and towns) at June 30, 2019.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

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

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

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

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

In 2019, Public Entity Partners adopted GASB Statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, effective for fiscal years beginning after June 15, 2018. This statement seeks to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt.

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

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

## **PUBLIC ENTITY PARTNERS**

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

**June 30, 2019 and 2018**

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 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.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

(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, construction in progress, building and improvements, computer system, and 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 \$1,000 or more and an estimated useful life of one year or more. Maintenance and repairs are expensed as incurred.

(g) Deferred outflows and inflows of resources

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

(h) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses is estimated as losses are incurred. The reserve consists of amounts for unpaid reported losses, net of salvage and subrogation and reinsurance recoveries, and estimates for incurred but not reported ("IBNR") losses. The

## **PUBLIC ENTITY PARTNERS**

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

**June 30, 2019 and 2018**

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 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.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

(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, 2019 and October 21, 2019, 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 \$18,725,745 and \$9,987,149 at June 30, 2019 and 2018, respectively (less outstanding checks that are subtracted from bank balances to determine a carrying value of \$16,366,650 and \$8,350,178 at June 30, 2019 and 2018, 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.

Cash and cash equivalent balances at June 30, 2019 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 2020.

The Board of Directors has authorized management to invest in obligations of the U.S. Treasury and U.S. government agencies, municipal bonds, mortgage-related securities, the State of Tennessee Local Government Investment Pool ("LGIP"), short-term investment funds, corporate bonds, and domestic equity securities.

**PUBLIC ENTITY PARTNERS**  
**Notes to the Financial Statements**  
**June 30, 2019 and 2018**

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><u>\$ 273,054,909</u></u>		

At June 30, 2018, 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	\$ 53,701,908	13.1	10.5
FHLB	52,613,986	15.0	12.9
US Treasury	<u>4,306,250</u>	28.2	28.2
Total U.S. Government Agencies	110,622,144		
Municipal Bonds	143,426,480	15.1	8.6
Total	<u><u>\$ 254,048,624</u></u>		

*Interest rate risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. One of the ways Public Entity Partners manages its exposures to interest rate risk is by purchasing a combination of shorter and longer term investments and by monitoring and managing the average maturity and call terms of the

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

portfolios. As of June 30, 2019 and 2018, the investments of Public Entity Partners had average weighted maturities and call terms as noted in the preceding table.

#### *Credit risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation. 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, 2019 and 2018, Public Entity Partners' investments in municipal bonds had credit ratings as follows:

<u>Rating</u>	<u>Municipal Bonds</u>	
	<u>2019</u>	<u>2018</u>
AAA	\$ 28,964,285	\$ 21,484,144
AA	88,720,083	101,031,084
A	16,768,110	20,911,252
	<u>\$ 134,452,478</u>	<u>\$ 143,426,480</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, 2019 and 2018, all investments were adequately insured or registered and collateralized or held by Public Entity Partners or its agent in Public Entity Partners' name.



**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

*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.

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

		<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b><u>Investments by fair value level</u></b>				
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

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

Public Entity Partners had the following recurring fair value measurements as of June 30, 2018:

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

**Investments measured at amortized cost**

Local Government Investment Pool \$ 6,021,800

*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 (decrease) in fair value of investments for the fiscal years ended June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Realized gains	\$ 512,056	\$ 1,303,859
Amortization of premium	(228,966)	(240,022)
Accretion of discounts	31,311	21,594
Unrealized gains (losses), net	<u>14,893,867</u>	<u>(7,261,158)</u>
Net increase (decrease) in fair value of investments	<u>\$ 15,208,268</u>	<u>\$ (6,175,727)</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, 2019 and 2018**

**(4) Premises, property and equipment**

Premises, property and equipment activity for the fiscal years ended June 30, 2019 and 2018 is as follows:

	<b>Balance June 30, 2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance June 30, 2019</b>
Capital assets, not being depreciated:				
Land	\$ 2,359,711	\$ -	\$ -	\$ 2,359,711
Construction in progress	221,917	3,396,799	-	3,618,716
Total capital assets, not being depreciated	<u>2,581,628</u>	<u>3,396,799</u>	<u>-</u>	<u>5,978,427</u>
Capital assets, being depreciated:				
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 capital assets, being depreciated	<u>4,156,337</u>	<u>8,818</u>	<u>(5,996)</u>	<u>4,159,159</u>
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	<u>3,550,968</u>	<u>188,772</u>	<u>(5,996)</u>	<u>3,733,744</u>
Capital assets, being depreciated, net	<u>605,369</u>	<u>(179,954)</u>	<u>-</u>	<u>425,415</u>
Capital assets, net	<u>\$ 3,186,997</u>	<u>\$ 3,216,845</u>	<u>\$ -</u>	<u>\$ 6,403,842</u>

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:				
Land	\$ 402,627	\$ 1,957,084	\$ -	\$ 2,359,711
Construction in progress	-	221,917	-	221,917
Total capital assets, not being depreciated	<u>\$ 402,627</u>	<u>\$ 2,179,001</u>	<u>\$ -</u>	<u>\$ 2,581,628</u>
Capital assets, being depreciated:				
Building and improvements	1,640,195	-	-	1,640,195
Furniture and equipment	359,796	17,616	(57,200)	320,212
Computer system	2,158,555	112,393	(75,018)	2,195,930
Total capital assets, being depreciated	<u>4,158,546</u>	<u>130,009</u>	<u>(132,218)</u>	<u>4,156,337</u>
Less accumulated depreciation:				
Building and improvements	1,425,423	49,046	-	1,474,469
Furniture and equipment	352,019	4,026	(57,200)	298,845
Computer system	1,634,344	206,772	(63,462)	1,777,654
Total accumulated depreciation	<u>3,411,786</u>	<u>259,844</u>	<u>(120,662)</u>	<u>3,550,968</u>
Capital assets, being depreciated, net	<u>746,760</u>	<u>(129,835)</u>	<u>(11,556)</u>	<u>605,369</u>
Capital assets, net	<u>\$ 1,149,387</u>	<u>\$ 2,049,166</u>	<u>\$ (11,556)</u>	<u>\$ 3,186,997</u>

Depreciation charged to operating expenses in 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Losses and loss adjustment expenses	\$ 65,684	\$ 92,052
General and administrative expenses	123,088	167,792
Total depreciation expense	<u>\$ 188,772</u>	<u>\$ 259,844</u>

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

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

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

	<u><b>2019</b></u>	<u><b>2018</b></u>
Reserve for reported claims	\$ 85,283,692	\$ 81,908,376
Reserve for incurred but not reported claims	61,038,403	69,351,048
Reserve for unallocated loss adjustment expenses	7,776,019	8,272,893
Less: reinsurance recoverable	<u>(22,912,009)</u>	<u>(22,854,836)</u>
Total reserve for losses and loss adjustment expenses	<u><u>\$ 131,186,105</u></u>	<u><u>\$ 136,677,481</u></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, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>	\$ <u>136,677,481</u>	\$ <u>144,178,810</u>
<b>Incurred claims and claim adjustment expenses:</b>		
Provision for insured events of the current fiscal year	45,282,441	46,254,820
Decrease in provision for insured events of prior fiscal years	(14,569,104)	(19,227,063)
Unallocated claims adjustment expenses	<u>5,346,481</u>	<u>4,810,121</u>
<b>Total incurred claims and claim adjustment expenses</b>	<u><u>36,059,818</u></u>	<u><u>31,837,878</u></u>
<b>Reinsurance:</b>		
Reinsurance recoveries received attributable to insured events of current fiscal year	-	402,250
Reinsurance recoveries received attributable to insured events of prior fiscal years	3,688,099	3,574,897
Change in reinsurance recoverable on paid losses	<u>(1,345,858)</u>	<u>(1,464,242)</u>
<b>Total reinsurance</b>	<u><u>2,342,241</u></u>	<u><u>2,512,905</u></u>
<b>Payments:</b>		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	15,667,145	13,629,302
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	22,879,809	23,412,689
Unallocated claim adjustment expenses	<u>5,346,481</u>	<u>4,810,121</u>
<b>Total payments</b>	<u><u>43,893,435</u></u>	<u><u>41,852,112</u></u>
<b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>	\$ <u><u>131,186,105</u></u>	\$ <u><u>136,677,481</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, 2019 and 2018. 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, 2019 and 2018

#### (6) Premiums Written and Reinsurance

Premiums written for the fiscal years ended June 30, 2019 and June 30, 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Premiums written	\$ 73,795,709	\$ 72,153,408
Premiums ceded	<u>(9,604,222)</u>	<u>(9,870,211)</u>
Net premiums written	<u>\$ 64,191,487</u>	<u>\$ 62,283,197</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 2019 and 2018.
- b. For fiscal years 2019 and 2018, 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 2019 and 2018, 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 \$22,912,009 and \$22,854,836 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2019 and 2018, respectively. Public Entity Partners remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

#### (7) Net Position

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

	<u>2019</u>	<u>2018</u>
Investment in capital assets	\$ 6,403,842	\$ 3,186,997
Unrestricted:		
Committed for capitalization	40,000,000	40,000,000
Committed for member credits	25,172,245	8,311,930
Committed to capital outlay	3,500,000	7,500,000
Committed for property/casualty catastrophe	30,000,000	30,000,000
Total operational commitments	<u>98,672,245</u>	<u>85,811,930</u>
Committed for market value stabilization	<u>44,053,938</u>	<u>29,160,071</u>
Total unrestricted net position	<u>142,726,183</u>	<u>114,972,001</u>
Net position, end of year	<u>\$ 149,130,025</u>	<u>\$ 118,158,998</u>

During the year ended 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. Lapsed dividends totaling \$12,853 were returned to net position in 2019.

During 2018, the Board approved the design and construction of a new multi-story office building for which net position of \$7.5 million was committed for the estimated cost of construction and build-outs. At June 30, 2019, net position committed for this project was \$3,500,000.

During the year ended 2018, the Board declared a \$5,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2018 through June 30, 2019. Also, lapsed dividends totaling \$20,100 were returned to net position in 2018.

#### (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



## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

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 \$1,213,007 and \$1,181,437 in 2019 and 2018, respectively, and are included in policy acquisition costs on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

Additionally, the Board of Directors also approved a one-time sponsorship fee supplement to the League in the amount of \$220,000 for fiscal year 2019. 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 created as a public entity risk pool, 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 2019 and 2018, Public Entity Partners received sponsorship fees on behalf of TN HealthWorks in the amounts of \$4,055 and \$953, 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 \$15,776 for fiscal year 2019. 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>.

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

*Benefits provided*

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

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

*Employees covered by benefit terms*

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

Inactive employees or beneficiaries currently receiving benefits	12
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>30</u>
	<u>49</u>

*Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Public Entity Partners has

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

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, 2019, the employer contributions for Public Entity Partners were \$563,164 based on a rate of 15.84% 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 as of June 30, 2019 was measured at June 30, 2018, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

*Actuarial assumptions*

The total pension liability as of June 30, 2018 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.

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

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

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

c. Changes in the net pension liability

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Balance at 6/30/2017</b>	\$ 11,169,850	\$ 9,975,308	\$ 1,194,542
Changes for the year:			
Service cost	216,302	-	216,302
Interest	811,653	-	811,653
Differences between expected and actual experience	296,648	-	296,648
Changes in assumptions	-	-	-
Contributions from employer	-	545,924	(545,924)
Contributions from employees	-	-	-
Net investment income	-	834,699	(834,699)
Benefit payments, including refunds of employee contributions	(381,866)	(381,866)	-
Administrative expense	-	(2,851)	2,851
<b>Net changes</b>	<u>942,737</u>	<u>995,906</u>	<u>(53,169)</u>
<b>Balance at 6/30/2018</b>	<u>\$ 12,112,587</u>	<u>\$ 10,971,214</u>	<u>\$ 1,141,373</u>

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

The following presents the net pension liability of Public Entity Partners calculated using the discount rate of 7.25%, as well as what the net pension liability 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:

	<b>1% Decrease (6.25%)</b>	<b>Current Discount Rate (7.25%)</b>	<b>1% Increase (8.25%)</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Net pension liability	\$ 2,678,661	\$ 1,141,373	\$ (145,711)

**PUBLIC ENTITY PARTNERS**

**Notes to the Financial Statements**

**June 30, 2019 and 2018**

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

*Pension expense*

For the years ended June 30, 2019 and 2018, Public Entity Partners recognized pension expense of \$417,346 and \$388,488, respectively.

*Deferred outflows of resources and deferred inflows of resources*

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:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
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	\$ 1,222,964	\$ 53,275

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

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

## PUBLIC ENTITY PARTNERS

### Notes to the Financial Statements

June 30, 2019 and 2018

The amount shown above for "Contributions subsequent to the measurement dates of June 30, 2018 and 2017, 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	\$	237,777
2021		158,206
2022		65,796
2023		95,298
2024		49,441
Thereafter		-

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

e. Payable to the pension plan

At June 30, 2019 and 2018, Public Entity Partners did not owe any outstanding contributions to the pension plan.

#### **(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 2019, Public Entity Partners entered into a contract for the construction and build-out of a multi-story office building in Franklin, Tennessee for an estimated cost of \$5.9 million. Equipment and furnishings are estimated to cost an additional \$500,000. Construction is in progress and is expected to be completed in fiscal year 2020. Public Entity Partners had remaining commitments associated with the construction totaling approximately \$2,900,000 at June 30, 2019.

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. The letters of

## **PUBLIC ENTITY PARTNERS**

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

**June 30, 2019 and 2018**

credit, each in the amount of \$14,169, expire in April 2020. Two certificates of deposit of an equal amount have been pledged as collateral for the letters of credit.

Also during 2019, Public Entity Partners entered into a three-year contract with a third-party vendor for subscription services for an online claims processing and reporting system in the amount of \$1.1 million. During fiscal year 2019, the first contract installment was paid in the amount of \$503,900 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 is payable in two separate installments of \$323,125 each in fiscal years 2020 and 2021.

#### **(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 \$54,716 and \$38,386 for 2019 and 2018, respectively.

Future minimum rents under long-term operating leases are \$33,833 for fiscal year ending June 30, 2020; \$25,893 for fiscal year ending June 30, 2021; \$22,593 for fiscal years ending June 30, 2022, 2023 and 2024.



**PUBLIC ENTITY PARTNERS**

**Ten-Year Claims Development Information**

**Year ended June 30, 2019**

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>2010</u>	<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>
<b>1. Net earned required premium and investment revenues</b>	<b>\$66,071,645</b>	<b>\$64,062,890</b>	<b>\$60,983,901</b>	<b>\$61,902,588</b>	<b>\$62,816,826</b>	<b>\$66,741,692</b>	<b>\$82,273,191</b>	<b>\$58,412,738</b>	<b>\$64,785,175</b>	<b>\$88,288,076</b>
<b>2. Unallocated expenses</b>	<b>13,928,489</b>	<b>14,073,693</b>	<b>14,719,391</b>	<b>15,478,609</b>	<b>17,449,760</b>	<b>16,878,932</b>	<b>16,843,422</b>	<b>18,705,261</b>	<b>18,399,361</b>	<b>20,116,565</b>
<b>3. Estimated incurred claims and expense, end of accident year</b>	<b>46,827,211</b>	<b>50,641,219</b>	<b>47,507,981</b>	<b>46,574,698</b>	<b>45,820,056</b>	<b>46,676,947</b>	<b>45,699,807</b>	<b>46,517,506</b>	<b>46,254,820</b>	<b>45,282,440</b>
<b>4. Net Paid (cumulative) as of:</b>										
End of accident year	11,960,924	14,170,671	13,554,782	13,312,473	13,084,348	13,208,337	12,053,539	15,918,968	13,629,302	15,667,145
One year later	21,946,111	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	28,850,196	32,547,163	26,887,613	27,545,762	27,922,722	28,934,633	26,261,766	28,851,024		
Three years later	31,061,738	34,977,023	29,124,795	30,406,417	29,951,595	30,875,714	27,914,268			
Four years later	32,610,625	38,284,196	29,910,731	31,202,054	30,663,176	31,835,404				
Five years later	33,610,677	39,130,026	30,599,401	32,090,091	31,442,972					
Six years later	33,959,333	41,392,517	31,048,974	32,904,926						
Seven years later	34,402,347	41,075,438	31,684,531							
Eight years later	34,627,643	40,400,800								
Nine years later	34,785,794									
<b>5. Re-estimated incurred claims and expenses:</b>										
End of accident year	46,827,211	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807	46,517,506	46,254,820	45,282,440
One year later	45,209,547	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	42,870,101	46,907,918	40,536,108	40,606,116	43,189,636	43,694,843	41,620,255	39,814,023		
Three years later	40,802,207	45,765,147	38,581,460	40,368,831	40,543,901	40,663,865	38,446,455			
Four years later	40,869,336	47,232,903	37,605,162	38,606,920	39,195,784	38,118,961				
Five years later	39,716,596	47,174,143	36,746,152	37,563,976	37,083,169					
Six years later	39,214,612	46,574,720	35,582,627	37,461,784						
Seven years later	38,541,785	45,227,792	36,032,013							
Eight years later	37,662,669	45,111,019								
Nine years later	37,724,361									
<b>6. Increase (decrease) in estimated incurred claims and expense from end of accident year</b>	<b>(9,102,850)</b>	<b>(5,530,200)</b>	<b>(11,475,968)</b>	<b>(9,112,914)</b>	<b>(8,736,887)</b>	<b>(8,557,986)</b>	<b>(7,253,352)</b>	<b>(6,703,483)</b>	<b>(3,321,570)</b>	

**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
<b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>	\$ 38,969,996	\$ 95,440,942	\$ 2,266,543	\$ 136,677,481
<b>Incurred claims and claim adjustment expenses:</b>				
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
<b>Total incurred claims and claim adjustment expenses</b>	<b>17,019,568</b>	<b>13,984,397</b>	<b>5,055,853</b>	<b>36,059,818</b>
<b>Reinsurance:</b>				
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)
<b>Total reinsurance</b>	<b>74,643</b>	<b>1,078,474</b>	<b>1,189,124</b>	<b>2,342,241</b>
<b>Payments:</b>				
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
<b>Total payments</b>	<b>18,998,106</b>	<b>18,365,618</b>	<b>6,529,711</b>	<b>43,893,435</b>
<b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>	<b>\$ 37,066,101</b>	<b>\$ 92,138,195</b>	<b>\$ 1,981,809</b>	<b>\$ 131,186,105</b>

See independent auditors' report.

PUBLIC ENTITY PARTNERS

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2018

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

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total pension liability:				
Service Cost	\$ 180,845	\$ 211,832	\$ 202,026	\$ 216,302
Interest	652,233	701,015	762,920	811,653
Changes in benefit terms	-	-	-	-
Differences between actual and expected experience	61,392	231,407	137,083	296,648
Change of assumptions	-	-	264,836	-
Benefit payments, including refunds of employee contributions	<u>(266,470)</u>	<u>(283,590)</u>	<u>(334,508)</u>	<u>(381,866)</u>
Net change in total pension liability	628,000	860,664	1,032,357	942,737
Total pension liability, beginning	8,648,829	9,276,829	10,137,493	11,169,850
Total pension liability, ending (a)	<u>\$ 9,276,829</u>	<u>\$ 10,137,493</u>	<u>\$ 11,169,850</u>	<u>\$ 12,112,587</u>
Plan fiduciary net position:				
Contributions from employer	\$ 444,391	\$ 481,504	\$ 507,080	\$ 545,924
Contributions from employees	-	-	-	-
Net investment income	247,692	224,807	1,006,625	834,699
Benefit payments, including refunds of employee contributions	<u>(266,470)</u>	<u>(283,590)</u>	<u>(334,508)</u>	<u>(381,866)</u>
Administrative expense	<u>(1,421)</u>	<u>(2,180)</u>	<u>(2,533)</u>	<u>(2,851)</u>
Net change in plan fiduciary net position	424,192	420,541	1,176,664	995,906
Plan fiduciary net position, beginning	7,953,911	8,378,103	8,798,644	9,975,308
Plan fiduciary net position, ending (b)	<u>\$ 8,378,103</u>	<u>\$ 8,798,644</u>	<u>\$ 9,975,308</u>	<u>\$ 10,971,214</u>
Net Pension Liability, ending (a) - (b)	<u>\$ 898,726</u>	<u>\$ 1,338,849</u>	<u>\$ 1,194,542</u>	<u>\$ 1,141,373</u>
Plan fiduciary net position as a percentage of total pension liability:	90.31%	86.79%	89.31%	90.58%
Covered-employee payroll:	\$ 2,921,704	\$ 3,165,707	\$ 3,333,863	\$ 3,448,666
Net pension liability as a percentage of covered-employee payroll:	30.76%	42.29%	35.83%	33.10%

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 444,391	\$ 481,504	\$ 507,080	\$ 545,924	\$ 563,164
Contribution in relation to the actuarially determined contribution	<u>444,391</u>	<u>481,504</u>	<u>507,080</u>	<u>545,924</u>	<u>563,164</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,921,704	\$ 3,165,707	\$ 3,333,863	\$ 3,448,666	\$ 3,555,327
Contributions as a percentage of covered-employee payroll	15.42%	15.21%	15.21%	15.83%	15.84%

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 2019 were calculated based on the June 30, 2017 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method: Entry Age Normal  
 Amortization method: Level dollar, closed (not to exceed 20 years)  
 Remaining amortization period: Varies by year  
 Asset valuation: 10-year smoothed within a 20% corridor to market value  
 Inflation: 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.**

**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  
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 ("PE Partners") as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise PE Partners' basic financial statements, and have issued our report thereon dated October 21, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered PE 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 the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the PE 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 the PE Partners' financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a 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 PE 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 year findings reported.

## **Purpose of this Report**

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

*LBMC, PC*

Brentwood, Tennessee  
October 21, 2019