TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST

AUDITED FINANCIAL STATEMENTS
Years Ended
June 30, 2015 and 2014

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST

June 30, 2015 and 2014

CONTENTS

DANIEL J. CANTER, CPA PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Trustees
Tennessee School Boards
Unemployment Compensation Trust
Gallatin, TN

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee School Boards Unemployment Compensation Trust (the "Trust"), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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 Tennessee School Boards Unemployment Compensation Trust'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee School Boards Unemployment Compensation Trust as of June 30, 2015 and 2014, and the changes in its net assets and 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 on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquire, the basic financial statements, and other knowledge we obtained during out 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.

Management has not presented the Ten-Year Claims Development Information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2015 on our consideration of Tennessee School Boards Unemployment Compensation Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Tennessee School Boards Unemployment Compensation Trust's internal control over financial reporting and compliance.

Respectfully submitted,

Daniel J. Canter

DANIEL J. CANTER, CPA PC

Youngstown, OH

August 21, 2015

June 30, 2015 and 2014

Within this section of the Tennessee School Boards Unemployment Compensation Trust ("Trust") annual financial report, the Trust's management provides narrative discussion and analysis of the financial activities of the Trust for the fiscal years ended June 30, 2015 and 2014. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Tennessee School Boards Unemployment Compensation Trust.

FINANCIAL AND ACTIVITY HIGHLIGHTS

The Trust's net position increased by $357,129 for the fiscal year ended June 30, 2015. This compares to the previous year when net position increased by $2,871,278. Net position was $19,540,336 and $19,183,207 as of June 30, 2015 and 2014, respectively.

Total operating revenues of the Trust decreased by $29,552 to $1,372,061 during the current fiscal year. Investment income increased by $276,024 to income of $1,041,351 during the current fiscal year.

There was a $(324,468) net unrealized decrease in the fair value of investments during the current fiscal year compared to a $1,935,847 net unrealized increase during the previous fiscal year.

Total operating expenses of the Trust increased by $499,070 to $1,646,176 during the current fiscal year.

Most expense categories were substantially level with the prior year. However, unemployment claims expense increased by $61,912 (11.88%) and Mini-Grants increased by $434,739 (249.03%).

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Management's Discussion and Analysis introduces the Trust's basic financial statements. The Tennessee School Boards Unemployment Compensation Trust provides a program of unemployment compensation coverage and is required to account for its activities in an enterprise fund. The basic financial statements required of an enterprise fund include fund financial statements and notes to the financial statements.

FUND FINANCIAL STATEMENTS

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Tennessee School Boards Unemployment Compensation Trust, an enterprise fund, uses fund accounting to ensure and demonstrate control over resources segregated for unemployment compensation activities. Enterprise funds are reported in fund financial statements and generally report services for which customers (participating members) are charged a fee. These statements provide both short-term and long-term information about the Trust's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities. These services are provided to participating members (educational governmental entities) external to the Trust.

FUND FINANCIAL STATEMENTS (CONTINUED)

The financial statements report information about the Trust using accounting methods similar to those used by private sector companies. These statements offer short and long-term information about its activities.

The statement of net position includes all of the Trust's position and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Trust's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Trust and assessing the liquidity and financial flexibility of the Trust.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses and changes in net position. This statement measures the success of the Trust's operations over the past year and can be used to determine whether the Trust has successfully recovered all its costs through its fees and other charges.

The other required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Trust's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did the cash come from, what was the cash used for and what was the change in cash balance during the reporting period?."

This financial report is designed to provide state officials, customers, creditors, suppliers, and the general public with a general overview of the Trust's finances and to demonstrate accountability for the funds it receives.

NOTES TO THE FINANCIAL STATEMENTS

The basic financial statements are presented on pages 8-10 of this report.

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements. The notes to the financial statements begin on page 11 of this report.

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE

The Trust reports its financial activities using the standards outlined by Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments." This statement requires management's discussion and analysis, which is a component of required supplementary information. Over time, as year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Trust as a whole.

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE (CONTINUED)

The Trust's Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information about the Trust's activities, net position of the Trust and changes in them. Net Position, the difference between assets and liabilities, is one way to measure the Trust's financial health or position.

While the summary of net position (Table I) show the change in financial position, the condensed summary of revenue, expenses and changes in net position (Table II) provide the answers as to the nature and source of these changes.

The Trust's net position at current fiscal year-end was $19,540,336. This is a $357,129 increase compared to last year's net position of $19,183,207. The following table provides a summary of the Trust's net position at June 30, 2015 and 2014:

Table I
Summary of Net Position
June 30, 2015 and 2014

	2015	2014
Current assets	$ 19,763,089	$ 19,429,371
Noncurrent assets	259,515	262,098
Total assets	20,022,604	19,691,469
Current liabilities	482,268	508,262
Net position: Invested in capital assets	259,515	262,098
Unrestricted	19,280,821	18,921,109
Total Liabilities and Net Position	$ 20,022,604	$ 19,691,469

The majority of the Trust's current assets are cash and investments. Noncurrent assets include fixed assets, net of depreciation. The increase in investments in 2015 is mainly due to the investment income received and the realized gains on sales of investments.

Market volatility is a concern of the Trust and the safeguarding and maintenance of the Trust's most liquid assets is a priority. Investment income is also a component of the resources funding the Trust's continuing operations and service levels. Investment performance and market status are carefully monitored. Due to performance in the equity market, investment income has increased. Market fluctuations may occur from time to time, however, the Trust has the intent and ability to hold the investments until any fluctuations correct.

Increases or decreases in the fair value of investments are included as a component of the Trust's net non-operating revenues and change in net position.

Unemployment insurance benefits increased by $61,912 to $583,254 during the current fiscal year. Further, as discussed in Note E, no member premium rebates were paid during the current fiscal year ended June 30, 2015, or for the period ending June 30, 2014. These factors, along with other fluctuations in operating expenses, resulted in variances in operating expenses over the previous year.

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE (CONTINUED)

The following table provides a summary of the Trust's changes in net assets for the years ended June 30, 2015 and 2014:

Table II
Condensed Summary of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2015 and 2014

	2015	2014
Revenues:		
Operating Revenues:		
Member premiums	$ 1,372,061	$ 1,401,613
Operating expenses	1,646,176	1,147,106
Operating income (loss)	(274,115)	254,507
Net nonoperating revenues (expenses)	631,244	2,616,771
Increase in net position	357,129	2,871,278
Beginning net position	19,183,207	16,311,929
Ending net position	$ 19,540,336	$ 19,183,207

The Statements of Cash Flows

The primary purpose of the Statements of Cash Flows is to provide information about the cash receipts and disbursements of an entity during a period. This statement also aids in the assessment of an entity's ability to generate future cash flows, ability to meet obligations as they come due, and needs for external financing. The following summarizes the Trust's cash flows for the years ended June 30, 2015 and 2014:

	2015	2014
Cash provided by (used in)		
Operating activities	$ (331,514)	$ 30,779
Capital and related financing activities	32,988	-0-
Investing activities	36,197	(233,741)
Net (decrease) increase in cash	(262,329)	(202,962)
Cash at beginning of year	588,372	791,334
Cash at end of year	$ 326,043	$ 588,372

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE (CONTINUED)

The Trust's overall liquidity changed during the years ended June 30, 2015 and 2014, with a net decrease to cash of $ (262,329) and decrease $ (202,962), respectively. Cash used by operating activities are primarily related to receipts of member contributions for the years ended June 30, 2015 and 2014, and offset by insurance benefit payments and operations expenses. Cash used in capital and related financing activities primarily relates to equipment purchases. Cash provided by investing activities relates to net proceeds from the sale or maturity of investments and income earned on investments.

CAPITAL ASSETS

At the end of Fiscal 2015, the Trust had $357,236 invested in buildings and equipment. The following table shows fiscal year 2015 balances compared to 2014:

	2015	2014
Building and improvements	$ 322,800	$ 322,800
Equipment	34,436	28,938
Total	$ 357,236	$ 351,738

ECONOMIC FACTORS AND PREMIUM RATES

The Trust's management considered many factors when developing the annual operating budget for the fiscal year ending June 30, 2016. One of those factors is the economy which increased during the current fiscal year compared to the previous fiscal year.

The budget for the fiscal year ending June 30, 2016 was developed based upon the following key assumptions:

Premium contributions are based on average claims of members over the past 4 1/2 years according to the Trust's policy. This is an automatic amount that will be billed to members.

Investment income is projected to be approximately 5.90% of the current market value ($20,013,391) of investments.

Interest income on the checking account is projected to be approximately .05% percent of the average balance.

Unemployment insurance charges, current year and prior year's incurred but not paid, are projected to decrease to $1,000,000 primarily due to the fact that our current years claims are trending much less than the $1,370,000 budgeted.

Investment fees are projected to be approximately .40% of the market value of total investments.

CONTACTING THE TRUST'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Tennessee School Boards Unemployment Compensation Trust. If you have questions about this report or would like to request additional information, contact the Tennessee School Boards Unemployment Compensation Trust Finance Department at 1525 Hunt Club Blvd., Suite 300, Gallatin, Tennessee 37066.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST

STATEMENTS OF NET POSITION

	June 30, 2015	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 326,043	$ 588,372
Investments	19,434,414	18,837,998
Prepaid expenses	1,000	-
Interest receivable	1,632	3,001
TOTAL CURRENT ASSETS	19,763,089	19,429,371
Non-current assets:		
Building	322,800	322,800
Furniture and equipment	34,436	28,938
Less: accumulated depreciation	(97,721)	(89,640)
TOTAL NON-CURRENT ASSETS	259,515	262,098
TOTAL ASSETS	$ 20,022,604	$ 19,691,469
LIABILITIES		
Current liabilities:		
Accounts payable	$ 63,977	$ 434
Prepaid member fees	38,486	-
Accrued vacation	9,204	8,766
Claims payable	370,601	499,062
TOTAL CURRENT LIABILITIES	482,268	508,262
NET POSITION		
Invested in capital assets	259,515	262,098
Unrestricted	19,280,821	18,921,109
TOTAL NET POSITION	19,540,336	19,183,207
TOTAL LIABILITIES AND NET POSITION	$ 20,022,604	$ 19,691,469

See notes to the basic financial statements

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30, 2015	Years Ended June 30, 2014
OPERATING REVENUE		
Member premiums	$ 1,372,061	$ 1,401,613
OPERATING EXPENSES		
Unemployment insurance benefits	583,254	521,342
Mini-Grants	726,443	291,704
Professional fees	38,183	47,197
Office expenses	25,426	23,805
Payroll, taxes and benefits	208,292	197,068
Depreciation expense	8,081	12,293
Travel and meeting expenses	56,497	53,697
TOTAL OPERATING EXPENSES	1,646,176	1,147,106
OPERATING INCOME (LOSS)	(274,115)	254,507
NONOPERATING REVENUES (EXPENSES)		
Investment income (loss)	1,041,351	765,327
Consulting/investment fees	(85,639)	(84,403)
Net unrealized increase (decrease) in the fair value of investments	(324,468)	1,935,847
NET NONOPERATING REVENUES (EXPENSES)	631,244	2,616,771
CHANGE IN NET POSITION	357,129	2,871,278
NET POSITION, BEGINNING OF YEAR	19,183,207	16,311,929
NET POSITION, END OF YEAR	$ 19,540,336	$ 19,183,207

See notes to the basic financial statements

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST

STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Member premiums received	$ 1,372,061	$ 1,401,613
Unemployment insurance benefits paid	(711,715)	(759,245)
Other expenses paid	(991,860)	(611,589)
NET CASH (USED) PROVIDED BY OPERATING OPERATING ACTIVITIES	(331,514)	30,779
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Member premiums advanced	38,486	-
Purchase of capital assets	(5,498)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	32,988	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	1,042,720	771,895
Consulting/investment fees paid	(85,639)	(84,403)
Purchases of investments	(17,855,353)	(7,579,526)
Sales of investments	16,934,469	6,658,293
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	36,197	(233,741)
NET (DECREASE) INCREASE IN CASH AND AND CASH EQUIVALENTS	(262,329)	(202,962)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	588,372	791,334
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 326,043	$ 588,372
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating (Loss) Income	$ (274,115)	$ 254,507
Adjustments to reconcile operating income (loss) to net by operating activities:		
Changes in operating assets and liabilities:		
Depreciation expense	8,081	12,293
Accounts Receivable-Other	-	2,142
Prepaid expenses	(1,000)	-
Claims payable	(128,461)	(237,903)
Accounts payable and accrued expenses	63,981	(260)
TOTAL ADJUSTMENTS	(57,399)	(223,728)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	$ (331,514)	$ 30,779

See notes to the basic financial statements

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Trust: The Tennessee School Boards Unemployment Compensation Trust (the "Trust") was organized on July 1, 1980 to provide a program of unemployment compensation coverage to Tennessee school boards. The Trust, which is an Interlocal Cooperative Act entity, as defined by Tennessee statutes, was designed as an umbrella organization under which unemployment insurance services to local school boards in Tennessee could be offered as deemed necessary. The program's general objectives are to reduce unemployment compensation costs by lowering unemployment rates, provide cost management services to members so that each participating school board will ultimately realize a significant savings in unemployment compensation costs, and help school boards create a climate where employees thrive, produce high quality work, enjoy their work, feel appreciated and want to remain.

The Trust operates as a "public entity risk pool." A public entity risk pool follows the accounting and financial reporting standards of Governmental Accounting Standards Board (GASB) Statement Nos. 10 and 30, and is defined in GASB Statement No. 10 as a "cooperative group of governmental entities joining together to finance an exposure, liability, or risk." The activities of a public entity risk pool vary, but in general they can be classified as follows:

a. Risk-sharing pool- Governmental entities join together to share in the cost of losses.
b. Insurance-purchasing pool (risk-purchasing group) - Governmental entities join together to acquire commercial insurance coverage.
c. Banking pool - Governmental entities are allowed to borrow funds from a pool to pay losses.
d. Claims-servicing or account pool - Governmental entities join together to administer the separate account of each entity in the payment of losses.

Although an individual public entity risk pool can perform one or more of these activities, during the years ended June 30, 2015 and 2014, the Trust operated solely as a risk-sharing pool.

The Trust is required to pay all unemployment claims assessed against members after the effective date of their participation. A member may withdraw from the Trust at the end of the program year in which the member is participating, by giving 90 days written notice. Members that withdraw from the trust remain liable for any and all contributions required to be paid during the remainder of the program year. Additionally, members that withdraw from the Trust have no right or claim to any portion of any existing surplus in the Trust. The Trust now provides unemployment compensation coverage to more than 50 school boards.

Reporting Entity: The Trust provides a program of unemployment compensation insurance coverage for its member organizations. A seven member Board of Trustees exercises oversight responsibility over the Trust. Oversight responsibility includes, but is not limited to, financial interdependency and the ability of the Board of Trustees to significantly influence operations and accountability for fiscal matters of the Trust.

Financial Statement Presentation: The Trust's financial statements are presented in accordance with the requirements of Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* Under GASB No. 34, the Trust is required to present a statement of net assets classified between current and noncurrent assets and liabilities, a statement of revenues, expenses and changes in net position, with separate presentation for operating and nonoperating revenues and expenses, and a statement of cash flows using the direct method. During fiscal year 2013, the Trust implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Statement No. 63 amends certain provisions of Statement No. 34 and provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements).

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Financial Statement Presentation (Continued):

The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period.

At June 30, 2015 and 2014, there were no deferred outflows of resources, nor deferred inflows of resources to be reported separately from assets and liabilities.

These and other changes are reflected in the accompanying financial statements including notes to the financial statements.

Basis of Accounting: For financial reporting purposes, the Trust is considered a special- purpose government entity engaged only in business-type activities. Accordingly, the Trust's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Cash: Cash includes cash deposits in checking and investment accounts and money market funds and are reported at carrying amounts which reasonably estimate fair value.

Investments: Investments consist of mutual funds, United States treasury obligations, government agency obligations, and equity securities. Investments are reported at fair value which is the last reported sales price at current exchange rates on a national exchange.

Claims Payable: The provision for claims payable includes the estimated costs of settling all claims incurred as of the date of the statement of net assets. Such amounts include estimates for future claim payments on claims existing at the end of the reporting period.

Income Taxes: Income of the Trust is exempt from income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

Classification of Revenues: The Trust has classified its revenues as either operating or nonoperating revenues. Operating revenues include transactions that constitute the Trust's principal ongoing operations, such as member premiums. Nonoperating revenues consist of other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB No. 34, such as investment income.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events: Management of the Trust has evaluated events and transactions subsequent to June 30, 2015 for potential recognition or disclosure in the financial statements. The Trust did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2015. Subsequent events have been evaluated through the date the financial statements became available to be issued, August 21, 2015.

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cash and Cash Equivalents: For purposes of the statements of cash flows, the Trust considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Building, Furniture and Equipment: Building, Furniture and Equipment are carried at original cost less accumulated depreciation and consist of premises and improvements and furniture, fixtures and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. The Trust's policy is to capitalize assets with a cost of $1,000 or more.

Net position: On July 13, 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* Net position presents the difference between assets and liabilities in the Statement of Net Position.

Under GASB Statement No. 63, net position should be displayed in three components:

- *Net Investment in Capital Assets.* Capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings and deferred inflows of resources attributable to the acquisition, construction, or improvement of the capital assets.
- *Restricted.* Restricted assets reduced by liabilities and deferred inflows of resources related to those assets that are reported as restricted when there are legal limitations imposed on their use by legislation or external restrictions by creditors, grantors, laws or regulations of other governments.
- *Unrestricted.* The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources not included in the determination of net investment in capital assets or the restricted portion of net position.

At June 30, 2015 and 2014, net position was classified as unrestricted.

NOTE B--DEPOSITS AND INVESTMENTS

Custodial Credit Risk — Deposits: Custodial credit risk is the risk that in the event of bank failure, the Trust's deposits may not be returned to it. The Trust's deposit policy for custodial credit risk requires cash on deposit in financial institutions, including funds held by brokerages, to be either fully insured by Federal Deposit Insurance or collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The Trust has cash deposits with a commercial bank and with a securities trading and brokerage firm. All deposits in the commercial bank that may exceed the Federal depository insurance coverage of $250,000 as of June 30, 2014 are collateralized with securities held by the Tennessee State Collateral Pool Program. Deposits in the securities trading and brokerage firm are insured up to $100,000 by the Securities Investor Protection Corporation (SIPC), or by Federal depository insurance coverage.

At June 30, 2015, carrying balances of cash deposits of the Trust totaled $326,043. Of this amount $19,690 (Bank Balance of $22,475) was covered by Federal depository insurance. $306,353 was exposed to custodial risk which was primarily from an investment in a Money Market Fund as of June 30, 2015. The risk is managed by maintaining deposits in high quality financial institutions and investment funds. The Money Market Fund Balance of $292,166 was invested in the Federated Treasury Obligations Fund (Institutional fund) which was rated by Standard & Poor’s as AAAm as of June 30, 2015.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

Investments:

Investments are reported at fair value on a recurring basis determined by reference to quoted market prices (Level 1) and other relevant information generated by market transactions.

Fair value of investments as of June 30, 2015 and 2014 are as follows:

	2015	2014
U.S. Treasuries	$ -	$ -
U.S. Agencies	-	-
Equities	7,390,229	5,989,242
Mutual funds	12,044,185	12,848,756
Total	$ 19,434,414	$ 18,837,998

Average Maturities of investments in the Mutual Funds as of June 30, 2015 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Brandes Int'l Small Cap Equity	$ 314,691	$ 314,691	$ -	$ -	$ -
Vanguard Institutional Index	4,766,434	4,766,434	-	-	-
J Hancock III Disciplined	1,087,617	1,087,617	-	-	-
Oppenheimer Dev Markets	320,809	320,809	-	-	-
DFA International Core Equity	611,269	611,269	-	-	-
Western Asset Core Plus Bond	4,100,077	-	-	-	4,100,077
PIMCO Inv Grade Bond	843,288	-	-	-	843,288
Total	$ 12,044,185	$ 7,100,820	$ -	$ -	$ 4,943,365

Interest Rate Risk: The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Investments in debt securities consist of obligations of the U.S. government and Investment Grade Corporate Bonds. Investments in U.S Government obligations are not considered to carry any credit risk. Corporate obligations may have some inherent credit risk, but based on the quality of the underlying investments, and since there is not information to the contrary, these investments are not considered to have any material credit risk.

Custodial Credit Risk - Investments: For an investment, custodial credit risk is the risk that the Trust will not be able to recover the value of its investments that are in the possession of its safekeeping custodians. The Trust's investments of $19,434,414 are held by a securities trading and brokerage firm in the name of the Trust. These investments are insured by the Securities Investor Protection Corporation.

Concentration of Credit Risk: The Trust prohibits equity investments in any one issuer that represent five percent or more of total investments. Since the remaining investments consist of obligations of the U.S. government and mutual funds, the Trust's investments are not considered to have a concentration of credit risk.

NOTE B--DEPOSITS AND INVESTMENTS--Continued

The change in the fair value of investments is calculated using the aggregate method. Calculations of the net increase in the fair value of investments for the years ended June 30, 2015 and 2014 are as follows:

	2015	2015
Fair value, end of year	$ 19,434,414	$ 18,837,998
Add: proceeds of investments sold	16,934,469	6,658,293
Less: cost of investments purchased	(17,855,353)	(7,579,526)
Less: fair value, beginning of year	(18,837,998)	(15,980,918)
Net increase (decrease) in the fair value of investments	$ (324,468)	$ 1,935,847

The Trust realized net gains of $678,374 and $443,666 from the sale of investments for the years ended June 30, 2015 and 2014, respectively. 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 in 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. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The net unrealized gains on investments held at June 30, 2015 and 2014 was $2,644,299 and $2,968,767, respectively.

NOTE C--CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

	June 30, 2015			
	Beginning Balance	Additions	Retirements	Ending Balance
Building	$ 322,800	$ -	$ -	$ 322,800
Equipment	28,938	5,498	-	34,436
Total Cost	351,738	5,498	$ -	357,236
Less accumulated depreciation for:				
Building	(60,702)	(7,942)	-	(68,644)
Equipment	(28,938)	(139)	-	(29,077)
TOTAL ACCUMULATED DEPRECIATION	(89,640)	(8,081)	-	(97,721)
CAPITAL ASSETS, NET	$ 262,098	$ (2,583)	$ -	$ 259,515

NOTE C--CAPITAL ASSETS--Continued

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	June 30, 2014			
	Beginning Balance	Additions	Retirements	Ending Balance
Building	$ 322,800	$ -	$ -	$ 322,800
Equipment	37,211	-	(8,273)	28,938
Total Cost	360,011	-	(8,273)	351,738
Less accumulated depreciation for:				
Building	(52,030)	(8,672)	-	(60,702)
Equipment	(33,590)	(3,621)	8,273	(28,938)
TOTAL ACCUMULATED DEPRECIATION	(85,620)	(12,293)	8,273	(89,640)
CAPITAL ASSETS, NET	$ 274,391	$ (12,293)	$ -	$ 262,098

NOTE D--CLAIMS PAYABLE

The Trust's claims payments are assessed by the state of Tennessee. The Trust assumes responsibility for establishing premiums sufficient to fund the Trust's obligations, recording and reporting financial transactions accurately, processing claims submitted for benefits provided to members' employees, and complying with appropriate state and federal laws and regulations.

The Trust establishes claims liabilities for self-insured options based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported, including the effects of unemployment laws in effect, unemployment rates and trends, and other economic factors that may have an effect on its members continuing claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using trending costs and techniques to produce current estimates. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Trust considers investment income in determining if a premium deficiency exists. Other than during the most recent extension of time for coverage and for payment of unemployment claims, claims do not normally exceed one year.

The claims liability at June 30, 2015 includes approximately $320,000 for estimated future claim payments on claims existing at the end of the reporting period ($450,000 at June 30, 2014).

NOTE D--CLAIMS PAYABLE--Continued

The following represents changes in the claims liability for the Trust:

	June 30, 2015	June 30, 2014
Claims payable at beginning of year	$ 499,062	$ 736,965
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	792,401	888,156
Change in provision for insured events of prior years	(209,148)	(366,814)
Total incurred losses	583,253	521,342
Payments:		
Claim payments attributable to insured events of the current year	421,800	389,094
Claim payments attributable to insured events of the prior years	289,914	370,151
Total payments	711,714	759,245
Claims payable at end of year	$ 370,601	$ 499,062

NOTE E--MEMBER DIVIDEND

The Board of Trustees has adopted a dividend policy for members of the Trust. The Trustees may elect to declare a dividend based on the financial operations of the Trust. In accordance with this dividend policy, no dividends were declared or paid for the fiscal years ended June 30, 2015 and 2014.

NOTE F--RECENTLY ISSUED AND ADOPTED ACCOUNTING PRONOUNCEMENTS

During Fiscal year ending June 30, 2013, the Trust adopted Statement of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30,* 1989 *FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of GASB No. 20 for business-type activities to apply post November 30, 1989, FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Trust's net position, changes in net position, cash flows or financial reporting disclosures.

In June 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011.

The adoption of these accounting pronouncements did not have any significant effect on the Trust's financial statements.

NOTE G - RISK MANAGEMENT AND INSURANCE ARRANGEMENTS

The Trust is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters. The Corporation carries commercial insurance for these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years. No significant reduction in insurance coverage has occurred since the prior year.

END OF NOTES

DANIEL J. CANTER, CPA PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's 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 Trustees
Tennessee School Boards
Unemployment Compensation Trust
Gallatin, TN

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tennessee School Boards Unemployment Compensation Trust (the "Trust"), which comprise the statements of net position as of June 30, 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 21, 2015.

Internal Control Over Financial Reporting

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

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's 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 the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Daniel J. Canter

DANIEL J. CANTER, CPA PC
Certified Public Accountants

Youngstown, Ohio

August 21, 2015