

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION
TRUST DBA UTRUST**

For the Years Ended June 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Tennessee School Boards Unemployment Compensation Trust dba UTRUST ("the Trust") as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Managements' 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 audit 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 the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Tennessee School Boards Unemployment Compensation Trust dba UTRUST, as of June 30, 2017 and 2016, and the respective changes in financial position 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 5-9 and the Ten-Year Claims Development Information on page 21 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Tennessee School Boards Unemployment Compensation Trust basic financial statements. The Roster of Board Members and Management Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Roster of Board Members and Management Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2017 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.



Murfreesboro, Tennessee
August 24, 2017

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

Within this section of the Tennessee School Boards Unemployment Compensation Trust dba UTRUST (the "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, 2017 and 2016. The Trust's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL AND ACTIVITY HIGHLIGHTS

The Trust's net position increased by \$1,904,323 for the fiscal year ended June 30, 2017. This compares to the previous year when net position decreased by \$430,793. Net position was \$21,013,866 and \$19,109,543 as of June 30, 2017 and 2016, respectively.

Total operating revenues of the Trust decreased by \$195,452 to \$992,107 during the current fiscal year. Total operating revenues of the Trust decreased by \$184,502 to \$1,187,559 during the 2016 fiscal year-end. Investment income increased by \$101,859 to income of \$909,784 during the current fiscal year. Investment income decreased by \$233,426 to income of \$807,925 during the 2016 fiscal year-end.

There was a \$1,747,724 net unrealized increase in the fair value of investments during the current fiscal year compared to a \$(643,511) net unrealized decrease during the previous fiscal year.

Total operating expenses of the Trust increased by \$39,518 to \$1,664,049 during the current fiscal year. Total operating expenses of the Trust increased by \$57,391 to \$1,703,567 during the 2016 fiscal year-end.

During fiscal year-end 2017, unemployment claims expense had the most significant change with the prior year with a decrease of \$63,424 (12.74%). During fiscal year-end 2016, most expense categories were substantially level with the prior year. However, unemployment claims expense decreased by \$85,577 (14.67%) and Mini-Grants increased by \$146,211 (20.13%).

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

Management's Discussion and Analysis introduces the Trust's basic financial statements. The 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 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.

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.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

FUND FINANCIAL STATEMENTS (CONTINUED)

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 10-12 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 13 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. 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) shows the change in financial position, the summary of revenue, expenses and changes in net position (Table II) provides the answers as to the nature and source of these changes.

The Trust's net position at current fiscal year-end was \$21,013,866. This is a \$1,904,323 increase compared to last year's net position of \$19,109,543. The following table provides a summary of the Trust's net position at June 30, 2017 and 2016:

Table I
Summary of Net Position

	June 30, 2017	June 30, 2016
Current assets	\$ 21,181,922	\$ 19,267,608
Noncurrent assets	245,807	254,738
Total assets	<u>\$ 21,427,729</u>	<u>\$ 19,522,346</u>
Current liabilities	\$ 413,863	\$ 412,803
Net position: invested in capital assets	245,807	254,738
Unrestricted	20,768,059	18,854,805
Total liabilities and net position	<u>\$ 21,427,729</u>	<u>\$ 19,522,346</u>

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE (CONTINUED)

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 2017 is mainly due to unrealized investment gains. The decrease in investments in 2016 is mainly due to investment losses and movement from investments into the Money Market account.

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 decreased by \$63,424 to \$434,254 during the current fiscal year. Unemployment insurance benefits decreased by \$85,577 to \$497,677 during the 2016 fiscal year-end. These factors, along with other fluctuations in operating expenses, resulted in variances in operating expenses over the previous year.

The following table provides a summary of the Trust's changes in net assets for the years ended June 30, 2017 and 2016:

**Table II
Summary of Revenues, Expenses and Changes in Net Fund Position**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Operating revenues -		
Member Premiums	\$ 992,107	\$ 1,187,559
Operating expenses	<u>1,664,049</u>	<u>1,703,567</u>
Operating loss	(671,942)	(516,008)
Net nonoperating revenues	<u>2,576,265</u>	<u>85,215</u>
Increase (decrease) in net position	1,904,323	(430,793)
Beginning net position	<u>19,109,543</u>	<u>19,540,336</u>
Ending net position	<u>\$ 21,013,866</u>	<u>\$ 19,109,543</u>

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

FINANCIAL ANALYSIS OF THE TRUST AS A WHOLE (CONTINUED)

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 the year. This statement also aids in the assessment of the Trust's ability to generate future cash flows, ability to meet obligations as they come due, and meet the needs for external financing. The following summarizes the Trust's cash flows for the years ended June 30, 2017 and 2016:

Summary of Cash Flows

	June 30, 2017	June 30, 2016
Net cash used in operating activities	\$ (658,752)	\$ (555,614)
Net cash provided (used) by capital and related financing activities	(3,199)	(24,084)
Net cash provided by investing activities	699,891	891,443
Net increase in cash and cash equivalents	37,940	311,745
Cash and cash equivalents at beginning of year	637,788	326,043
Cash and cash equivalents at end of year	\$ 675,728	\$ 637,788

The Trust's overall liquidity changed during the years ended June 30, 2017 and 2016, with a net increase to cash of \$37,940 and \$311,745, respectively. Cash used by operating activities are primarily related to receipts of member contributions for the years ended June 30, 2017 and 2016, and offset by insurance benefit payments and operations expenses. Cash used in capital and related financing activities primarily relates to equipment purchases and member premiums advanced. Cash provided by investing activities relates to net proceeds from the sale or maturity of investments and income earned on investments.

CAPITAL ASSETS

At fiscal year-end 2017 and 2016, the Trust had \$366,433 and \$363,234, respectively, invested in buildings and equipment. The following table shows the capital asset balances for the years ending June 30, 2017 and 2016:

	June 30, 2017	June 30, 2016
Building	\$ 322,800	\$ 322,800
Equipment	43,633	40,434
Total cost	\$ 366,433	\$ 363,234

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, 2018. 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, 2018 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 5.44% of the current market value of investments.

Interest income on the checking account is projected to be approximately .04% percent of the average balance.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017 and 2016

ECONOMIC FACTORS AND PREMIUM RATES (CONTINUED)

Unemployment insurance charges, current year and prior year's incurred but not paid, are projected to decrease to \$550,000 primarily due to the fact that our members are doing a better job with employment and unemployment issues. Current year claims are trending less than the \$900,000 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 dba UTRUST. If you have questions about this report or would like to request additional information, contact the Tennessee School Boards Unemployment Compensation Trust dba UTRUST Finance Department at 1525 Hunt Club Blvd., Suite 300, Gallatin, Tennessee 37066.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

STATEMENTS OF NET POSITION

	June 30,	
	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 675,728	\$ 637,788
Investments	20,505,626	18,629,252
Interest receivable	568	568
	<u>21,181,922</u>	<u>19,267,608</u>
Non-current Assets:		
Building	322,800	322,800
Furniture and equipment	43,633	40,434
Less: accumulated depreciation	(120,626)	(108,496)
	<u>245,807</u>	<u>254,738</u>
 Total Assets	 <u>\$ 21,427,729</u>	 <u>\$ 19,522,346</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 8,401	\$ -
Prepaid member fees	-	20,402
Accrued vacation	10,146	9,646
Claims payable	395,316	382,755
Total Current Liabilities	<u>413,863</u>	<u>412,803</u>
Net Position:		
Invested in capital assets	245,807	254,738
Unrestricted	20,768,059	18,854,805
Total Net Position	<u>21,013,866</u>	<u>19,109,543</u>
 Total Liabilities and Net Position	 <u>\$ 21,427,729</u>	 <u>\$ 19,522,346</u>

See notes to the financial statements.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	For the Years Ended June 30,	
	2017	2016
Operating revenue -		
Member premiums	\$ 992,107	\$ 1,187,559
Operating expenses:		
Unemployment insurance benefits	434,254	497,677
Mini-grants	883,974	872,654
Professional fees	37,895	42,776
Office expense	27,965	24,348
Payroll, taxes, and benefits	222,183	215,578
Depreciation expense	12,130	10,775
Travel and meeting expenses	45,648	39,759
Total Operating Expenses	<u>1,664,049</u>	<u>1,703,567</u>
Operating Loss	<u>(671,942)</u>	<u>(516,008)</u>
Non-operating revenues (expenses)		
Investment income	909,784	807,925
Consulting/investment expenses	(81,243)	(79,199)
Net unrealized increase (decrease) in the fair value of investments	1,747,724	(643,511)
Net non-operating revenues	<u>2,576,265</u>	<u>85,215</u>
Increase (decrease) in net position	1,904,323	(430,793)
Net position, Beginning of year	<u>19,109,543</u>	<u>19,540,336</u>
Net position, End of year	<u>\$ 21,013,866</u>	<u>\$ 19,109,543</u>

See notes to the financial statements.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Member premiums received	\$ 992,107	\$ 1,187,559
Unemployment insurance benefits paid	(421,692)	(485,524)
Other expenses paid	(1,229,167)	(1,257,649)
Net cash used in operating activities	(658,752)	(555,614)
Cash flows from capital and related financing activities:		
Member premiums advanced	-	(18,084)
Purchase of capital assets	(3,199)	(6,000)
Net cash used in capital and related financing activities	(3,199)	(24,084)
Cash flows from investing activities:		
Investment income received	909,784	808,991
Consulting/investment fees paid	(81,243)	(79,199)
Purchases of investments	(2,508,236)	(2,771,000)
Sales of investments	2,379,586	2,932,651
Net cash provided by investing activities	699,891	891,443
Net increase in cash and cash equivalents	37,940	311,745
Cash and cash equivalents, Beginning of year	637,788	326,043
Cash and cash equivalents, End of year	\$ 675,728	\$ 637,788
Reconciliation of Operating Loss to Net Cash Used In Operating Activities:		
Operating loss	\$ (671,942)	\$ (516,008)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,130	10,775
Changes in operating assets and liabilities:		
Prepaid expenses	-	1,000
Prepaid member fees	(20,402)	-
Claims payable	12,561	12,154
Accounts payable and accrued expenses	8,901	(63,535)
Total adjustments	13,190	(39,606)
Net cash used in operating activities	\$ (658,752)	\$ (555,614)

See notes to the financial statements.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of 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, 2017 and 2016, 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.

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.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

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

Investments

Investments consist of mutual funds and equity securities. Investments are reported at fair value which is the last reported sales price at current exchange rates on a national exchange.

Building and Equipment

Building and Equipment are carried at original cost less accumulated depreciation and consist of premises and improvements 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.

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 position. 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 non-operating revenues. Operating revenues include transactions that constitute the Trust's principal ongoing operations, such as member premiums. Non-operating revenues consist of other revenue sources such as investment income.

Net position

Net position presents the difference between assets and liabilities in the Statement of Net Position. 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, 2017 and 2016, net position was classified as unrestricted and investment in capital assets.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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. 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, 2017 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, 2017, carrying balances of cash deposits of the Trust totaled \$675,728. Of this amount \$78,437 (Bank Balance of \$81,047) was covered by Federal depository insurance. \$597,291 was exposed to custodial risk which was primarily from an investment in a Money Market Fund as of June 30, 2017. The Money Market Fund Balance of \$597,291 was invested in the Federated Treasury Obligations Fund (Institutional fund) which was rated by Standard & Poor's as AAA as of June 30, 2017.

At June 30, 2016, carrying balances of cash deposits of the Trust totaled \$637,788. Of this amount \$140,177 (Bank Balance of \$143,036) was covered by Federal depository insurance. \$497,610 was exposed to custodial risk which was primarily from an investment in a Money Market Fund as of June 30, 2016. The Money Market Fund Balance of \$472,843 was invested in the Federated Treasury Obligations Fund (Institutional fund) which was rated by Standard & Poor's as AAA as of June 30, 2016.

The risk is managed by maintaining deposits in high quality financial institutions and investment funds.

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, 2017 and 2016 are as follows:

	2017	2016
Common stock	\$ 5,651,965	\$ 6,329,150
Mutual funds	14,853,661	12,300,102
Total	<u>\$ 20,505,626</u>	<u>\$ 18,629,252</u>

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE B - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

Average Maturities of investments in mutual funds as of June 30, 2017 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
Brandes International Small Cap Equity	\$ 309,767	\$ 309,767	\$ -	\$ -	\$ -
Vanguard Institutional Index	4,915,947	4,915,947	-	-	-
DFA U.S. Large Cap Value Fund	517,013	517,013	-	-	-
T. Rowe Price Institutional Large-Cap Growth Fund	1,101,103	1,101,103	-	-	-
DFA Emerging Markets Core Equity	308,876	308,876	-	-	-
DFA International Core Equity	1,559,674	1,559,674	-	-	-
Western Asset Core Plus Bond	5,315,436	5,315,436	-	-	-
PIMCO Investment Grade Bond	825,845	825,845	-	-	-
Total	\$ 14,853,661	\$ 14,853,661	\$ -	\$ -	\$ -

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 mutual funds consist of obligations of the U.S. government and Investment Grade Corporate Bonds; however these funds are not rated by Standard and Poor's. Investments in U.S Government obligations are not considered to carry any credit risk, however, corporate obligations may have some inherent 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 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 up to a maximum amount of \$500,000.

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.

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, 2017 and 2016 are as follows:

	2017	2016
Fair value, end of year	\$ 20,505,626	\$ 18,629,252
Add: proceeds of investments sold	2,379,586	2,932,651
Less: cost of investments purchased	(2,508,236)	(2,771,000)
Less: fair value, beginning of year	(18,629,252)	(19,434,414)
Net increase (decrease) in the fair value of investments	\$ 1,747,724	\$ (643,511)

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE B - DEPOSITS AND INVESTMENTS (Continued)

Investments (continued)

The Trust realized net gains of \$458,333 and \$382,172 from the sale of investments for the years ended June 30, 2017 and 2016, 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 (losses) on investments held at June 30, 2017 and 2016 was \$1,747,724 and \$(643,511), respectively.

NOTE C - CAPITAL ASSETS

A summary of changes in capital assets for the year ending June 30, 2017 is as follows:

	June 30, 2017			
	Beginning Balance	Additions	Retirements	Ending Balance
Building	\$ 322,800	\$ -	\$ -	\$ 322,800
Equipment	40,434	3,199	-	43,633
Total cost	363,234	3,199	-	366,433
Accumulated Depreciation				
Building	(76,586)	(7,942)	-	(84,528)
Equipment	(31,910)	(4,188)	-	(36,098)
Total accumulated depreciation	(108,496)	(12,130)	-	(120,626)
Capital Assets, net	\$ 254,738	\$ (8,931)	\$ -	\$ 245,807

A summary of changes in capital assets for the year ending June 30, 2016 is as follows:

	June 30, 2016			
	Beginning Balance	Additions	Retirements	Ending Balance
Building	\$ 322,800	\$ -	\$ -	\$ 322,800
Equipment	34,436	5,998	-	40,434
Total cost	357,236	5,998	-	363,234
Accumulated Depreciation				
Building	(68,644)	(7,942)	-	(76,586)
Equipment	(29,077)	(2,833)	-	(31,910)
Total accumulated depreciation	(97,721)	(10,775)	-	(108,496)
Capital Assets, net	\$ 259,515	\$ (4,777)	\$ -	\$ 254,738

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.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

NOTE D - CLAIMS PAYABLE (CONTINUED)

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. Claims do not normally exceed one year.

The claims liability at June 30, 2017 and 2016, includes approximately \$320,000 for estimated future claim payments on claims existing at the end of the reporting periods.

The following represents changes in the claims liability for the Trust as of June 30, 2017 and 2016:

	June 30,	
	2017	2016
Claims payable at beginning of year	\$ 382,755	\$ 370,601
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	729,173	845,101
Change in provision for insured events of prior years	(294,919)	(347,424)
Total incurred losses	434,254	497,677
Payments:		
Claims payments attributable to insured events of the current year	200,307	274,517
Claims payments attributable to insured events of the prior years	221,386	211,006
Total payments	421,693	485,523
Claims payable at the end of year	\$ 395,316	\$ 382,755

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 to be distributed through mini-grants to member boards that meet certain requirements. In accordance with this dividend policy, mini-grants were distributed for the fiscal years ended June 30, 2017 and 2016 in the amounts of \$883,974 and \$872,654, respectively.

NOTE F - SIMPLIFIED PENSION PLAN

The Trust has in place a SEP plan (the "Plan"), effective April 2007, for eligible employees' retirement benefits. Eligible employees include those employees who are at least 18 years old and have been employed for a minimum of 6 months. The Plan allows for employer contributions limited to the smaller of \$41,000 or 25% of the eligible employee's annual compensation. Total contributions to the Plan amounted to \$32,537 and \$33,427 for the years ending June 30, 2017 and 2016, respectively.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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 Trust 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.

NOTE H - SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that occurred between June 30, 2017 and August 24, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS (UNAUDITED)

June 30, 2017

<u>Name</u>	<u>Title</u>
David Jones	Chairman
Joey Cooper	Vice Chairman
Roger Greene	Trustee
Dawn Fry	Trustee
Jasper Taylor	Trustee
Regina Waller	Trustee
Norma Tate	Trustee
Dr. Dan Tollett	Trust Administrator
Kristi Coleman	Director of Finance & Administration

Tennessee School Board Unemployment Compensation Trust dba Utrust
Ten-Year Claims Development Information
For the year ended June 30, 2017
(in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Premium and investment revenue:										
Earned	\$ 350	\$ (2,714)	\$ 2,255	\$ 3,588	\$ 1,441	\$ 3,056	\$ 4,019	\$ 2,003	\$ 1,273	\$ 3,568
2. Unallocated expenses	790	851	274	309	279	307	626	1,063	1,206	1,230
3. Estimated incurred claims and allocated expense, as of year end:										
Direct incurred	630	1,055	1,632	1,856	1,547	1,113	521	583	497	434
4. Paid (cumulative) as of:										
End of year	522	927	1,439	1,514	1,547	1,113	746	713	455	295
One year later	522	927	1,439	1,514	1,547	1,113	746	713	455	-
Two years later	522	927	1,439	1,514	1,547	1,113	746	713	-	-
Three years later	522	927	1,439	1,514	1,547	1,113	746	-	-	-
Four years later	522	927	1,439	1,514	1,547	1,113	-	-	-	-
Five years later	522	927	1,439	1,514	1,547	-	-	-	-	-
Six years later	522	927	1,439	1,514	-	-	-	-	-	-
Seven years later	522	927	1,439	-	-	-	-	-	-	-
Eight years later	522	927	-	-	-	-	-	-	-	-
Nine years later	522	-	-	-	-	-	-	-	-	-
5. Reestimated incurred claims and expense:										
End of year	630	1,055	1,632	1,856	1,547	1,113	521	583	497	434
One year later	630	1,055	1,632	1,856	1,547	1,113	521	583	454	-
Two years later	630	1,055	1,632	1,856	1,547	1,113	521	583	-	-
Three years later	630	1,055	1,632	1,856	1,547	1,113	521	-	-	-
Four years later	630	1,055	1,632	1,856	1,547	1,113	-	-	-	-
Five years later	630	1,055	1,632	1,856	1,547	-	-	-	-	-
Six years later	630	1,055	1,632	1,856	-	-	-	-	-	-
Seven years later	630	1,055	1,632	-	-	-	-	-	-	-
Eight years later	630	1,055	-	-	-	-	-	-	-	-
Nine years later	630	-	-	-	-	-	-	-	-	-
6. Increase (decrease) in estimated incurred claims and expense from end of year:	-	-	-	-	-	-	-	-	(43)	-

The table above illustrates how the TSBUCT's earned revenues and investment income compare to related costs of loss and other expenses assumed by the organization as of the end of each of the last ten years. The rows of the tables are defined as follows:

- (1) These lines show the total of each fiscal year's earned contribution revenues and net investment revenues.
- (2) This line shows each fiscal year's other operating cost of the fund including overhead and claims expense not allocable to individual claims.
- (3) This section shows the fund's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred.
- (4) This section of ten rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- (5) 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 reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought.

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 dba UTRUST
Gallatin, Tennessee

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 the business-type activities of Tennessee School Boards Unemployment Compensation Trust dba UTRUST as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Tennessee School Boards Unemployment Compensation Trust dba UTRUST's basic financial statements, and have issued our report thereon dated August 24, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tennessee School Boards Unemployment Compensation Trust dba UTRUST'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tennessee School Boards Unemployment Compensation Trust dba UTRUST's internal control. Accordingly, we do not express an opinion on the effectiveness of Tennessee School Boards Unemployment Compensation Trust dba UTRUST'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 Tennessee School Boards Unemployment Compensation Trust dba UTRUST'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 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.

Dempsey Vantrease & Follis PLLC

Murfreesboro, Tennessee
August 24, 2017

TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST DBA UTRUST

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2017

Section I – Summary of Auditor Results

Type of report issued: unqualified

Internal control over financial reporting:

- Material weakness identified? **No**
- Significant deficiencies identified that are not considered material weaknesses? **None reported**

Noncompliance material to financial statements noted: **No**

Section II – Financial Statement Findings

None