

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

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
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**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
ROSTER OF OFFICIALS (UNAUDITED)
JUNE 30, 2018**

<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 and Administration

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee School Boards Unemployment Compensation Trust dba UTRUST ("the Trust") as of and for the year ended June 30, 2018, 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of June 30, 2018, and the changes in its financial position and its cash flows for the year 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 4 - 7 and the Ten-Year Claims Development Information on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2018 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.

Blankenship CPA Group, PLLC

August 27, 2018

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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 year ended June 30, 2018. 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 \$885,289 for the fiscal year ended June 30, 2018. Net position was \$21,899,155 and \$21,013,866 as of June 30, 2018 and 2017, respectively.

Total operating revenues of the Trust decreased by \$310,560 to \$681,547 during the current fiscal year. Investment income increased by \$289,601 to income of \$1,199,385 during the current fiscal year.

There was a \$694,238 net unrealized increase in the fair value of investment during the current fiscal year.

Total operating expenses of the Trust decreased by \$59,436 to \$1,604,613 during the current fiscal year.

During fiscal year-end 2018, unemployment claims expense had the most significant change with the prior year with a decrease of \$176,736 (40.7%).

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.

These statements offer short and long-term information about its activities.

The statement of net position includes all of the Trust's resources 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 of 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 (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

FUND FINANCIAL STATEMENTS (CONTINUED)

All of the current year's revenue and expense are accounted for in the statement of revenues, 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 inflows and cash outflows during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, capital related financing and investing 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."

NOTES TO THE FINANCIAL STATEMENTS

The accompanying notes to the financial statements provide information essential to a full understanding of the fund financial statements.

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 revenues, 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 \$21,899,155. This is an \$885,289 increase compared to last year's net position of \$21,013,866. The following table provides a summary of the Trust's net position at June 30:

**Table I
Summary of Net Position**

	2018	2017
Current assets	\$ 21,927,854	\$ 21,181,922
Noncurrent assets	236,305	245,807
Total assets	<u>\$ 22,164,159</u>	<u>\$ 21,427,729</u>
Current liabilities	\$ 265,004	\$ 413,863
Net position: investment in capital assets	236,305	245,807
Unrestricted	21,662,850	20,768,059
Total liabilities and net position	<u>\$ 22,164,159</u>	<u>\$ 21,427,729</u>

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

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 2018 is mainly due to investment income.

The majority of the Trust's current liabilities are an estimate of claims payable. The decrease in claims payable in 2018 is due to a change in methodology used to calculate the estimate. The claims payable estimate is calculated using the rolling average of claims payable over the previous three years.

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 nonoperating revenues and changes in net position.

Unemployment insurance benefits decreased by \$176,736 to \$257,517 during the fiscal year. These factors, along with other fluctuations in operating expenses, resulted in decreases to operating expenses from the previous year.

The following table provides a summary of the Trust's change in net assets for the years ended June 30:

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

	2018	2017
Operating revenues -		
Member premiums	\$ 681,547	\$ 992,107
Operating expenses	1,604,613	1,664,049
Operating loss	<u>(923,066)</u>	<u>(671,942)</u>
Net nonoperating revenues	1,808,355	2,576,265
Increase in net position	885,289	1,904,323
Beginning net position	21,013,866	19,109,543
Ending net position	<u>\$ 21,899,155</u>	<u>\$ 21,013,866</u>

CAPITAL ASSETS

At fiscal year-end 2018, the Trust had \$360,919 invested in buildings and equipment. The following table shows the capital asset costs for the years ending June 30:

	2018	2017
Building	\$ 322,800	\$ 322,800
Equipment	38,119	43,633
Total	<u>\$ 360,919</u>	<u>\$ 366,433</u>

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2019. One of those factors is the economy, which expanded during the current fiscal year compared to the previous fiscal year.

The budget for the fiscal year ending June 30, 2019 was developed based on the following key assumptions:

Premium contributions are based on average claims of members over the past 4 ½ 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 5.89% of the current market value of investments.

There is no interest income projected on the checking account due to the reclassification of the account to avoid monthly analysis fees in excess of \$100.

Unemployment insurance charges, current year and prior year's incurred but not paid, are projected to decrease to \$450,000 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 \$550,000 budgeted.

Investment fees are projected to be approximately 0.40% of the market value of total investments.

REQUESTS FOR INFORMATION

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
STATEMENT OF NET POSITION
JUNE 30, 2018**

CURRENT ASSETS	
Cash and cash equivalents	\$ 763,084
Investments	21,159,530
Other assets	5,240
Total current assets	21,927,854
 CAPITAL ASSETS	
Building	322,800
Furniture and equipment	38,119
Accumulated depreciation	(124,614)
Total capital assets	236,305
Total assets	22,164,159
 CURRENT LIABILITIES	
Accounts payable and accrued expenses	19,656
Claims payable	245,348
Total current liabilities	265,004
 NET POSITION	
Investment in capital assets	236,305
Unrestricted	21,662,850
Total net position	\$ 21,899,155

See notes to the financial statements.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

Member premiums	\$ 681,547
OPERATING EXPENSES	
Unemployment insurance benefits	257,517
Mini-grants	987,222
Payroll, taxes, and benefits	227,648
Travel and meeting expenses	49,137
Professional fees	38,823
Office expense	31,565
Depreciation expense	12,701
Total operating expenses	1,604,613
Operating loss	(923,066)
NONOPERATING REVENUES (EXPENSES)	
Investment income	1,199,385
Net unrealized increase in the fair value of investments	694,238
Consulting/investment expenses	(85,268)
Net nonoperating revenues	1,808,355
NET INCREASE IN NET POSITION	885,289
NET POSITION, BEGINNING OF YEAR	21,013,866
NET POSITION, END OF YEAR	\$ 21,899,155

See notes to the financial statements.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from member premiums	\$ 681,547
Payments for unemployment insurance benefits	367,517
Payments for other expenses	<u>(2,112,960)</u>
Net cash used in operating activities	<u>(1,063,896)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	<u>(3,199)</u>
Net cash used in capital and related financing activities	<u>(3,199)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipts from investment income	476,746
Payments for consulting/investment fees	(85,268)
Purchases of investments	(2,295,346)
Proceeds from sales of investments	<u>3,058,319</u>
Net cash provided by investing activities	<u>1,154,451</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	87,356
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>675,728</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 763,084</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	<u>\$ (923,066)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	12,701
Changes in operating assets and liabilities:	
Other assets	(4,672)
Accounts payable and accrued expenses	1,109
Claims payable	<u>(149,968)</u>
Total adjustments	<u>(140,830)</u>
Net cash used in operating activities	<u><u>\$ (1,063,896)</u></u>

See notes to the financial statements.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 - 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 year ended June 30, 2018, 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.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Cash and Cash Equivalents

Cash includes cash deposits in checking and investment accounts and money market funds and are reported at carrying amounts. For purposes of the statement 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 exchange traded funds. Investments are reported at fair value which is the last reported sales price at current exchange rates on a national exchange.

Capital Assets

Capital assets 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.

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 such as investment income.

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.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018, net position was classified as unrestricted and investment in capital assets.

NOTE 2 - 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, 2018 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, 2018, carrying balances of cash deposits of the Trust totaled \$763,084. Of this amount \$111,439 (Bank Balance of \$141,735) was covered by Federal depository insurance. \$651,645 was exposed to custodial risk which was primarily from an investment in a Money Market Fund as of June 30, 2018. The Money Market Fund Balance of \$607,489 was invested in the Federated Treasury Obligations Fund (Institutional fund) which was rated by Standard & Poor's as AAA as of June 30, 2018.

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.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Fair value of investments as of June 30, 2018 is as follows:

Exchange traded funds	\$	5,623,437
Mutual funds		15,536,093
Total	\$	21,159,530

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 represents 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.

Calculation of the net increase in the fair value of investments for the year ended June 30, 2018 is as follows:

Fair value, end of year	\$	21,159,530
Add: proceeds of investments sold		2,335,342
Less: cost of investments purchased		(2,295,346)
Less: fair value, beginning of year		(20,505,626)
Net increase in fair value of investments	\$	693,900

The Trust realized net gains of \$722,977 from the sale of investments for the year ended June 30, 2018. 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, 2018 was \$694,238, including accrued income.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets for the year ending June 30, 2018 is as follows:

	Beginning balance	Additions	Disposals	Ending balance
Historical Cost				
Building	\$ 322,800	\$ -	\$ -	\$ 322,800
Equipment	43,633	3,199	(8,713)	38,119
Total	<u>366,433</u>	<u>3,199</u>	<u>(8,713)</u>	<u>360,919</u>
Accumulated depreciation				
Building	(84,528)	(7,942)	-	(92,470)
Equipment	(36,098)	(4,759)	8,713	(32,144)
Total	<u>(120,626)</u>	<u>(12,701)</u>	<u>8,713</u>	<u>(124,614)</u>
Capital assets, net	<u>\$ 245,807</u>	<u>\$ (9,502)</u>	<u>\$ -</u>	<u>\$ 236,305</u>

NOTE 4 - 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 (IBNR), 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 included approximately \$210,000 for estimated future claim payments on claims existing at June 30, 2018.

The following represents changes in the claims liability for the Trust for the year ended June 30:

Claims payable at beginning of year	\$ 395,316
Incurred losses and loss adjustment expenses:	
Provision for insured events of the current year	440,232
Change in provision for insured events of prior years	(222,683)
Payments:	
Claims payments attributable to insured events of the current year	(194,884)
Claims payments attributable to insured events of the prior years	<u>(172,633)</u>
Claims payable at end of year	<u>\$ 245,348</u>

NOTE 5 - 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 year ended June 30, 2018 in the amounts of \$987,222.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018**

NOTE 6 - RETIREMENT PLAN

The Trust administers a SEP defined contribution plan (the "Plan"), effective April 2007, for eligible employees' retirement benefits. The provisions and contribution requirements are established and amended upon approval of the Board of Trustees. Eligible employees include those employees who are at least 18 years old and have been employed for a minimum of six months. The Plan allows for employer contributions limited to the smaller of \$41,000 or 25% of the eligible employee's annual compensation. The Plan does not allow for employee contributions. Total contributions to the Plan amounted to \$26,351 for the year ending June 30, 2018.

NOTE 7 - RISK MANAGEMENT

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.

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED JUNE 31, 2018
(IN THOUSANDS)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1. Premium and investment revenue:										
Earned	\$ (2,714)	\$ 2,255	\$ 3,588	\$ 1,441	\$ 3,056	\$ 4,019	\$ 2,003	\$ 1,273	\$ 3,568	\$ 2,490
2. Unallocated expenses	851	274	309	279	307	626	1,063	1,206	1,230	1,347
3. Estimated incurred claims and allocated expense, as of year end:										
Direct incurred	1,055	1,632	1,856	1,547	1,113	521	583	638	647	440
4. Paid (cumulative) as of:										
End of year	927	1,439	1,514	1,547	1,113	746	713	229	251	195
One year later	927	1,439	1,514	1,547	1,113	746	713	455	424	
5. Reestimated incurred claims and expense:										
End of year	1,055	1,632	1,856	1,547	1,113	521	583	638	647	440
One year later	1,055	1,632	1,856	1,547	1,113	521	583	455	424	
6. Increase (decrease) in estimated incurred claims and expense from end of year	-	-	-	-	-	-	-	(183)	(223)	

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) This line shows the total of each fiscal year's earned contribution revenues and net investment revenues.
- (2) This line shows each fiscal year's other operating costs 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 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.

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Tennessee School Boards Unemployment Compensation Trust dba UTRUST
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 the Tennessee School Boards Unemployment Compensation Trust dba UTRUST (the Trust) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated August 27, 2018.

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 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.

Blankenship CPA Group, PLLC

August 27, 2018

**TENNESSEE SCHOOL BOARDS UNEMPLOYMENT COMPENSATION TRUST
DBA UTRUST
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status / Current Year Finding Number
N/A	N/A	N/A