

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Financial Statements
For the Year Ended June 30, 2021

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**
Financial Statements
For the Year Ended June 30, 2021

Contents

Introductory Section

Roster of Officials (Unaudited)	1
---------------------------------	---

Financial Section

Independent Auditor's Report	2
Management's Discussion and Analysis	4
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11

Required Supplementary Information

Ten-year Claims Development Information (Unaudited)	19
---	----

Internal Control and Compliance Section

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 <i>Government Auditing Standards</i>	20
Schedule of Prior Year Findings	22

Introductory Section

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**
Roster of Officials (Unaudited)
June 30, 2021

Board of Trustees

Name	Title
David Jones	Chairman
Joey Cooper	Vice Chairman
Roger Greene	Trustee
Dawn Fry	Trustee
Jasper Taylor	Trustee
Regina Waller	Trustee
Norma Tate	Trustee
Dr. Dan Tollet	Trust Administrator
Kristi Coleman	Director of Finance and Administration

Financial Section



Independent Auditor's Report

Board of Trustees
Tennessee School Boards Unemployment Compensation Trust
dba UTRUST

Report on the Financial Statements

We have audited the accompanying financial statements of Tennessee School Boards Unemployment Compensation Trust dba UTRUST (the Trust) as of and for the year ended June 30, 2021, 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.

Auditor's 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 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 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 Tennessee School Boards Unemployment Compensation Trust dba UTRUST as of June 30, 2021, 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 19 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, which 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 audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's basic financial statements. The Roster of Officials is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 19, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Trust's 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

Blankenship CPA Group, PLLC

Goodlettsville, Tennessee

August 19, 2021

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Management's Discussion and Analysis
For the Year Ended June 30, 2021

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, 2021. 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 \$4,761,604 for the fiscal year ended June 30, 2021. Net position was \$26,330,012 and \$21,568,408 as of June 30, 2021 and 2020, respectively.

Total operating revenues of the Trust decreased by \$91,707 to \$381,874 during the current fiscal year. Investment income increased by \$3,708,877 to income of \$4,480,805 during the current fiscal year.

There was a \$1,638,228 net unrealized increase in the fair value of investments during the current fiscal year.

Total operating expenses of the Trust decreased by \$512,067 to \$1,647,451 during the current fiscal year.

During fiscal year-end 2021, unemployment insurance benefits had the most significant change from the prior year with a \$472,049 decrease (56.8%) due to COVID-19.

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
For the Year Ended June 30, 2021

All of the current year's revenues and expenses 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*. 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. 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 following table provides a summary of the Trust's net position at June 30:

**Table I
Summary of Net Position**

	2021	2020
Current assets	\$ 26,483,400	\$ 22,352,034
Noncurrent assets	<u>212,838</u>	<u>219,372</u>
Total assets	\$ 26,696,238	\$ 22,571,406
Current liabilities	\$ 366,226	\$ 1,002,998
Net position: investment in capital assets	212,838	219,372
Net position: unrestricted	<u>26,117,174</u>	<u>21,349,036</u>
Total liabilities and net position	\$ 26,696,238	\$ 22,571,406

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 2021 is mainly due to gains in the market.

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Management's Discussion and Analysis
For the Year Ended June 30, 2021

The majority of the Trust's current liabilities are an estimate of claims payable. The claims payable estimate is calculated using the rolling average of claims payable over the previous three years. The decrease in claims payable in 2021 is due to less uncertainty surrounding COVID-19 and unemployment trends in the current year.

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 changes in net position.

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**

	2021	2020
Operating revenues -		
Member premiums	\$ 381,874	\$ 473,581
Operating expenses	<u>1,647,451</u>	<u>2,159,518</u>
Operating loss	(1,265,577)	(1,685,937)
Net nonoperating revenues (expenses)	<u>6,027,181</u>	<u>1,166,557</u>
Change in net position	4,761,604	(519,380)
Beginning net position	<u>21,568,408</u>	<u>22,087,788</u>
Ending net position	\$ 26,330,012	\$ 21,568,408

Capital Assets

At fiscal year-end 2021, the Trust had \$361,425 invested in buildings and equipment. The following table shows the capital asset costs for the years ending June 30:

	2021	2020
Building	\$ 322,800	\$ 322,800
Furniture and equipment	<u>38,625</u>	<u>45,395</u>
Total	\$ 361,425	\$ 368,195

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, 2022. The budget for the fiscal year ending June 30, 2022 was developed based on the following key assumptions:

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Management's Discussion and Analysis
For the Year Ended June 30, 2021

Premium contributions are based on average claims of members over the past 4 and 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 8.40% of the current market value of investments.

Unemployment insurance charges are projected to increase by \$50,000. This is due to the effects of COVID-19 on unemployment claims.

Investment fees are projected to be approximately 0.38% 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, 2021

Assets

Current assets

Cash and cash equivalents	\$ 378,588
Investments	26,104,244
Other assets	568
Total current assets	26,483,400

Capital assets

Building	322,800
Furniture and equipment	38,625
Less: accumulated depreciation	(148,587)
Capital assets, net	212,838

Total assets **\$ 26,696,238**

Liabilities and Net Position

Current liabilities

Accounts payable and accrued expenses	\$ 11,544
Claims payable	335,306
Prepaid member fees	19,376
Total current liabilities	366,226

Net position

Investment in capital assets	212,838
Unrestricted	26,117,174
Total net position	26,330,012

Total liabilities and net position **\$ 26,696,238**

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

Revenue

Member premiums \$ 381,874

Operating Expenses

Payroll, taxes, and benefits 240,215

Unemployment insurance benefits, net 359,233

Depreciation 12,134

Mini-grants 958,658

Office expense 29,468

Professional fees 39,371

Travel and meeting expenses 8,372

Total operating expenses 1,647,451

Operating income (loss) (1,265,577)

Nonoperating Revenues (Expenses)

Investment income 4,480,805

Net unrealized increase in the fair value of investments 1,638,228

Consulting/investment expenses (91,852)

Total nonoperating revenues (expenses) 6,027,181

Change in net position 4,761,604

Net position, beginning of year 21,568,408

Net position, end of year **\$ 26,330,012**

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash and cash equivalents, beginning of year	\$ 1,837,618
Cash flows from operating activities	
Receipts from operating revenues	381,874
Payments for unemployment insurance benefits	(534,115)
Payments for other expenses	<u>(1,366,997)</u>
Net cash provided (used) by operating activities	(1,519,238)
Cash flows from capital and related financing activities	
Purchases of capital assets	(5,600)
Cash flows from investing activities	
Receipts from investment income	314,441
Payments for consulting/investment fees	(91,852)
Purchases of investments	(11,818,140)
Proceeds from sales of investments	<u>11,661,359</u>
Net cash provided (used) by investing activities	65,808
Net change in cash and cash equivalents	<u>(1,459,030)</u>
Cash and cash equivalents, end of year	\$ 378,588
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (1,265,577)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	12,134
Change in:	
Accounts receivable, net	367,727
Other assets	3,250
Accounts payable and accrued expenses	(4,753)
Claims payable	(651,395)
Prepaid member fees	<u>19,376</u>
Net cash provided (used) by operating activities	\$ (1,519,238)

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 1. Summary of Significant Accounting Policies

Description of Trust

Tennessee School Boards Unemployment Compensation Trust dba UTRUST (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, providing cost management services to members so that each participating school board member will ultimately realize a significant savings in unemployment compensation costs, and helping members 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:

Risk-sharing pool – Governmental entities join together to share in the cost of losses.

Insurance purchasing pool (risk-purchasing group) – Governmental entities join together to acquire commercial insurance coverage.

Banking pool – Governmental entities are allowed to borrow funds from a pool to pay losses.

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, 2021, 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 Financial Statements
For the Year Ended June 30, 2021

Note 1. Summary of Significant Accounting Policies

Basis of Accounting

For financial reporting purposes, the Trust is considered a special-purpose governmental 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 (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 short-term investment funds. Balances are reported at carrying amounts. For purposes of the statement of cash flows, the Trust considers all short-term investment funds purchased with an original 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Accounts Receivable

Accounts receivable are stated at unpaid balances due from members, less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating historical collections on such amounts.

Capital Assets and Depreciation

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 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 Financial Statements
For the Year Ended June 30, 2021

Note 1. Summary of Significant Accounting Policies

Claims Payable

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.

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.

Special Assessments

Under the Intergovernmental Agreement with its members, if at any time the Trustees deem the assets of the Trust to be insufficient to enable it to discharge its obligations, the Trust may assess qualifying members such amounts as are, in the opinion of the Trustees, required to resolve the insufficiency and each member shall have the duty to pay its proportionate amount of the assessment. Such amounts are billed as a special assessment and are treated as claims recoveries used to offset unemployment insurance benefits.

Unemployment Insurance Benefits, Net

Unemployment insurance benefits, net reflect the ultimate cost of settling claims, reduced by the amount of any anticipated recoveries.

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.

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.

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 1. Summary of Significant Accounting Policies

Net Position

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.

Note 2. Coronavirus Pandemic Impact

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and, on March 10, 2020, declared it to be a pandemic. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law. One of the features of the CARES Act was an extension of unemployment compensation by 13 weeks beyond the eligibility time states provided under current law. In addition, the CARES Act provided for the Education Stabilization Fund, through which school districts receive a 50% reimbursement for all unemployment insurance benefit claims that were related to the coronavirus pandemic, and the Coronavirus Relief Fund, which allows city and county governments to obtain funds to cover eligible expenditures such as unemployment insurance benefits. On August 3, 2020, the Catastrophic Cash Flow Strain Act of 2020 was signed into law, streamlining the process for reimbursable employer relief under the CARES Act. This new law aims to ensure that employers such as school districts can receive unemployment payment reimbursement relief under the CARES Act without bearing cash flow burdens that threaten their liquidity. On March 11, 2021, the American Rescue Plan Act of 2021 was signed into law, raising the reduction in unemployment insurance benefit claims to 75%.

In response to initial legislation, for the year ended June 30, 2021, the Trust billed its members for a special assessment as described in note 1 above for unemployment claims relating to July 2020. To the extent that members forwarded those amounts to the Trust, they would decrease future premiums. Anticipated recoveries have been applied against unemployment insurance benefits as described in note 5. In addition, the Trust amended its Intergovernmental Agreement to participate in the Trust, effective July 1, 2020, to address certain issues not contemplated prior to the pandemic.

Note 3. 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 the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held with the cognizant Federal Reserve Bank, or invested in US 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 amount insured by the FDIC as of June 30, 2021 are collateralized by securities held with the Tennessee State Collateral Pool Program. Deposits in the securities trading and brokerage firm are insured up to \$250,000 by the Securities Investor Protection Corporation (SIPC), or by the FDIC.

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 3. Deposits and Investments

At June 30, 2021, carrying balances of cash deposits of the Trust totaled \$378,588. Of this amount, \$24,347 (bank balance of \$29,295) was covered by the FDIC. \$354,240 was exposed to custodial risk, which was primarily from an investment in a money market fund as of June 30, 2021. The money market fund balance of \$343,575 was invested in the Federated Treasury Obligations Fund, which was rated by Standard and Poor's as AAA, as of June 30, 2021.

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 in active markets (classified as Level 1 in the US GAAP fair value hierarchy).

The fair value of investments as of June 30, 2021 are as follows:

Exchange traded funds	\$ 4,692,907
Mutual funds	<u>21,411,337</u>
Total investments	\$ 26,104,244

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 US government and Investment Grade Corporate Bonds; however, these funds are not rated by Standard and Poor's. Investments in US 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 SIPC, up to a maximum amount of \$500,000.

Concentration of Credit Risk

The Trust prohibits equity investments in any one issuer that represent 5% or more of the total value of all investments. Since the remaining investments consist of obligations of the US government and mutual funds, the Trust's investments are not deemed to have a concentration of credit risk.

The change in the fair value of investments is calculated using the aggregate method.

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 3. Deposits and Investments

Calculation of the net increase in the fair value of investments for the year ended June 30, 2021 is as follows:

Fair value, end of year	\$ 26,104,244
Add: proceeds of investments sold	7,494,995
Less: cost of investments purchased	(11,818,140)
Less: fair value, beginning of year	<u>(20,142,871)</u>
Net increase in fair value of investments	\$ 1,638,228

The Trust realized net gains of \$4,214,781 from the sale of investments for the year ended June 30, 2021. 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 for 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 gain on investments held at June 30, 2021 was \$480,107, including accrued income on investments.

Note 4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2021 is as follows:

	Beginning balance	Additions	Disposals	Ending balance
Historical cost				
Building	\$ 322,800	\$ -	\$ -	\$ 322,800
Furniture and equipment	<u>45,395</u>	<u>5,600</u>	<u>(12,370)</u>	<u>38,625</u>
Total historical cost	368,195	5,600	(12,370)	361,425
Accumulated depreciation				
Building	(108,356)	(7,942)	-	(116,298)
Furniture and equipment	<u>(40,467)</u>	<u>(4,192)</u>	<u>12,370</u>	<u>(32,289)</u>
Total accumulated depreciation	(148,823)	(12,134)	12,370	(148,587)
Capital assets, net	\$ 219,372	\$ (6,534)	\$ -	\$ 212,838

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 5. Claims Payable and Unemployment Insurance Benefits

The following represents changes in the claims liability for the Trust for the year ended June 30, 2021:

Claims payable, beginning of year	\$ 986,701
Incurred losses and loss adjustment expenses	
Provision for insured events of the current year	572,066
Change in provision for insured events of prior years	(687,511)
Payments	
Claims payments attributable to insured events of the current year	(236,760)
Claims payments attributable to insured events of prior years	<u>(299,190)</u>
Claims payable, end of year	\$ 335,306

The claims liability included approximately \$333,000 for estimated future claim payments on claims existing at June 30, 2021. The Trust has accounted for the effects of the coronavirus pandemic in its estimate for future claims liability.

For the year ended June 30, 2021, unemployment insurance benefits were \$409,926, net of anticipated recoveries in the amount of \$50,693.

Note 6. Member Dividends

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, 2021 in the amounts of \$958,658.

Note 7. Retirement Plan

The Trust administers a Simplified Employee Pension (SEP) defined contribution plan (the Plan), which became 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 who 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. The Plan does not allow for employee contributions. Total contributions to the Plan amounted to \$27,477 for the year ended June 30, 2021.

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Notes to Financial Statements
For the Year Ended June 30, 2021

Note 8. 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.

Note 9. Subsequent Events

Management has evaluated subsequent events through August 19, 2021, the date on which the financial statements were available for issuance.

Required Supplementary Information

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Ten-year Claims Development Information
For the Year Ended June 30, 2021
(in thousands)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. Premium and investment revenues earned	\$ 1,441	\$ 3,056	\$ 4,019	\$ 2,003	\$ 1,273	\$ 3,568	\$ 2,490	\$ 1,892	\$ 1,640	\$ 6,409
2. Unallocated expenses	279	307	626	1,063	1,206	1,230	1,347	1,374	1,328	1,288
3. Estimated incurred claims and allocated expenses, as of year-end										
Direct incurred	1,547	1,113	521	583	638	647	440	355	1,785	572
4. Paid (cumulative) as of										
End of year	1,547	1,113	746	713	229	251	195	160	798	237
One year later	1,547	1,113	746	713	455	424	319	271	1,098	
5. Re-estimated incurred claims and expense										
End of year	1,547	1,113	521	583	638	647	440	355	1,785	572
One year later	1,547	1,113	521	583	455	424	319	271	1,098	
6. Change in estimated incurred claims and expenses from end of year	-	-	-	-	(183)	(223)	(121)	(84)	(687)	-

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

- (1) Presents the total of each fiscal year's earned contribution revenues and net investment revenues.
- (2) Presents each fiscal year's other operating costs, including overhead and claims expenses not allocable to individual claims.
- (3) Presents the fund's incurred claims and allocated claims adjustment expenses (both paid and accrued), as originally reported at the end of the first year in which the event that triggered coverage occurred.
- (4) Presents the cumulative amounts paid as of the end of successive years for each policy year.
- (5) Presents how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation is derived from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
- (6) Compares the latest re-estimated incurred claims amount to the amount originally established (item 3) and shows whether this latest estimate of claims cost is greater than or less than originally thought.

Internal Control and Compliance Section



**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***

Board of Trustees
Tennessee School Boards Unemployment Compensation Trust
dba UTRUST

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tennessee School Boards Unemployment Compensation Trust dba UTRUST (the Trust) as of and for the year ended June 30, 2021 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 19, 2021.

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) as a basis for designing 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.

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 financial statements. 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

Blankenship CPA Group, PLLC
Goodlettsville, Tennessee
August 19, 2021

**Tennessee School Boards
Unemployment Compensation Trust
dba UTRUST**

Schedule of Prior Year Findings
For the Year Ended June 30, 2021

Finding Number	Finding Title	Status
N/A	N/A	N/A