



**STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE**

**REPORT ON EXAMINATION
of the
WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND
of the
TENNESSEE AUTOMOTIVE ASSOCIATION SELF-INSURERS TRUST
Nashville, Tennessee**

**As of
December 31, 2017**

TABLE OF CONTENTS

Introduction.....	1
Scope of Examination.....	1
Compliance With Previous Examination Findings	2
Trust History	4
Management and Control	4
Conflicts of Interest and Pecuniary Interests.....	5
Corporate Records.....	6
Management Agreements	6
Excess of Loss Insurance.....	7
Territory and Plan of Operation	8
Growth of the Trust.....	8
Loss Experience	9
Correction of Fund Year Deficits.....	9
Refunds or Distributions	9
Accounts and Records	10
Market Conduct Activities	11
Subsequent Events	13
Financial Statements	15
Assets	15
Liabilities and Fund Balance	15
Statement of Operations and Fund Balance	16
Analysis of Changes in Financial Statements.....	17
Comments and Recommendations	17
Conclusion.....	19
Affidavit.....	20

Nashville, Tennessee
December 10, 2018

Honorable Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408 and Tenn. Comp. R. & Regs. 0780-01-54-.20, a full-scope financial examination and market conduct review as of December 31, 2017, has been made of the condition and affairs of:

**WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND
of the
TENNESSEE AUTOMOTIVE ASSOCIATION SELF-INSURERS TRUST
2521 White Avenue
Nashville, Tennessee 37204**

hereinafter and generally referred to as the "Trust," and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under the rules and regulations established by the State of Tennessee. The examination was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2013, to the close of business on December 31, 2017, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC) in the *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and management's compliance with generally accepted accounting principles. The examination also included an assessment of prospective risks faced by the Trust based on information obtained during the course of the examination.

The examination reviewed the Trust's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Trust was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly.

A separate market conduct review was also performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

The Trust provided a letter of representation certifying that management has disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the previous report on examination, as of December 31, 2012, which covered the period from January 1, 2008, through December 31, 2012. A summary of the Commissioner's directives and the corrective actions taken by the Trust is discussed below:

Directive #1

The Trust was directed to comply with Tenn. Comp. R. & Regs. 0780-01-54.04 and 0780-01-54-.05 by implementing controls in order to ensure that amendments to organizational documents and/or written contracts that are required to be filed with the Commissioner are filed at least thirty (30) days prior to the proposed effective date.

Corrective Action

During the current period of examination, the Trust was found to be in compliance with Tenn. Comp. R. & Regs. 0780-01-54.04 and 0780-01-54-.05.

The Trust did not have any amendments to organizational documents or written contracts during the examination period.

Directive #2

The Trust was directed to comply with Tenn. Comp. R. & Regs. 0780-01-54.09(3)(a) by not including member premium receivables that are over ninety (90) days past due in future audited financial statements submitted to the Department.

Corrective Action

During the current period of examination, the Trust was found to be in compliance with Tenn. Comp. R. & Regs. 0780-01-54.09(3)(a). The Trust did not include any member premium receivables that were over ninety (90) days past due in its 2017 Annual Statement.

Directive #3

The Trust was directed to comply with Tenn. Comp. R. & Regs. 0800-02-12-.02(5) by only applying Drug Free Workplace credits to members that have applied and received approval from the Tennessee Department of Labor, Division of Workers' Compensation, on an annual basis.

Corrective Action

During the current period of examination, the Trust was found to be in compliance with Tenn. Comp. R. & Regs. 0800-02-12-.02(5). The Trust only applied Drug Free Workplace credits to those members that had applied and received approval from the Tennessee Department of Labor, Division of Workers' Compensation.

Directive #4

The Trust was directed to comply with Tenn. Comp. R. & Regs. 0800-02-14, Claims-Handling Standards, by refining its internal controls in order to more completely comply with the claim-handling requirements.

Corrective Action

During the current period of examination, the Trust was found to be in compliance with Tenn. Comp. R. & Regs. 0800-02-14. The Trust and its third-party administrator (TPA) were in compliance with all claims handling requirements during the examination period.

Directive #5

The Trust was directed to require its Trust Administrator to comply with Tenn. Comp. R. & Regs. 0780-01-54-.07 by requiring it to obtain an Administrator License from the Commissioner.

Corrective Action

During the current period of examination, the Trust was found to be in compliance with Tenn. Comp. R. & Regs. 0780-01-54-.07. The Trust's Administrator received an Administrator License from the Commissioner dated June 24, 2014.

TRUST HISTORY

The Trust's sponsoring association, the Tennessee Automotive Association (TAA), is a Tennessee non-profit trade association of automobile and truck dealers which was incorporated in 1945. The Trust is an unincorporated association that was created by the TAA to act as a self-insurance group. The operation of the Trust is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Trust is composed of qualifying members of TAA that have pooled their liabilities under the Tennessee Workers' Compensation Law.

In accordance with Tenn. Comp. R. & Regs. 0780-01-54.04, the Trust was created on December 17, 1990, through the adoption of the Declaration of Trust and Bylaws ("Bylaws"). The Trust was formed to act as a workers' compensation self-insurance group as defined by Tenn. Comp. R. & Regs. 0780-01-54-.02(17) and as authorized by Tenn. Code Ann. § 50-06-405. In accordance with Tenn. Comp. R. & Regs. 0780-01-54-.04(2)(e)(2), each member is required to execute and be bound by an indemnity agreement and power of attorney as a condition of membership in the Trust. Membership in the Trust also requires an initial contribution equal to twenty-five percent (25%) of first year estimated annual net premiums for workers' compensation coverage. The Trust continues to maintain the members' deposits.

MANAGEMENT AND CONTROL

Board of Trustees

The operation and administration of the Trust is the joint responsibility of a Board of Trustees ("Trustees") consisting of not more than fifteen (15) nor less than five (5) individuals. Pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.06(1), all Trustees are required to be residents of the State of Tennessee or officers of corporations authorized to do business in the State of Tennessee. At least two-thirds (2/3) of the Trustees are required to be employees, officers, or directors of members of the Trust. During the period under examination, all of the Trustees were members of TAA.

The Trustees shall be elected by the members of the Trust. Each Trustee shall serve for a term of five (5) years. A Trustee may be removed, with or without cause, by a majority vote of all Trustees. If a Trustee dies, becomes incapacitated, refuses to act, resigns, or is removed, his successor shall be appointed by the remaining Trustees to fill the unexpired term of office.

The following persons were duly elected to serve on the Board, as of December 31, 2017:

<u>Name</u>	<u>Principal Business Affiliation</u>
John Murrey	Murrey Chevrolet, Inc.
Russell Gwatney	Gwatney Chevrolet
Rick Hill	Rick Hill Imports
Stan McNabb	Stan McNabb Chevrolet-Cadillac-Buick-GMC
Brent Smith	Ray Smith Chevrolet-Buick
Dave Kirk	Dave Kirk Chevrolet
Yogi Vowell	Carriage Chevrolet-Buick

Officers

Pursuant to the Bylaws, the Trustees shall elect officers from among its members to serve for a term of one (1) year. The officers of the Trust shall consist of a Chairman, Vice-Chairman, and a Secretary. The Trustees may elect other officers if the need arises.

The following persons served as the Trust's officers, as of December 31, 2017:

<u>Name</u>	<u>Title</u>
John Murrey	Chairman
Rick Hill	First Vice-Chairman
Brent Smith	Secretary, Second Vice-Chairman
Russell Gwatney	Third Vice-Chairman
Stan McNabb	Fourth Vice-Chairman

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

Pursuant to Tenn. Comp. R. & Regs. 0780-01-54-.07(6) and (7), Trustees, administrators of the Trust, and their employees cannot receive compensation for, be the beneficiary of, or be pecuniarily interested in any loan, deposit, sale, payment, exchange, or reinsurance transaction made by or on behalf of the Trust. During the course of the examination, no instances of non-compliance with Tenn. Comp. R. & Regs. 0780-01-54.07(6) and (7) were noted. However, as a best practice, examiners recommended creating conflict of interest disclosure documents to be completed by the Trustees. In response, the Trust's management created disclosure documents and

obtained conflict of interest disclosures from the Trustees during the examination. See the "Comments and Recommendations" section later in this report.

CORPORATE RECORDS

The Trust's Bylaws state that the Trustees shall meet quarterly, or as often as required, at the principal office of the Trust, or at such other location as may be acceptable to the Trustees. Special meetings of the Trustees may be called at any time and may be by telephone conference calls or other methods of communication by which all Trustees participating may simultaneously hear each other. During the period under examination, there were eighteen (18) regular and special meetings of the Trustees and five (5) meetings of the members of the Trust. The minutes of the meetings were reviewed and appear to reflect properly the acts of the respective bodies. Membership requirements, powers and duties of the Trustees, and Group members were verified to be in accordance with Tenn. Comp. R. & Regs. 0780-01-54.

MANAGEMENT AGREEMENTS

The Trust had six (6) management agreements in effect, as of December 31, 2017. The following are summaries of the agreements in effect as of the examination date:

Administrative Agreement

Effective December 17, 1990, the original Administrative Agreement was executed between Tennessee Automotive Association Service Company (TAASC) and the Trust. Effective January 5, 2006, TAASC and the Trust entered into a revised Administrative Agreement. The Trustees engaged TAASC to act as the administrator of the Trust within the meaning of Tenn. Comp. R. & Regs. 0780-01-54-.02(1) and (2), to carry out the policies established by the Trustees, and to provide day-to-day management of the Trust, to the extent such functions are not performed by the service agent.

Claims Processing Agreement

Effective December 1, 2016, the Trust entered into an agreement with Brentwood Services Administrators, Inc. (BSA) that provided "Specified Third Party Administrator Services" in regards to claims processing and other related services.

The agreement with BSA is effective from December 1, 2016, to October 1, 2019. The agreement is automatically renewed for consecutive one (1) month terms at the ending date unless written notice of termination is provided by one (1) party to the other party thirty (30) days prior to the ending date of the agreement or any one (1) month extension thereof, or a new agreement is entered into between the parties. Either party may terminate the agreement during its term by providing one hundred twenty (120) days prior written notice of termination to the other party.

Medical Bill Review Services Agreement

Effective December 1, 2016, through October 1, 2019, the Trust entered into an agreement with BSA for medical bill review. This agreement has the same renewal and termination terms as the above Claims Processing Agreement. BSA is paid a percentage of all savings derived from reductions to the medical provider's bill.

The prior agreement with BSA for medical bill review was effective from October 1, 2013, through October 1, 2016.

Medical Cost Containment Services Agreement

Effective December 1, 2016, through October 1, 2019, the Trust entered into an agreement with BSA for medical cost containment services for larger medical expense claims or claims in which applicable law requires such services. This agreement had the same renewal and termination terms as the above Claims Processing Agreement and Medical Bill Review Services Agreement. BSA is paid a stated hourly rate depending on the services rendered.

The prior agreement with BSA for medical cost containment was effective from October 1, 2013, through October 1, 2016.

Royalty Agreement

Effective January 1, 1992, and continuing through the period of examination, the Trust paid royalty fees to TAA equal to a percentage of earned premiums. Such fees were approved by the Trustees to be paid to the Association for the use of the TAA trade name in the marketing efforts of the Trust.

Custodial Agreement

The Trust and First Tennessee Bank executed a Custodial Agreement in 2009. This agreement did not comply with all of the provisions of Tenn. Comp. R. & Regs. 0780-01-46. See the "Subsequent Events" and "Comments and Recommendations" sections later in this report.

EXCESS OF LOSS INSURANCE

In accordance with Tenn. Comp. R. & Regs. 0780-01-54-.04(3)(c), the Trust maintained an excess of loss agreement for workers' compensations and employers' liability claims with Safety National Casualty Corporation throughout the period under examination. The agreement contains both specific and aggregate coverage.

The policies provide coverage for losses sustained by the Trust as a result of injury by accident occurring during the policy period or by disease caused or aggravated by exposure to conditions occurring during the policy period. The policies have provisions

for the continuation of coverage in the event of Trust insolvency. The policies were written by a company authorized to do business in the State of Tennessee.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2017, and as of the date of this report, the Trust was licensed to transact business only in the State of Tennessee. The Trust is licensed to operate as a self-insured workers' compensation pool which provides workers' compensation coverage to its members.

GROWTH OF THE TRUST

The following exhibit depicts certain aspects of the growth and financial history of the Trust for the period subject to this examination, according to audited financial statements filed with the TDCI:

<u>Year</u>	<u>Earned Premiums</u>	<u>*Total Reserves for Loss & LAE</u>	<u>Assets</u>	<u>Liabilities</u>	<u>**Distributions Due to Members</u>
2017	\$7,758,015	\$9,987,207	\$22,110,930	\$22,110,930	\$9,930,112
2016	\$8,111,420	\$10,265,477	\$21,761,932	\$21,761,932	\$9,266,916
2015	\$8,881,400	\$11,214,080	\$20,598,018	\$20,598,018	\$7,505,921
2014	\$8,360,794	\$11,089,395	\$18,720,579	\$18,720,579	\$5,438,639
2013	\$8,220,565	\$11,271,527	\$17,440,092	\$17,440,092	\$3,845,689

*This represents the total reserves for loss & loss adjustment expenses for all policy years with open claims since inception.

**This liability for "Distributions Due To Members," as disclosed in the Audited Financial Statements, was treated as surplus funds by the Trust.

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Trust for the period under review, as reported by the Trust in its audited financial statements filed with the TDCI:

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses & LAE</u>	<u>Underwriting Ratio</u>	<u>Gen. & Adm. Expenses</u>	<u>Gen. & Adm. Expense to Premiums</u>	<u>Combined Ratio</u>
2017	\$7,758,015	\$4,178,551	53.9%	\$2,128,031	27.4%	81.3%
2016	\$8,111,420	\$3,594,601	44.3%	\$2,401,019	29.6%	73.9%
2015	\$8,881,400	\$4,560,776	51.4%	\$2,111,456	23.8%	75.2%
2014	\$8,360,794	\$5,063,768	60.6%	\$2,035,083	24.3%	84.9%
2013	\$8,220,565	\$6,679,219	81.3%	\$1,974,440	24.0%	105.3%

CORRECTION OF FUND YEAR DEFICITS

On June 20, 2018, the Trust notified the TDCI of fund year deficit corrections for the years 2008, 2010, and 2011 which had deficits of \$398,293, \$85,323, and \$982,300, respectively. The Trust requested a transfer of surplus from the policy years 2007 and 2009 in the amounts of \$866,873 and \$599,043, respectively, to cover the combined 2008, 2010, and 2011 fund year deficits totaling \$1,465,916. The TDCI, via email dated July 27, 2018, approved the surplus transfers from the 2007 and 2009 policy years to the 2008, 2010, and 2011 policy years pursuant to Tenn. Comp. R. & Regs. 0780-01-54.24(1)(b).

The Trust filed a correction of fund year deficits and surplus transfers every year of the examination period, all of which were approved by the TDCI in accordance with Tenn. Comp. R. & Regs. 0780-01-54.24(1)(b).

REFUNDS OR DISTRIBUTIONS

Tenn. Comp. R. & Regs. 0780-01-54.15 states, "Any monies for a fund year in excess of the amount necessary to fund all obligations for that fund year may be declared refundable by the board of trustees not less than eighteen (18) months after the end of the fund year and only with the written approval of the Commissioner." If the refund is declared, ten percent (10%) of the refundable amount must be retained by the pool for an additional year to cover any obligations that may not yet have been reported.

During the current period of examination, and prior to the end of each policy year, the Trustees continued to declare all policy year surplus in excess of the funds not needed

to comply with Tenn. Comp. R. & Regs. 0780-01-54-.11(1) as payable to the members with the written approval of the Commissioner. Therefore, the Trust was in compliance with Tenn. Comp. R. & Regs. 0780-01-54.15.

ACCOUNTS AND RECORDS

Tenn. Comp. R. & Regs. 0780-01-54-.09(2) requires the Trust to submit to the Commissioner a statement of financial condition audited by an independent certified public accountant on or before the last day of the sixth (6th) month following the end of the Trust's fiscal year. As permitted by Tenn. Comp. R. & Regs. 0780-01-54-.09(5), the Trust's financial statements were presented in accordance with Generally Accepted Accounting Principles (GAAP).

The Trust's independent auditor, Lattimore Black Morgan & Cain, PC. (LBMC), issued the Trust's GAAP audited financial statements and prepared the Trust's federal income tax returns. LBMC also prepared all year-end adjusting entries and an adjusted trial balance as of year-end.

While reviewing the audit engagement letters issued by LBMC, it was determined that the lead partner on the Trust's audit engagement acted as such from 2008 through 2017. Audit partner rotation is considered a best practice and the Trust should consider having LBMC rotate audit partners on its engagement every five (5) years. See the "Comments and Recommendations" section later in this report.

In the course of reviewing the Trust's compliance with Tenn. Comp. R. & Regs. 0780-01-54-.11(1)(a), which requires the Trust to maintain aggregate surplus of at least thirty percent (30%) of its unpaid claims liabilities, it was determined that the Trust treats its annual statement liability line item "Distributions due to Members," as surplus when determining whether it has met the aggregate surplus requirement. While the funds of the Trust associated with this liability are available for the payment of claims and are more than 30% of the unpaid claims liabilities of the Trust, a liability of the Trust cannot simultaneously be considered surplus funds of the Trust. The Trust has agreed to report adequate surplus to satisfy the requirements of this regulation prospectively. Due to the nature of this reporting issue, restatement of the prior period financial statements was not deemed necessary. See the "Comments and Recommendations" section later in this report.

The Trust's 2017 annual statement was reconciled to the corresponding general ledger account balances. All of the Trust's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies.

The Trust's books and records are located at the TAA headquarters in Nashville, Tennessee and the BSA headquarters in Brentwood, Tennessee.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Trust as of December 31, 2017. The following areas were addressed:

Underwriting

During the period of examination, the Trust used established underwriting guidelines to determine the acceptance or rejection of underwriting risks. These guidelines, which were approved by the Trustees and filed with the TDCI prior to the period of examination, were found to be in compliance with Tenn. Comp. R. & Regs. 0780-01-54-.08(1). No exceptions were noted with regard to the Trust's compliance with its underwriting guidelines.

During the period of examination, examiners were unable to determine whether all new members, member cancellations, and terminations had been reported to the TDCI in accordance with Tenn. Comp. R. & Regs. 0780-01-54-.08(4) and .08(7). See the "Comments and Recommendations" section later in this report. The Trust has maintained all member documentation in accordance with Tenn. Comp. R. & Regs. 0780-01-54-.08(5) and .08(6), including all records of termination or cancellation.

Rate and Premium Contributions

Trust rate and premium contributions were examined for compliance with Tenn. Comp. R. & Regs. 0780-01-54-.10, Rates and Rate Reporting. No exceptions were found.

Advertising

In the examination of Trust's advertising, items issued by the Trust were examined in accordance with Tenn. Code Ann. § 56-08-104(1) and (2). The Trust's bulletins and internet website were examined in accordance with the statute and found to be in compliance.

Claims Review

The Trust's processing of workers' compensation claims was examined for compliance with claims handling standards as required by the Department of Labor, Division of Workers' Compensation Tenn. Comp. R. & Regs. 0800-02-14.

A sample of claims that were open as of December 31, 2017, and a sample of closed claims incurred during the period of examination were reviewed. Information regarding the examination of these open and closed claims files is described below:

Reporting Requirements

Tenn. Comp. R. & Regs. 0800-02-14-.03(1) requires employers to report accidents to their insurer within one (1) working day of knowledge of injury. No exceptions were found.

Investigation

Tenn. Comp. R. & Regs. 0800-02-14-.06 requires documentation of medical rating, date of Maximum Medical Improvement (MMI) by the treating physician, information needed to settle a claim, and an offer of settlement in writing within thirty (30) days of MMI. No exceptions were found.

Payment of Benefits

Tenn. Comp. R. & Regs. 0800-02-14-.05 requires compensation payments for an injury to be received by the claimant no later than fifteen (15) days after notice of injury. It also requires compensation benefits be issued timely to assure the injured employee receives the benefits no later than the date they are due. No exceptions were found.

Payment of Medical Costs

Tenn. Comp. R. & Regs. 0800-02-14-.07 requires all medical costs owed under the Tennessee Workers' Compensation Law be paid within forty-five (45) days of receipt of invoice. No exceptions were found.

Case Reserves

The Trust established and maintained reserves for known claims and expenses and claims Incurred But Not Reported, pursuant to Tenn. Comp. R. & Regs. 0780-01-54.11(4).

In the examination of case reserves, the examiner considered the reserve established in each case and the overall reserve pattern present in the sample in determining if the Trust established and maintained adequate reserves. The examiner found that the case reserves tested as of December 31, 2017, appeared to be adequate at the time of review, based on known health information of the injured employee.

In general, during the period of examination, the Trust exercised a conservative reserve policy that resulted in establishment of an adequate reserve in compliance with rule requirements.

Policyholder Complaints

Complaints for workers' compensation claims are handled through the Tennessee Department of Labor and Workforce Development (TDOL). Information on how to request assistance is posted on the TDOL website. The website provides contact information in order to file a complaint with the TDOL.

BSA maintains a complaint register on behalf of the Trust in accordance with Tenn. Code Ann. § 56-8-104(11). No complaints were received on behalf of the Trust during the period under examination, nor did the Department receive any formal complaints about the Trust.

Privacy of Non-Public Personal Information

The Trust's members are commercial businesses. Accordingly, Tenn. Comp. R. & Regs. 0780-01-72-.02(2), Privacy of Consumer Information Regulations, does not apply to commercial businesses.

The third-party vendors engaged by the Trust for accounting, claims, underwriting, excess insurance, investments, and member premium audits have written privacy policies, or their agreements with the Trust contain confidentiality and protection language governing Trust, member, and injured employee information.

Anti-Fraud Plan

The Trust has a formalized anti-fraud plan, which was filed with the TDCI on February 25, 2009. The anti-fraud plan language is in compliance with Tenn. Code Ann. § 56-47-112(a).

SUBSEQUENT EVENTS

The Trust on June 20, 2018, notified the TDCI of a 2008 fund year deficit of \$398,293, a 2010 fund year deficit of \$85,323, and a 2011 fund deficit of \$982,300. The Trust requested a transfer of surplus from the 2007 and 2009 policy years to cover the combined fund year deficits totaling \$1,465,916. The TDCI, via email dated July 27, 2018, approved the surplus transfers from the 2007 and 2009 policy years to the 2008, 2010, and 2011 policy years pursuant to Tenn. Comp. R. & Regs. 0780-01-54.24(1)(b).

At the May 3, 2018, Trustees Meeting, the Trustees approved the request for a refund of surplus of \$828,822.82. This request was sent to the TDCI on the June 20, 2018,

and was approved on July 27, 2018, via email. This refund of surplus was distributed to the Members in January 2019.

On February 26, 2019, the Trust entered into a revised Custodial agreement with First Tennessee Bank in order to comply with the requirements set forth in Tenn. Comp. R. & Regs. 0780-01-46-.02.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and fund balance, and a statement of operations and fund balance as reported by the Trust in its 2017 Annual Statement.

ASSETS

Cash and cash equivalents	\$110,040
Investments	20,910,248
Premiums receivable	725,085
Other receivable	36,145
Prepaid expenses	1,302
Accrued investment income	159,162
Reinsurance receivable	62,350
Restricted investments	<u>106,598</u>
Total	<u>\$22,110,930</u>

LIABILITIES AND FUND BALANCE

Loss and loss-adjustment expense reserves	\$9,987,207
Accounts payable to members	15,777
Accounts payable and accrued expenses	352,010
Distributions due to members	9,930,112
Deferred revenue	220
Income taxes payable	262,543
Member deposits	<u>1,563,061</u>
Total Liabilities	\$22,110,930
Fund Balance	<u>0</u>
Total	<u>\$22,110,930</u>

STATEMENT OF OPERATIONS AND FUND BALANCE

Revenues

Net premiums	\$7,758,015
Investment income	<u>296,188</u>
Total revenues	<u>8,054,203</u>

Expenses

Loss and loss-adjustment	4,178,551
Administrative fees	310,531
Bank charges	82,015
Payroll audit expenses	52,198
Premium taxes	188,024
Professional fees	96,354
Reinsurance	592,010
Royalty fees	88,723
Service fees	703,640
Miscellaneous	<u>14,536</u>

Total expenses 6,306,582

Earnings before income taxes and
distributions due to members 1,747,621

Income tax expense 535,902

Earnings before distributions due to
members 1,211,719

Distributions due to members 1,211,719

Net earnings \$0

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Distributions Due to Members

\$9,930,112

Total distribution due to members, which the Trust considers to be its surplus funds, as established by this examination, is the same as what was reported by the Trust in its 2017 annual statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2017.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Management and Control" section of this report, the Trust did not have a Conflict of Interest Disclosure form during the period under examination. Maintaining a Conflict of Interest Disclosure form and requiring annual disclosures of officers is considered a best practice because it documents the Trust's compliance with Tenn. Comp. R. & Regs. 0780-01-54-.07(6) and (7), which prohibits Trust officers from being pecuniarily interested in any funds of the Trust. In October 2018, the Trust created a Conflict of Interest Disclosure form and had each member of the Board complete one. No issues were noted with regard to the Trust's compliance with Tenn. Comp. R. & Regs. 0780-01-54-.07(6) and (7).
2. As noted in the "Management Agreements" section of this report, it was noted that the Trust's Custodial Agreement with First Tennessee Bank did not comply with Tenn. Comp R. & Regs. 0780-01-46-.02 paragraphs (d), (f) through (h), (j), (k), (n), and (o). Subsequent to the period under examination, on February 26, 2019, the Trust entered into a revised Custodial Agreement with First Tennessee Bank in order to comply with this regulation.
3. As noted in the "Accounts and Records" section of this report, it was noted that the Trust's auditors, LBMC, had not rotated audit partners on the Trust's engagement. As a best practice, the Trust should consider having LBMC rotate audit partners on its engagement every five (5) years.

Recommendations

1. As noted in the "Accounts and Records" section of this report, the Trust treats its annual statement liability line item, "Distributions due to Members," as surplus when determining whether it has met the aggregate surplus requirement set forth in Tenn. Comp. R. & Regs. 0780-01-54-.11(1)(a). This regulation requires the Trust to maintain minimum aggregate surplus in the amount of 30% of its unpaid claims liability. While the funds of the Trust associated with this liability are available for the payment of claims, a liability of the Trust cannot simultaneously be considered surplus funds of the Trust.

It is recommended that the Trust establish Surplus in an amount that is sufficient to satisfy the requirement of this regulation.

2. As noted in the "Market Conduct Activities" section of this report, the Trust's member list was tested against the member list reported to the TDCI. The results of this test showed a significant difference between the two lists. The Trust was unable to provide documentation showing that all members added and canceled or terminated during the examination period were reported to the TDCI as required by Tenn. Comp. R. & Regs. 0780-01-54-.08.

It is recommended that the Trust file all new member and cancellation documentation with the TDCI in order to comply with Tenn. Comp. R. & Regs. 0780-01-54-.08.

CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Workers' Compensation Self-Insurance Group Fund of the Tennessee Automotive Association Self-Insurers Trust.

In such manner, it was found that, as of December 31, 2017, the Trust had assets of \$22,110,930 and liabilities, exclusive of distributions due to members, of \$12,180,818. Thus, there existed for the additional protection of the members of the Trust, the amount of \$9,930,112 in the form of distributions due to members (undistributed earnings). Tenn. Comp. R. & Regs. 0780-01-54-.11(1) requires self-insured workers' compensation pools to maintain a minimum surplus equal to thirty percent (30%) of the unpaid claims liability of the pool. As established earlier in this report, the Trust maintains undistributed earnings classified as a liability, "Distributions Due to Members," in an amount that is sufficient to meet the requirement of Tenn. Comp. R. & Regs. 0780-01-54-.11(1).

The courteous cooperation of the officers and employees of the Trust's Administrator, TAASC, extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Dustin Rice, Insurance Examiner, and Jay Uselton, CFE, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



Daniel O. Clements, CPA
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of the Workers' Compensation Self-Insurance Group Fund of the Tennessee Automotive Association Self-Insurers Trust located in Nashville, Tennessee, dated December 10, 2018, and made as of December 31, 2017, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Daniel O. Clements, CPA
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 31st day of May, 2019

Mindy C. Walker
(NOTARY)

My Commission Expires: 7.6.2020



EXHIBIT B



TENNESSEE AUTOMOTIVE ASSOCIATION SELF INSURERS' TRUST

TAA Building • 2521 White Avenue • Nashville, Tennessee 37204
(615) 269-3433

Board of Directors

John Murrey, *Chairman*
Pulaski

Russell Gwatney
Memphis

Rick Hill
Kingsport

Dave Kirk
Crossville

Stan McNabb
Tullahoma

Chris Lee
Bristol
ex-officio

Trust Administrator
Roberts V. Weaver, Jr.
Nashville

June 5, 2019

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

**RE: Report of Examination – Workers' Compensation Self-Insurance Group Fund
of the Tennessee Automotive Association Self-Insurers Trust**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Workers' Compensation Self-Insurance Group Fund of the Tennessee Automotive Association Self-Insurers Trust, made as of December 31, 2017.

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

On a personal note, on behalf of the TAASIT Trustees, I want to acknowledge the professionalism, expertise and courtesy exhibited by the auditors to me and our team members during this examination. The cooperative nature of our relationship with the Department is gratefully appreciated.

Sincerely,

Roberts V. Weaver, Jr.
President, Tennessee Automotive Association Service Company as
Trust Administrator, TAASIT