The State of Tennessee

Captive Insurance Company

AUDITED FINANCIAL STATEMENTS

June 30, 2025 and 2024



THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The State of Tennessee Captive Insurance Company
Nashville, Tennessee

Opinion

We have audited the accompanying financial statements of **The State of Tennessee Captive Insurance Company**, a nonprofit corporation, which comprise the balance sheets as of June 30, 2025 and 2024, and the related statements of operations, changes in owner's equity, and cash flows for the fiscal years ended June 30, 2025 and 2024, and the related notes to the financial statements.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of The State of Tennessee Captive Insurance Company (the "Company") as of June 30, 2025 and 2024, and the results of its operations and its cash flows for the fiscal years ended June 30, 2025 and 2024, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

FMC CPAs, PLLC

Nashville, Tennessee
October 6, 2025

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

BALANCE SHEETS

	June 30	
	2025	**2024**
ASSETS		
Cash and cash equivalents	$ 76,992,001	$ 57,629,797
Deferred policy acquisition costs	17,500	16,277
TOTAL ASSETS	$ 77,009,501	$ 57,646,074
LIABILITIES AND OWNER'S EQUITY		
LIABILITIES		
Reserves for losses and loss adjustment expenses	$ 45,995,715	$ 46,709,842
Unearned premiums	4,375,001	4,069,188
Losses payable	4,004,285	0
Accounts payable	90,000	90,000
TOTAL LIABILITIES	54,465,001	50,869,030
OWNER'S EQUITY		
Contributed capital	23,800,000	23,800,000
Retained earnings	(1,255,500)	(17,022,956)
TOTAL OWNER'S EQUITY	22,544,500	6,777,044
TOTAL LIABILITIES AND OWNER'S EQUITY	$ 77,009,501	$ 57,646,074

See notes to financial statements.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

STATEMENTS OF OPERATIONS

	Year Ended June 30	
	2025	**2024**
REVENUES		
Premiums Earned		
Direct premiums written	$ 16,520,000	$ 15,471,500
Change in unearned premiums	(305,813)	(193,784)
Premiums Earned	16,214,187	15,277,716
Interest income	3,036,330	2,630,752
TOTAL REVENUES	19,250,517	17,908,468
EXPENSES		
Losses and loss adjustment expenses	3,290,158	25,212,280
Policy acquisition and other underwriting expenses	192,903	187,121
TOTAL EXPENSES	3,483,061	25,399,401
INCOME (LOSS) BEFORE INCOME TAXES	15,767,456	(7,490,933)
Income taxes (Note A)	0	0
NET INCOME (LOSS)	$ 15,767,456	$ (7,490,933)

See notes to financial statements.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

STATEMENT OF CHANGES IN OWNER'S EQUITY

Years Ended June 30, 2024 and 2025

	Contributed Capital	Retained Earnings	Total Owner's Equity
BALANCE AT JUNE 30, 2023	$ 23,800,000	$ (9,532,023)	$ 14,267,977
Net income (loss) for 2024		(7,490,933)	(7,490,933)
BALANCE AT JUNE 30, 2024	$ 23,800,000	$ (17,022,956)	$ 6,777,044
Net income (loss) for 2025		$ 15,767,456	15,767,456
BALANCE AT JUNE 30, 2025	$ 23,800,000	$ (1,255,500)	$ 22,544,500

See notes to financial statements.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

STATEMENT OF CASH FLOWS

	Year Ended June 30	
	2025	2024
OPERATING ACTIVITIES		
Direct premiums collected	$ 16,520,000	$ 15,471,500
Interest income received	3,036,330	2,630,752
Policy acquisition and other underwriting expenses paid	(194,126)	(187,896)
Net Cash Provided By Operating Activities	19,362,204	17,914,356
INVESTING ACTIVITIES	0	0
FINANCING ACTIVITIES	0	0
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 19,362,204	$ 17,914,356
Cash and cash equivalents at beginning of period	57,629,797	39,715,441
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 76,992,001	$ 57,629,797

(Continued)

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

STATEMENT OF CASH FLOWS - Continued

	Year Ended June 30	
	2025	**2024**
RECONCILIATION OF NET INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
NET INCOME (LOSS)	$ 15,767,456	$ (7,490,933)
Reconciling Adjustments		
Decrease (increase) in assets:		
Deferred policy acquisition costs	(1,223)	(775)
Net decrease (increase) in assets	(1,223)	(775)
Increase (decrease) in liabilities:		
Reserves for losses and loss adjustment expenses	(714,127)	25,212,280
Unearned premiums	305,813	193,784
Losses payable	4,004,285	-
Net increase (decrease) in liabilities	3,595,971	25,406,064
Total Reconciling Adjustments	3,594,748	25,405,289
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 19,362,204	$ 17,914,356

See notes to financial statements.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

NOTE A -- NATURE OF OPERATIONS

General: The State of Tennessee Captive Insurance Company (the "Company") is a nonprofit corporation that was established effective June 2, 2022, by the State of Tennessee as a pure captive insurance company domiciled in the State of Tennessee. The Tennessee Department of Commerce and Insurance (the "Department") issued a certificate of authority to the Company, effective June 15, 2022, which enabled it to begin insurance operations. The Company's ongoing activities are subject to the provisions of the Revised Tennessee Captive Insurance Act (Title 56, Chapter 13 of the Tennessee Code Annotated), and other state and federal laws and regulations. The Captive Insurance Division of the Department, as directed by its Commissioner, has primary responsibility for regulation of the Company's activities as a pure captive insurance company domiciled in Tennessee. On June 15, 2022, the Company began operations to provide all-risk property insurance and cyber liability to The State of Tennessee.

Ownership and Business Operations: The Company is a separate legal entity owned and controlled by the State of Tennessee and insures the State of Tennessee's potential losses, exposures and risks of the executive, legislative, and judicial branches of the Tennessee state government including, but not limited to, Tennessee public institutions of higher education. The Company is administered by the Tennessee Treasury Department of Claims and Risk Management.

Company Governance and Management: The Company has no employees and is governed by a Board of Directors (the "Board"), which includes members from the State of Tennessee's Board of Claims. The Board has obtained day-to-day captive management services pursuant to an agreement between the State of Tennessee and Aon Risk Services South, Inc. ("ARS"). ARS utilizes the services of Aon Insurance Managers (USA) Inc. ("Captive Manager"), a captive management company with offices in Charleston, South Carolina. The Captive Manager provides general management services which include policy issuance, program management accounting and regulatory compliance.

The State of Tennessee has obtained specialized claims handling, adjusting, and processing services from Sedgwick, an independent third-party service provider with offices in Nashville, Tennessee for claims covered by the insurance policies. Fees for these services are paid by the State of Tennessee on behalf of the Company.

NOTE B -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which are contained in the Financial Accounting Standards Board *Accounting Standards Codification* ("FASB ASC"). The Company has a reporting period from July 1 through June 30 fiscal year as its annual reporting period.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Significant estimates used by management in preparing these financial statements principally include those assumed in connection with: a) determining deferred policy acquisition costs, and b) establishing reserves for unpaid losses and loss adjustment expenses. Due to uncertainties inherent in the estimation process, it is expected that management's estimates will differ from the amounts ultimately realized, and such differences may be material.

Cash and Cash Equivalents: Cash consists of balances on deposit in a commercial bank. For financial statement purposes, all cash balances reflected on the Company's books as of a reporting date are aggregated and the net balance is reported. Generally, the Federal Deposit Insurance Corporation ("FDIC") insures the total amount deposited by each customer in a participating bank up to its basic limit of $250,000. From time to time, the Company's cash balances on deposit in a single bank may exceed the FDIC insurance limit.

Cash equivalents include highly-liquid, interest-bearing investments, such as shares in money market mutual funds, that have original maturities of three months or less at the time of acquisition. Cash equivalents are recorded at cost, which approximates fair value. The Company held no cash equivalents at June 30, 2025 or 2024.

Investments: In accordance with U.S. GAAP, the Company may report investments at amortized cost or at fair value in the financial statements in accordance with their investment type and classification.

Debt Securities - Generally, debt securities may be classified by management as held-to-maturity, available-for-sale, or trading. Held to maturity debt securities are recorded at amortized cost. Available-for-sale debt securities are recorded at fair value and the change in amount of unrealized capital gain and loss, net of deferred taxes, is excluded from earnings and included as a component of comprehensive income. Trading debt securities are recorded at fair value with the change in unrealized capital gains and losses reported in earnings. The company held no investments in debt securities at June 30, 2025 or 2024.

Equity Securities - Equity securities are recorded at fair value with the change in unrealized capital gains and losses reported in earnings. The Company held no investments in equity securities at June 30, 2025 or 2024.

Policy Acquisition Costs: Costs directly associated with the successful acquisition of new and renewal insurance coverage provided to the affiliate insured companies are capitalized and amortized over the respective inforce period of the policies. Acquisition costs incurred by the Company principally include premium taxes that relate to underwriting and issuance of policies. Such policy acquisition costs are amortized over the effective 12-month period of the related insurance policies. The deferred policy acquisition cost assets in the accompanying balance sheets at June 30, 2025 and 2024 are $17,500 and 16,277, respectively. Amortization of $64,857 and $45,741 were charged to operations for the fiscal years ended June 30, 2025 and 2024, respectively.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

Premiums: Insurance premiums are earned ratably over the terms of the policies, which are generally issued for a 12-month period. The liability for unearned premiums is determined using a monthly pro-rata calculation method. Amounts received prior to the effective date of a coverage period, if any, are recognized as "Advance premiums" and reported as a liability in the balance sheets.

Premiums Receivable: The Premiums receivable balance (if any) is recorded when a policy is issued and on the effective date of a policy endorsement. Installments due as of a reporting date and thereafter are recognized as "premiums receivable". Premiums are generally paid in full at the beginning effective date of the policy. Accordingly, there are no past due receivables and an allowance for credit losses was deemed unnecessary at June 30, 2025 and 2024.

Losses and Loss Adjustment Expenses: The reserves for unpaid losses and loss adjustment expenses include estimates for reported losses ("case reserves"), plus supplemental amounts for incurred but not reported losses ("IBNR"), as applicable. Case reserves are established for the amount of expected losses and adjusted as necessary. IBNR reserves, if any, are established based upon loss projections using a combination of historical loss experience and industry data. In establishing the reserves for unpaid losses and loss adjustment expenses, management uses the findings of an independent consulting actuary.

Management believes that its aggregate reserves for unpaid losses and loss adjustment expenses at the end of a reporting period represents its best estimate, based upon available data, of the amount necessary to cover the ultimate cost of losses; however, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be in excess of, or less than, the amount indicated in the financial statements by a significant amount. As adjustments to these estimates become necessary, such adjustments will be reflected in current year operations.

Losses Payable: Losses payable are recorded for claim payments that have been processed as of June 30, 2025, but have not been paid as of that date.

Reinsurance Assumed and Ceded: The Company does not have any reinsurance agreements.

Income Taxes: The Company qualifies as a nonprofit corporation under Section 501(c) of the internal revenue code and is exempt from federal income taxes. Accordingly, the Company has no uncertain tax positions as of June 30, 2025 or 2024.

Subsequent Events: In preparing the accompanying financial statements, management has evaluated subsequent events through October 6, 2025, which represents the date the financial statements were available to be issued.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

NOTE C -- RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company retains aggregate property losses of $25,000,000 excess of a per occurrence self-insured retention amount of $7,500,000 for the 2024-2025 policy period and $2,500,000 for all prior policy periods for all types of property claims in excess of current maintenance deductibles, as specified within the terms of its insurance policy. In addition, the Company retains aggregate losses of $10,000,000 excess of a per occurrence retention amount of $1,500,000 for cyber liability claims. Activity in the Company's reserves for unpaid losses and loss adjustment expenses is summarized as follows for the fiscal years ended June 30:

	2024 - 2025	2023 - 2024
Total reserves at beginning of period	$ 46,709,842	$ 21,497,562
Incurred related to:		
Current fiscal year	0	25,000,000
Prior fiscal years	3,290,158	212,280
Total incurred during the reporting period	3,290,158	25,212,280
Paid (*including change in losses payable*) related to:		
Current fiscal year	0	0
Prior fiscal years	(4,004,285)	0
Total paid during the reporting period	(4,004,285)	0
TOTAL RESERVES AT END OF PERIOD	$ 45,995,715	$ 46,709,842

As shown above by the caption "Incurred related to Prior fiscal years", the Company experienced unfavorable development of $3,290,518 and $212,280 during 2024 - 2025 and 2023 - 2024, respectively, in regard to the estimated reserves that were reported at June 30, 2024 and 2023, respectively. In establishing the reserves for unpaid losses and loss adjustment expenses, which includes expected development on known claims, management uses the findings of an independent actuary. The actuary incorporates a variety of actuarial methods and judgements in developing a range of reasonable estimates. There is significant uncertainty inherent in the actuary's estimate. The actuary uses the specific historical incurred and paid loss data related to the Company as well as well as industry data, on a per claim basis.

The information about incurred and paid claims development of property claims for the Company's current reporting period, and the average annual percentage payout of incurred claims by age as of June 30, 2025, is presented as required supplementary information, and has therefore not been audited.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

Cumulative incurred losses and loss adjustment expenses (LAE), by accident year are as follows (in thousands):

	For the fiscal year ended June 30, (Unaudited)		
Accident Year	**2023**	**2024**	**2025**
2022-2023	$ 21,498	$ 21,710	$ 25,000
2023-2024		25,000	25,000
2024-2025			0
			50,000

Cumulative paid losses and loss adjustment expenses by accident year are as follows (in thousands):

	For the fiscal year ended June 30, (Unaudited)		
Accident Year	**2023**	**2024**	**2025**
2022-2023	$ 0	$ 0	$ 4,004
2023-2024		0	0
2024-2025			0
			4,004

Calculation of reserves for unpaid losses and loss adjustment expenses is as follows (in thousands):

Through the fiscal year ended June 30, 2025 (Unaudited)	
Cumulative incurred losses and loss adjustment expenses (above)	$ 50,000
Cumulative paid losses and loss adjustment expenses (above)	(4,004)
Total reserves for unpaid losses and loss adjustment expenses	$ 45,996

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

As of June 30, 2025, incurred losses and loss adjustment expenses (LAE), incurred but not reported claims (IBNR) liabilities, and frequency of claims by accident year based on number of claimants is as follows (in thousands, except claim counts):

	(Unaudited Amounts)		
Accident Year	Incurred Losses and LAE	IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2022-2023	$ 25,000	$ 1,454	2
2023-2024	25,000	0	4
2024-2025	0	0	0

Due to the Companies short history, the Company has no meaningful average historical annual payout to report.

NOTE D -- MINIMUM REGULATORY EQUITY (CAPITAL AND SURPLUS)

Pure captive insurance companies domiciled in Tennessee (including the Company) are required to maintain unimpaired "capital and surplus" of not less than $250,000, which may be in the form of cash, cash equivalents, and/or an irrevocable letter of credit with a bank, as permitted by Section 56-13-105 of the Tennessee Code Annotated. At June 30, 2025 and 2024, respectively, the Company's total owner's equity exceeds the minimum regulatory "capital and surplus" requirement in Tennessee.

NOTE E -- STATE PREMIUM TAXES

The State of Tennessee levies premium taxes on captive insurance companies at variable rates based on specified levels of written and assumed premiums. The Company calculated premium taxes for the reporting period at a rate of 0.4% of annual gross written premiums, subject to a minimum annual premium tax of $5,000, plus a filing fee. For the reporting periods ended June 30, 2025 and 2024, the Company incurred premium tax of $66,080 and $61,886, respectively, which is included as a component of deferred policy acquisition costs capitalized and amortized over the respective in-force periods of the policies.

THE STATE OF TENNESSEE CAPTIVE INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

June 30, 2025 and 2024

NOTE F -- COMMITMENTS, CONCENTRATIONS AND CONTINGENCIES

COMMITMENTS

Contractual Fees for Captive Management Services: Annual fees to the Captive Manager are allocated to the Captive Manager from the funds received from the agreement that the State of Tennessee has with Aon Risk Services South, Inc. as this agreement includes captive management fees. The Captive will reimburse the State of Tennessee the captive management fees on an annual basis. The management agreement will continue in-force until terminated with notice (as specified in the contract).

CONCENTRATIONS AND CONTINGENCIES

Concentration of Premium Revenues: Total direct written premiums represent amounts from insureds that are affiliated with the Company. (Refer to Note A for additional information.)