

# EXHIBIT A



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

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**REPORT ON EXAMINATION**  
**OF**  
**TENNESSEE INSURANCE GUARANTY ASSOCIATION**  
**NASHVILLE, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2016**

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Nashville, Tennessee  
December 29, 2017

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

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated ("Tenn. Code Ann.") § 56-12-113, a full-scope financial examination as of December 31, 2016, has been made of the conditions and affairs of:

**TENNESSEE INSURANCE GUARANTY ASSOCIATION**  
3100 West End Ave #670  
Nashville, Tennessee 37203-5805

hereinafter generally referred to as the "Association" 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 commenced on November 7, 2016, and was conducted by duly authorized representatives of the TDCI.

## **SCOPE OF EXAMINATION**

The last examination of the Association was made as of December 31, 2011. This examination covers the period January 1, 2012, through December 31, 2016, and includes any material transactions and/or events occurring subsequent to the examination date which were 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 the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination was planned and

performed to evaluate the financial condition of the Association as of December 31, 2016. The examination sought to identify prospective risks by obtaining information about the Association, including its corporate governance, by identifying and assessing inherent risks within the Association, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

During planning, all accounts and balances were reviewed to determine which key activities and accounts would be examined. The key activities included: Investments, Reserving, Claims Handling, Revenue, and Receivables.

Although the Association does not maintain an Internal Audit (IA) Department, it does have an external audit of its financial statements by Crosslin PLLC, Certified Public Accountants, Nashville, Tennessee. As such, the CPA audit test work was used whenever possible to reduce the amount of substantive test work required to determine completeness and accuracy of the financial statements.

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

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The previous examination which was conducted as of December 31, 2011, by authorized representatives of the TDCI, resulted in no recommendations and therefore, no directives were issued.

## **ASSOCIATION HISTORY**

The Association was organized as a not-for-profit unincorporated association pursuant to, and operates in accordance with, the Tennessee Guaranty Association Act (Tenn. Code Ann. § 56-12-101, *et seq.*) effective July 1, 1971. Under the provisions of this Act, the Tennessee Commissioner of Commerce and Insurance appointed five (5) members to the Board of Directors ("Board"). These five (5) members then submitted a "Plan of Operation" ("Plan") on November 21, 1971, to the Commissioner, who approved the Plan effective December 17, 1971.

The current operations of the Association are governed by an updated Plan which was approved by the Commissioner, effective December 17, 1997. Detail is included under the caption, "Plan of Operation" in this report.

## MANAGEMENT AND ADMINISTRATION

### MANAGEMENT

#### Directors

Regular meetings and special meetings of the Board may be held upon request of any two (2) Board members. The Plan also states that “the Board shall meet annually at the office of the Commissioner of Commerce and Insurance on the Second Tuesday in May, and also upon notice from the Commissioner of any insolvency of a member insurer.”

The majority of the Board shall constitute a quorum for the transaction of business. The acts of a majority of the Board members present at a meeting shall be the acts of the Board, except that the affirmative vote of four (4) members is required to approve a contract with a servicing facility, levy an assessment, provide a refund, or borrow money.

The following were duly appointed Directors at December 31, 2016:

<u>Name</u>	<u>Company Affiliation</u>
Jerry A. Mayo, Chairman	HDI-Gerling America Insurance Co.
Matthew M. Scoggins, Jr., Vice Chair	Tennessee Farmers Mutual Ins. Co.
John H. Mize, Secretary	State Volunteer Mutual Insurance Co.
Lisa K. Pierce	Allstate Insurance Company
Shawn A. Johnson	State Farm Insurance Company

The Board is charged with managing the business and affairs of the Association. Each director must be a resident of the State of Tennessee and represent a company licensed to do business in the State. Two (2) directors shall be an officer or employee of a domestic insurance company.

#### Committee

The members of the Audit Committee are elected by the Board. The Association’s Audit Committee at December 31, 2016 was as follows:

<u>Name</u>	<u>Company Affiliation</u>
John H. Mize	State Volunteer Mutual Insurance Co.
Lisa K. Pierce	Allstate Insurance Company
Shawn A. Johnson	State Farm Insurance Company

## **ADMINISTRATION**

According to the Plan of Operation, the Board hires appropriate persons to administer the Association. Mr. W. Davidson Broemel has been serving as the Executive Secretary of the Association since 1986 and is responsible for the general administration of its day-to-day activities. Ms. Jane Murphy serves as the Administrator. The administrative functions of the Association are performed by the home office staff consisting of five (5) employees and a contract accountant.

Certain necessary services are performed by outside contractors or third party administrators, such as independent audit, claims administration, claims reserving review, and claims handling practices review.

## **ANTITRUST STATEMENT AND CONFLICT OF INTEREST POLICY**

Based upon the National Conference of Insurance Guaranty Association's antitrust policy, the Board enacted its own "Antitrust Policy and Compliance Statement." This policy remains in force since 1996.

Because the activities and functions of the Board bring together representatives of insurance companies that may be in competition, it is the policy of the Board to discourage and prohibit the disclosure of competitive information that might, under certain circumstances, be alleged to violate federal or state antitrust laws. The antitrust statement further describes other prohibited behaviors and contains a discussion of information that could give the appearance of facilitating anticompetitive conduct.

The Association's conflict of interest policy prohibits the Directors, Officers, and the Executive Secretary from permitting private interests from conflicting with the discharge of their duties to the Association. A Director, Officer, or Executive Secretary should not use knowledge gained from their responsibilities and duties to the Association to further their personal interests.

Potential conflicts of interest are to be disclosed to the Chairman of the Board or the Executive Secretary. Conflict of interest statements are signed annually by the Board, Officers, and the Executive Secretary, certifying that they have disclosed any situations that could create a possible conflict. No conflicts were noted as a result of the examination.

## **CORPORATE RECORDS**

The minutes of the meetings of the Association's Board and committees were reviewed for the period under examination. The minutes were complete as to necessary detail and appeared to reflect adequately the acts of the respective bodies.

The Association operates under an approved Plan pursuant to Tenn. Code Ann. §§ 56-12-101, *et seq.* There were no amendments to the Plan during the examination period.

## **FIDELITY BOND AND OTHER INSURANCE**

Insurance policies were reviewed and the Association is listed as a named insured on the following insurance coverages maintained by the Association as of December 31, 2016:

Commercial Crime	Workers Compensation and General Liability
Commercial Auto	Commercial Business Owners

The policy coverages were inspected and appeared to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee.

## **RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS**

The Association matches seventy-five percent (75%) of the first six percent (6%) that the employee contributes to an Internal Revenue Code 401(k) savings plan. Employees are eligible to join the plan on the first enrollment date after the employee's one year anniversary. Only full time employees (working over 1,000 hours per year) can join the savings plan. Employees are one hundred percent (100%) vested in employee contributions immediately and fully vested in employer match in five (5) years.

The employees are provided with employer paid long term disability, term life insurance, and accidental death and dismemberment insurance.

The Association contributes eighty percent (80%) of the cost of each employee's medical insurance premium. Dependent coverage is available at an additional cost to employees. Any dependent medical insurance coverage, dental, or vision plans are paid one hundred percent (100%) by the employee. Coverage typically begins the month after hire.



Other benefits available for employees include holidays, sick leave, vacation leave, and the use of on-site health club.

## PLAN OF OPERATION

The Association was organized pursuant to, and operates in accordance with, Tenn. Code Ann. §§ 56-12-101, *et seq.* The purpose of the Association is to provide a mechanism for the payment of covered claims under certain insurance policies, to avoid excessive delay in payment and financial loss to claimants or policyholders because of the insolvency of an insurer, and to provide a process for the Association to assess the cost of such protection among insurers.

The Association's scope of responsibility includes insurers who write all kinds of direct insurance except life, credit life, accident and health, title, surety, disability, credit mortgage guarantee, ocean marine, excess insurance, and other lines as cited in Tenn. Code Ann. § 56-12-103. The Association covers insurance issued by insurers licensed to transact insurance in the State of Tennessee ("member insurers").

The Association has the responsibility to settle covered claims of insurers as of the date the insurer is declared insolvent and any claims arising thirty (30) days after the determination of insolvency except as limited by Tenn. Code Ann. § 56-12-107(1)(A). Covered claims are unpaid claims and certain unearned premium claims, subject to policy limits and a statutory deductible. The Association shall pay the full amount of any covered claim arising from a workers' compensation policy. Claim settlement amounts for other coverage are subject to statutory limits or the policy limits, whichever is lower.

Funds for payment of claims are obtained from liquidation distributions from the estate of an insolvent insurance company and from assessments declared by the Board. Assessments of member insurers are periodically called as funds are required to settle claims and are based on the net direct premiums written by the member insurer during the year preceding the related assessment, subject to certain limitations. To the extent that liquidation distributions and assessment funds are insufficient to discharge claim obligations, additional assessments may be called by the Board. The Association may also issue bonds to obtain additional funding for claim obligations arising from natural catastrophic events, per Tenn. Code Ann. § 4-31-802.

To the extent that assets exceed the ultimate cost of claim obligations, the excess may be distributed to member insurers or applied to future assessments by the Association.

As of December 31, 2016, there were thirty-eight (38) active insolvencies being administered by the Association.

## **DIVIDENDS OR DISTRIBUTIONS**

No dividends or distributions have been paid to members of the Association since inception.

## **LITIGATION AND CONTINGENT LIABILITIES**

During the period of examination, and as of December 31, 2016, the Association is party to certain pending legal proceedings arising in the ordinary course of business. These legal matters involve pending actions to recover reimbursements for covered claims from entities that potentially meet the net worth requirements of Tenn. Code Ann. § 56-12-110 (b)(1). The Association's legal counsel maintains that it is unable to form an opinion as to the likely outcome of such matters, or to estimate a range of potential loss if such outcome is unfavorable.

Based upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Association management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Association's financial condition or results of operations.

## **ACCOUNTS AND RECORDS**

During the course of the examination, such tests and audit procedures were conducted as were considered necessary. Accounting records conformed to generally accepted accounting principles and appeared to reflect properly the operations during the period under examination.

The Association's 2016 audited financial statement was reconciled to the corresponding general ledger account balances.

The Association's books and records are located at the office location in Nashville, Tennessee.

## SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2016, that could have a material effect on the Association's financial condition.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and net assets, a statement of activities, and changes in net assets as of December 31, 2016, as reported by the Association in its 2016 Audited Financial Statements.

### ASSETS

	December 31,	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$3,024,574	\$7,900,097
Investments, at fair value	134,803,807	133,239,055
Accrued interest receivable	369,067	319,595
Claims reimbursements receivable, net of allowance for doubtful reimbursements of \$269,803	62,424	26,334
Assessments receivable	0	0
Furniture, fixtures, and equipment, net	<u>104,713</u>	<u>100,348</u>
Total assets	<u>\$138,364,585</u>	<u>\$141,585,429</u>

### LIABILITIES AND NET ASSETS

	December 31,	
	<u>2016</u>	<u>2015</u>
Reserve for claims, claim adjustment, and administrative expenses	\$83,484,876	\$82,793,792
Other liabilities	<u>34,745</u>	<u>75,331</u>
Total liabilities	83,519,621	82,869,123
Unrestricted net assets (deficiency):		
Workers compensation account	(13,596,538)	(5,187,225)
All other insurance accounts	<u>68,441,502</u>	<u>63,903,531</u>
Total net assets	<u>54,844,964</u>	<u>58,716,306</u>
Total liabilities and net assets	<u>\$138,364,585</u>	<u>\$141,585,429</u>

## STATEMENT OF ACTIVITIES

	<b>December 31,</b>	
	<b><u>2016</u></b>	<b><u>2015</u></b>
<b>REVENUE</b>		
Investment income	\$2,214,876	\$24,942
Liquidation distributions	2,362,236	12,009,218
Assessments, net of uncollectible of \$0	<u>0</u>	<u>0</u>
<b>Total revenues</b>	4,577,112	12,034,160
<b>CLAIMS ACTIVITY</b>		
Claims paid	6,315,542	5,847,652
Claim adjustment expenses paid	910,522	1,381,843
Claim and claim adjustment expense recoveries	(409,640)	(660,067)
Increase (decrease) in reserve for claims, claim adjustment and administrative expenses	<u>691,084</u>	<u>(7,845,460)</u>
<b>Total claims activity</b>	7,507,508	(1,276,032)
Less claims reimbursements	<u>304,093</u>	<u>116,565</u>
Net claims activity	<u>7,203,415</u>	<u>(1,392,597)</u>
<b>Excess (Deficit) of revenues over claims activity</b>	(2,626,303)	13,426,757
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Salary and related expenses	638,602	607,718
Other general and administrative expenses	<u>606,437</u>	<u>608,421</u>
<b>Total general and administrative expenses</b>	<u>1,245,039</u>	<u>1,216,139</u>
Increase (Decrease) in unrestricted net assets	(3,871,342)	12,210,618
Unrestricted net assets at beginning of year	<u>58,716,306</u>	<u>46,505,688</u>
<b>Unrestricted net assets at end of year</b>	<u>\$54,844,964</u>	<u>\$58,716,306</u>

**CHANGES IN NET ASSETS**

	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Unrestricted net assets at beginning of year	\$58,716,306	\$46,505,688	\$43,800,746	\$59,342,084	\$51,217,500
(Decrease)/increase in unrestricted net assets	<u>(3,871,342)</u>	<u>12,210,618</u>	<u>2,704,942</u>	<u>(15,541,338)</u>	<u>8,124,584</u>
Unrestricted net assets at end of year	<u>\$54,844,964</u>	<u>\$58,716,306</u>	<u>\$46,505,688</u>	<u>\$43,800,746</u>	<u>\$59,342,084</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Net Assets

\$54,844,964

Total net assets, as established by this examination, is the same as what was reported by the Association in its 2016 Audited Financial Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2016.

## COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

### Comments

There were no comments noted during the completion of this examination.

### Recommendations

There were no recommendations noted during the completion of this examination.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the TDCI and the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of Tennessee Insurance Guaranty Association.

In such manner, it was found that as of December 31, 2016; the Association had total assets of \$138,364,585, liabilities of \$83,519,621, and net assets of \$54,844,964. Tenn. Code Ann. §§ 56-12-105(d) and 56-12-107(a)(3) requires the Association to maintain and assess two accounts: a workers compensation account and all other insurance account..

The courteous cooperation of the officers and employees of the Association, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Jay Uselton, CFE, for the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



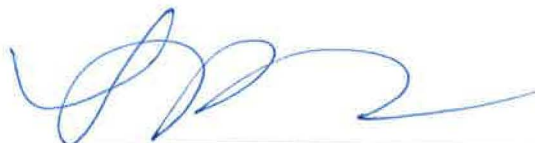
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Leah Thomas, CFE, AIE, FLMI, MCM  
Examiner-in-Charge  
State of Tennessee



## AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Tennessee Insurance Guaranty Association, located in Nashville, Tennessee, dated December 29, 2017, and made as of December 31, 2016, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.



Leah Thomas, CFE, AIE, FLMI, MCM  
Examiner-in-Charge  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 5<sup>th</sup> day of June, 2018

Mindy C. Walker  
(NOTARY)



My Commission Expires: 7.6.2020

# **EXHIBIT B**

**TENNESSEE INSURANCE GUARANTY ASSOCIATION**

3100 West End Avenue - Suite 670  
Nashville, Tennessee 37203-5805

Telephone (615) 242-6839  
Facsimile (615) 255-4471

June 5, 2018

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

**RE: Report of Examination - Tennessee Insurance Guaranty Association**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Tennessee Insurance Guaranty Association**. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

A handwritten signature in black ink, appearing to read 'WDB', with a stylized flourish at the end.

W. David Broemel  
Executive Secretary