

**Local Government Group Insurance Fund**

**For the Year Ended  
June 30, 1998**

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Technical Analyst

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**Donna Flatt**  
Staff Auditors

July 16, 1999

The Honorable Don Sundquist, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and

The Honorable John Ferguson, Chairman  
Local Education Insurance Committee  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Local Government Group Insurance Fund for the year ended June 30, 1998. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. Because of the unprecedented nature of the year 2000, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Observation and Comments section of this report. The Department of Finance and Administration's management has responded to the audit finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit finding.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/sk  
99/073

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Local Government Group Insurance Fund**  
For the Year Ended June 30, 1998

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the fund's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts, to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDING

This audit report contains no findings; however, one finding on the lack of reconciliation between the Tennessee Insurance System (TIS) and the State of Tennessee Accounting and Reporting System (STARS) was included in the 1998 audit report on the Department of Finance and Administration. The department maintains on TIS participant information such as coverage type and status, eligible dependents, and premiums due and payment history for the Local Government Group Insurance Fund. \*\*

\*\* This finding is repeated from prior audits.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified. Because of the unprecedented nature of the year 2000, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

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**Audit Report**  
**Local Government Group Insurance Fund**  
**For the Year Ended June 30, 1998**

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# **Local Government Group Insurance Fund For the Year Ended June 30, 1998**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Local Government Group Insurance Fund. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

### **LEGISLATIVE HISTORY**

The Local Government Group Insurance Committee was created in July 1991 by an act of the General Assembly, codified as Title 8, Chapter 27, Section 207, *Tennessee Code Annotated*. The purpose of the committee is to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on behalf of state and local governments.

### **ORGANIZATION**

The Local Government Group Insurance Committee oversees the administration of the Local Government Group Insurance Fund. The insurance committee is composed of the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer, one representative appointed by the Tennessee Municipal League, and one representative appointed by the Tennessee County Services Association.

The Department of Finance and Administration, Division of Insurance Administration, is responsible for processing all payments and cash receipts of the fund through the state’s accounting system.

Blue Cross and Blue Shield of Tennessee, Inc., and HealthSource are the contractors for the self-insured insurance programs. These contractors process all participant claims, make all

claim payments, provide access to a preferred provider organization, and carry out all utilization management functions.

An organization chart of the fund's administration is on the following page.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards except as indicated in the Independent Auditor's Report. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Local Government Group Insurance Fund forms an integral part of state government and as such has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered fund 58 of the State of Tennessee Accounting and Reporting System.

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## OBJECTIVES OF THE AUDIT

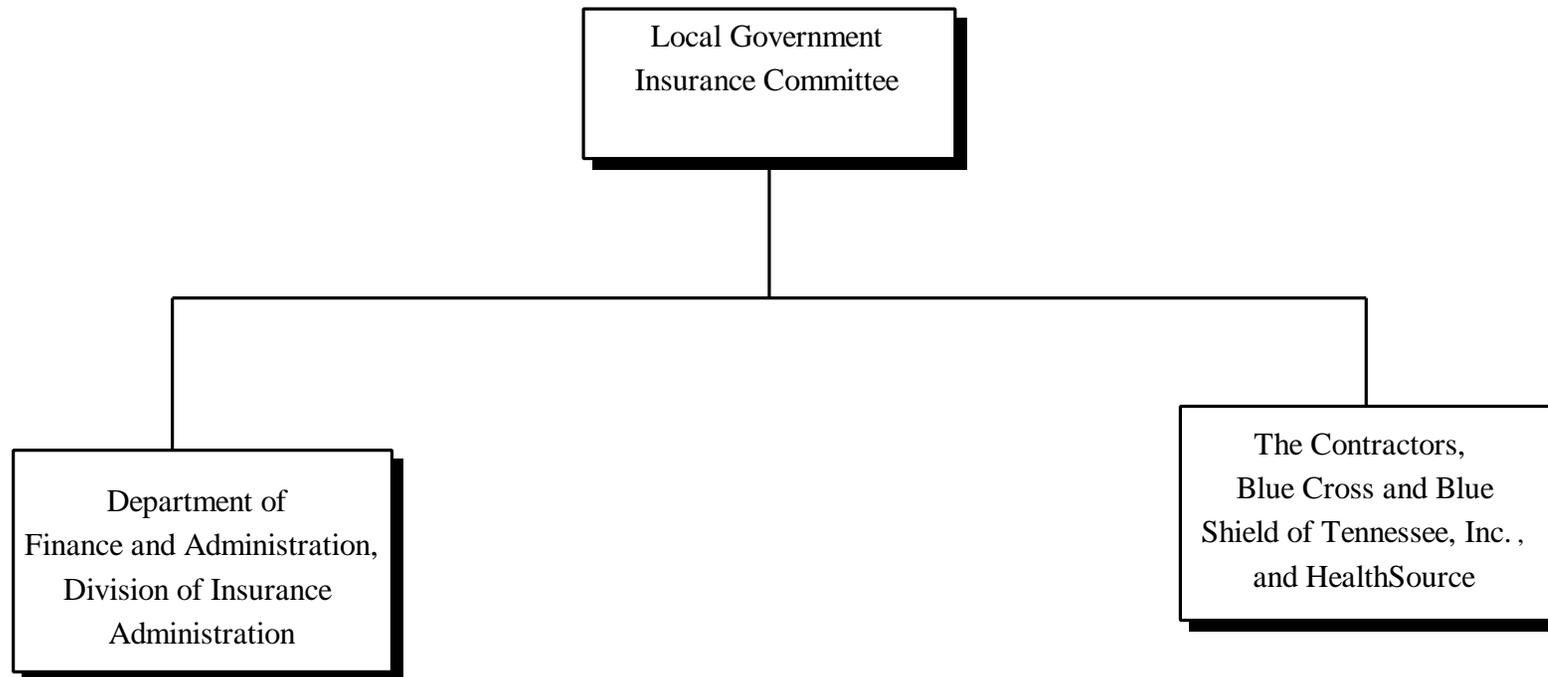
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The objectives of the audit were

1. to consider the fund's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

**LOCAL GOVERNMENT GROUP INSURANCE FUND  
ADMINISTRATION  
ORGANIZATION CHART**



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## **PRIOR AUDIT FINDINGS**

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There were no findings in the prior audit report; however, the report did refer to two findings in the 1997 audit report on the Department of Finance and Administration concerning security access to the Tennessee Insurance System (TIS) and the lack of reconciliation between TIS and the State of Tennessee Accounting and Reporting System (STARS).

### **RESOLVED AUDIT FINDING**

The current Department of Finance and Administration audit disclosed that the Department of Finance and Administration has corrected the previous audit finding concerning security access to TIS.

### **REPEATED AUDIT FINDING**

The prior audit report of the Department of Finance and Administration also contained a finding concerning the lack of reconciliation between the Tennessee Insurance System (TIS) and the State of Tennessee Accounting and Reporting System (STARS). This finding has not been resolved and is repeated in the 1998 Department of Finance and Administration Audit Report.

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## **OBSERVATIONS AND COMMENTS**

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The Division of Insurance Administration maintains participant information such as coverage type and status, eligible dependents, employment status, premiums due, and payment history for the Local Government Group Insurance Fund of the Tennessee Insurance System. A finding regarding computer controls over TIS was included in the 1998 audit report on the Department of Finance and Administration. The Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results, and changes are made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile. Management concurred with this finding and stated they are committed to resolving the problems with TIS and will closely monitor the progress and projected completion date.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the Local Government Group Insurance Fund's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. A reportable condition is detailed in the Observations and Comments section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the Local Government Group Insurance Fund's financial statements. Because of the unprecedented nature of the year 2000, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the authority's disclosures with respect to the year-2000 issue made in Note 4.

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

January 25, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Local Government Group Insurance Fund, as of and for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. Our report was qualified. Because of the unprecedented nature of the year 2000, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the authority's disclosures with respect to the year-2000 issue made in Note 4.

Compliance

As part of obtaining reasonable assurance about whether the Local Government Group Insurance Fund's financial statements are free of material misstatement, we performed tests of the fund's compliance with certain provisions of laws, regulations, and contracts. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Local Government Group Insurance Fund's internal control over financial reporting in order to determine our auditing procedures for the

The Honorable John G. Morgan  
January 25, 1999  
Page Two

purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Local Government Group Insurance Fund's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- The Tennessee Insurance System (TIS) has significant problems which have caused TIS and the State of Tennessee Accounting and Reporting System (STARS) not to reconcile.

This condition is described in the Observations and Comments section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to the Local Government Group Insurance Fund's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sk

## **Independent Auditor's Report**

January 25, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Local Government Group Insurance Fund, as of June 30, 1998, and June 30, 1997, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year-2000 Issues*, requires disclosure of certain matters regarding the year-2000 issue. The fund has included such disclosures in Note 4. Because of the unprecedented nature of the year-2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence

The Honorable John G. Morgan  
January 25, 1999  
Page Two

exists to support the fund's disclosures with respect to the year-2000 issue made in Note 4. Further, we do not provide assurance that the authority is or will be year-2000 ready, that the fund's year-2000 remediation efforts will be successful in whole or in part, or that parties with which the fund does business will be year-2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year-2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Local Government Group Insurance Fund, as of June 30, 1998, and June 30, 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 1999, on our consideration of the fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/sk

LOCAL GOVERNMENT GROUP INSURANCE FUND  
COMPARATIVE BALANCE SHEETS  
JUNE 30, 1998, AND JUNE 30, 1997

(Expressed in Thousands)

	<u>June 30, 1998</u>	<u>June 30, 1997</u>
<u>ASSETS</u>		
Current assets:		
Cash (Notes 1 and 2)	\$ 11,695	\$ 9,747
Accounts receivable	17	511
Due from component units	12	1
Total assets	\$ 11,724	\$ 10,259
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ 588	\$ 979
Accounts payable and accruals	3,150	4,277
Due to component units	8	3
Deferred revenue	9	-
Total liabilities	3,755	5,259
Equity:		
Retained earnings, unreserved	7,969	5,000
Total equity	7,969	5,000
Total liabilities and equity	\$ 11,724	\$ 10,259

The Notes to the Financial Statements are an integral part of this statement.

LOCAL GOVERNMENT GROUP INSURANCE FUND  
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND  
 CHANGES IN RETAINED EARNINGS  
 FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

(Expressed in Thousands)

	<u>Year Ended</u> <u>June 30, 1998</u>	<u>Year Ended</u> <u>June 30, 1997</u>
<u>OPERATING REVENUES</u>		
Premiums	\$ 33,284	\$ 34,367
Other	2	-
Total operating revenues	<u>33,286</u>	<u>34,367</u>
<u>OPERATING EXPENSES</u>		
Contractual services	1,016	834
Rentals and insurance	10,668	9,505
Benefits	18,876	23,672
Other	319	350
Total operating expenses	<u>30,879</u>	<u>34,361</u>
Operating income	<u>2,407</u>	<u>6</u>
<u>NONOPERATING REVENUES</u>		
Interest income	<u>562</u>	<u>577</u>
Total nonoperating revenues	<u>562</u>	<u>577</u>
Net income	2,969	583
Retained earnings July 1	<u>5,000</u>	<u>4,417</u>
Retained earnings, June 30	<u>\$ 7,969</u>	<u>\$ 5,000</u>

The Notes to the Financial Statements are an integral part of this statement.

LOCAL GOVERNMENT GROUP INSURANCE FUND  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997

(Expressed in Thousands)

	<u>June 30, 1998</u>	<u>June 30, 1997</u>
Cash flows from operating activities:		
Operating income	\$ <u>2,407</u>	\$ <u>6</u>
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	494	(81)
(Increase) in due from component units	(12)	
Decrease in warrants payable	(391)	(122)
Decrease in accounts payable	(1,126)	(1,465)
Increase (decrease) in due to component units	5	(1)
Increase (decrease) in deferred revenue	<u>9</u>	<u>(26)</u>
Total adjustments	<u>(1,021)</u>	<u>(1,695)</u>
Net cash from (used for) operating activities	<u>1,386</u>	<u>(1,689)</u>
Cash flows from investing activities:		
Interest received	<u>562</u>	<u>577</u>
Net cash provided by investing activities	<u>562</u>	<u>577</u>
Net increase (decrease) in cash	1,948	(1,112)
Cash, July 1	<u>9,747</u>	<u>10,859</u>
Cash, June 30	\$ <u><u>11,695</u></u>	\$ <u><u>9,747</u></u>

The Notes to the Financial Statements are an integral part of this statement.

**Local Government Group Insurance Fund**  
**Notes to the Financial Statements**  
**June 30, 1998, and June 30, 1997**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Local Government Group Insurance Fund is used to account for revenues received and claims paid on behalf of employees of local governments and quasi-governmental organizations established for the primary purpose of providing services for or on behalf of state and local government employees. The fund is part of the primary government and has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

**B. Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Local Government Group Insurance Fund follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989.

**C. Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

**D. Cash**

Cash is defined as cash on hand, demand deposits, such as the pooled investment fund, and investments with three months or less to maturity when purchased.

**NOTE 2. DEPOSITS**

The Local Government Group Insurance Fund had \$11,694,677 in the State Treasurer's pooled investment fund at June 30, 1998, and \$9,747,485 at June 30, 1997. The pooled investment fund administered by the State Treasurer is authorized by

**Local Government Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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statute to invest funds in accordance with policy guidelines approved by the State Funding Board. The current resolution of that board gives the Treasurer approval to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U. S. Treasury and agency obligations, limited money market mutual funds, and obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The pooled investment fund is also authorized to enter into securities lending agreements in which U. S. government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pooled investment fund's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 3. RISK MANAGEMENT**

The Local Government Group Insurance Fund, a public entity risk pool, was established in July 1991 to provide a program of health insurance coverage for employees of local governments and quasi-governmental organizations that were established for the primary purpose of providing services for or on the behalf of state and local governments. In accordance with *Tennessee Code Annotated*, Section 8-27-207, all local governments and quasi-governmental organizations described above are eligible to participate. Fund members at June 30, 1998, included 33 counties, 65 municipalities, and 148 quasi-governmental organizations, with 10,204 employees and 137 retirees maintaining coverage through one of three options: preferred provider plan, point of service plan, or a health maintenance organization. The state does not retain any risk for losses by this fund.

The Local Government Group Insurance Fund assumes responsibility for determining plan benefits and eligibility, establishing premiums sufficient to fund plan obligations, recording and reporting financial transactions accurately, reporting enrollment to vendors, the processing claims submitted for services provided to plan participants, communicating with plan participants, and complying with appropriate state and federal laws and regulations. Plan participants are required to pay premiums on time, file claims for services received, report changes in eligibility of themselves or their dependents, and ensure that only eligible expenses are paid by the plan. Individuals who cancel coverage may be required to demonstrate insurability to rejoin the plan. Employers must wait 24 months before rejoining the plan if the employer elects to

**Local Government Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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withdraw from the plan. In the case of the individuals or groups rejoining the plan, a preexisting condition exclusion currently applies.

The Local Government Group Insurance Fund establishes claims liabilities 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. Employees and providers have 13 months to file medical claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using actuarial and statistical techniques to produce current estimates, which are 16 percent of the prior 12 months' claims. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The Local Government Group Insurance Fund does not consider investment income in determining if a premium deficiency exists.

As discussed above, the Local Government Group Insurance Fund establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities since the plan's inception (expressed in thousands):

	<u>1998</u>	<u>1997</u>
Unpaid claims at beginning of year	\$ 4,251	\$ 5,618
Incurred claims, provision for insured events of the current fiscal year	19,499	23,673
	-----	-----
Total incurred claims expenses	\$23,750	\$29,291
Payments	<u>20,518</u>	<u>25,040</u>
Total unpaid claims at end of year	<u>\$ 3,232</u>	<u>\$ 4,251</u>

**Local Government Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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**NOTE 4. YEAR-2000 DISCLOSURE**

The year-2000 issue (Y2K) arises because most computer software programs allocate two digits to the data field for year on the assumption that the first two digits will be 19. Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc. Absent reprogramming, Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could affect both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications and other equipment of the authority and its vendors, investment providers, and bond trustees.

The state has completed its assessment of Y2K and has determined that certain computer applications are mission-critical, certain are critical, and certain are supportive. Mission-critical computer applications are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the state from fulfilling its mission. Critical computer applications are those for which there are manual alternatives, but the state would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer applications are those for which there are manual alternatives, and the state expects to be able to perform such functions manually, if necessary.

The Division of Insurance Administration (DIA) has identified two mission-critical computer applications. The Tennessee Insurance System (TIS) is used by DIA to track financial and administrative data relative to plan participants. DIA also relies upon the State of Tennessee Accounting and Reporting System (STARS) for financial transactions processing and reporting. Both systems are administered by the Dept. of Finance and Administration. As of June 30, 1998, both systems had reportedly completed the awareness and assessment stages and were near completion of the remediation stage. The state considers remediation, in this context, to mean either successful conversion of an existing computer application or the replacement of an existing application with a new application. The state is continuing the remediation and testing of both systems. In addition, the state is in the process of assessing the Y2K effect on other equipment. The state is not presently aware of any noncompliance by its yet untested mission-critical and critical computer applications and other equipment or of any costs to achieve Y2K compliance that will have a

**Local Government Group Insurance Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1998, and June 30, 1997**

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materially negative impact on the state's operations or financial status; however, the state can give no assurance that the circumstances will not change.

The fund's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the authority's reporting period.

The state has begun soliciting information from other organizations whose Y2K compliance could affect the state regarding the status of their assessment, testing, and remediation of their computer applications and other equipment. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on the state's operations or financial status, although no assurances can be given that circumstances will not change. The state does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a materially negative impact on the state's operations or financial status.

STATE OF TENNESSEE  
 LOCAL GOVERNMENT GROUP INSURANCE FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SEVEN-YEAR CLAIMS DEVELOPMENT INFORMATION

(Expressed in Thousands)

The table below illustrates how the Local Government Group Insurance Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Local Government Group Insurance Fund as of the end of each of the last seven years, since the inception of the fund. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the fund, including overhead. (3) This line shows the fund's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. (4) This section shows the cumulative amounts paid as of the end of successive years for each fiscal year; some of these amounts are unavailable. (5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years; these amounts are unavailable for prior years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal years. The columns of the table show data for successive fiscal years.

	Fiscal Year Ended						
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
(1) Net Earned required contribution and investment revenues	\$21,805	\$30,633	\$41,819	\$40,589	\$34,857	\$34,944	\$33,846
(2) Unallocated expenses	519	621	1,267	852	1,425	1,184	1,335
(3) Estimated incurred claims and expenses, end of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499
(4) Paid (cumulative) as of:							
End of fiscal year	16,765	*	*	*	*	*	*
One year later	*	*	*	*	*	*	
Two years later	*	*	*	*	*		
Three years later	*	*	*	*			
Four years later	*	*	*				
Five years later	*	*					
Six years later	*						

(Continued on next page)

STATE OF TENNESSEE  
 LOCAL GOVERNMENT GROUP INSURANCE FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SEVEN-YEAR CLAIMS DEVELOPMENT INFORMATION (CONT.)

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(Expressed in Thousands)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
(5) Reestimated incurred claims and expenses:							
End of fiscal year	19,752	30,128	41,865	33,483	30,138	23,673	19,499
One year later	*	*	*	*	*	*	
Two years later	*	*	*	*	*		
Three years later	*	*	*	*			
Four years later	*	*	*				
Five years later	*	*					
Six years later	*						
(6) Increase (decrease) in estimated incurred claims and expenses from end of fiscal year	*	*	*	*	*	*	

\* Data not available