

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS REGULAR MEETING
DATE OF MEETING: NOVEMBER 13, 2014
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:04 a.m. on November 13, 2014 at the Pool’s office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chair Samuel Tharpe, Vice-Chair Ken Wilber, Tommy Green, Curtis Hayes, Regina Holt, and Kay Senter. Pete Peterson joined the meeting via telephone conference call.

The Pool’s staff present were: Dawn R. Crawford, President/CEO and Charles DeMore, Executive Vice President & Chief Financial Officer.

Also present were Russ Farrar, General Counsel; Margaret Mahery, Executive Director, Tennessee Municipal League; Charles “Bones” Seivers, President, TML Bond Fund; and, Mark Blackburn with Lattimore, Black, Morgan and Cain, P.C.

1. OPENING REMARKS

Chairman Tharpe noted three items to be added under the category of New Business for discussion: (1) Board member positions; (2) liquor by the drink; and, (3) bullying. Chairman Tharpe welcomed back Tommy Green to the Board and also Ann Davis who could not be present today.

2. APPROVAL OF MINUTES

Chairman Tharpe called for a vote to approve the minutes of the September 12, 2014 and October 14, 2014 Board meetings. Motion was made by Hayes and seconded by Holt. Chairman Tharpe called for any questions. None were made. **PASSED UNANIMOUSLY**

3. AUDIT REPORT

Chairman Tharpe called upon Mark Blackburn with Lattimore, Black, Morgan & Cain, CPAs. Blackburn addressed the Board concerning the financial and compliance audit performed for the fiscal year ended June 30, 2014. The audited financial statements and the auditor’s required communication letter were provided to each Board member in advance of the Board meeting.

Blackburn called attention to a paragraph in the auditor’s opinion contained in the audit report that discusses a change in accounting principles that relates to a new Governmental Accounting Standards Board (“GASB”) statement that was required to be implemented during the year. He noted that next year’s audit opinion will again address more changes in accounting principles that are required to be implemented next year. He also called attention to the notation as to the manner that unrealized gains and losses on investments is presented which is consistent with the unqualified audit opinions issued in prior years. Blackburn stated that there were no significant audit findings.

Blackburn referred to the auditor’s required communication letter and noted that significant

accounting estimates used in preparing the financial statements, such as reinsurance recoverability, the actuarial valuation of loss reserves, and the valuation of investments, had been tested in the audit and concluded to be reasonable as presented. Blackburn noted that there were no difficulties encountered in the audit, and there were no disagreements with management. There were also no misstatements noted during the audit. They are not aware of any independence issues that might impair the relationship between their firm and the Pool.

Blackburn acknowledged that while the audited financial statements had already been provided to and reviewed by Board members, he would be glad to review them to whatever level of detail desired or to answer any questions about them.

Chairman Tharpe asked Board members if there were any questions about the audited financial statements. There were none.

Blackburn noted that next year's audit will include different presentation related to a new GASB pronouncement related to pension obligations and reporting. He explained that while the Pool currently records only contributions to Tennessee Consolidated Retirement System ("TCRS"), the new pronouncement will require the Pool to record its portion of any unfunded pension liability. He noted that information required by the GASB statement will be provided by TCRS which may propose a timing issue.

Chairman Tharpe called for a motion to approve the audit report as presented. Motion was made by Green; seconded by Hayes. PASSED UNANIMOUSLY

4. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the three months ended September 30, 2014. In reviewing the Statements of Revenues, Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$16,538,966 was 2.87% or \$461,097 more than this time last year. Reinsurance premiums ceded were \$2,640,726 which was 8.20% or \$200,030 more than last year due to increased workers compensation and property reinsurance. Net earned premium was \$13,898,240 was 1.91% or \$261,066 more than last year. Investment income totaled \$2,538,981, which is 25.96% or \$523,234 more than actual last year. DeMore noted that the investment income included realized gains of \$556,596 related to the sale and disposal of securities this year. Compared with budget projections, investment income is \$720,231 or 39.60% greater than anticipated for this period. Total revenues of \$16,527,224 were \$768,218 or 4.87% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expenses of \$12,793,668 was 3.70% or \$456,527 more than last year. Policy acquisition costs of \$2,373,735 were 2.33% or \$56,735 less than last year.

General and administrative expenses of \$1,710,375 were 6.89% or \$110,285 more than the prior year actual. However, when compared with the budget, general and administrative expenses were 4.68% or \$83,949 less than projected for this period. Total expenses were \$16,877,778, which was more than last year's actual expenses by 3.12% or \$510,077. The change in net position before the change in fair value of investments was a decrease of \$350,554, compared with a decrease of \$608,694 this time last year.

This period's change in fair value (unrealized gains and losses) of investments was \$844,831 in net unrealized gains compared with unrealized losses of \$6,701,832 this same time last year. The total change in net position for the three months ended September 30, 2014 was an increase of \$494,277.

In reviewing the Statements of Net Position as of September 30, 2014, DeMore commented that cash and cash equivalents totaled \$41,165,863, and investments totaled \$198,124,367. Premiums receivable at the end of the period were \$5,107,017. Accrued interest was \$2,247,442, and prepaid reinsurance and corporate insurance was \$7,399,212. Reinsurance recoverable totaled \$964,667, and net fixed assets totaled \$1,682,071. Total assets were \$257,430,741 at September 30, 2014.

Liabilities included net reserve for losses of \$132,647,046, which was 5.70% or \$7,158,834 more than the prior year amount. The reserve for unearned premiums was \$37,864,374; accounts payable and accrued expenses totaled \$1,603,874; and, dividends payable totaled \$1,033,423 (including approximately \$890,000 of dividends declared for fiscal year 2014/2015). Total liabilities of \$173,148,718 represent a 5.40% increase from the prior year. When beginning net position of \$83,787,747 is combined with this period's change in net position of \$494,277, net position at September 30, 2014 was \$84,282,024.

B. Dawn Crawford presented colored charts of selected financial information of the Pool for the past ten years to Board members for their information.

C. DeMore reviewed the internally-managed fixed income portfolio as of October 31, 2014 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$29,107,869 with an average return of 0.07%.

The Pool's portfolio included 72 fixed income securities consisting of government and agency bonds, more specifically 51 municipal bonds and 21 agency bonds. On October 31, 2014, the portfolio had a book value of \$212,841,232 and a market value of \$209,230,515, representing an unrealized loss of \$3,610,717. DeMore noted that while the overall portfolio had an average coupon of 3.942% at October 31, 2014, the average coupon rate for municipal bonds only was 4.40%. He also said the fair market value of this same portfolio has shifted to an unrealized gain position of \$4,473,882 as of November 12, 2014.

Chairman Tharpe asked Board members if there were any questions about the financial reports, and there were none. Chairman Tharpe called for a motion to approve the financial reports as presented. Motion was made by Green to accept the financial reports as presented; seconded by Holt. **PASSED UNANIMOUSLY**

5. DATE OF NEXT MEETING

The date of the next meeting is suggested as Friday, February 13, 2015 at the Pool's office in Brentwood, Tennessee.

6. OTHER BUSINESS

A. Board Member Positions – Chairman Tharpe informed Board members that the Pool's General Council Farrar noted the need to assign positions to the new Board members. Consequently, Tharpe made a recommendation to the Board that the three-year position on the Pool's Board of Directors be assigned to Tommy Green; and, the one-year position to coincide with the TML President's ex officio term of office on the Pool's Board be assigned to Ann Davis. Chairman Tharpe then asked for a motion on this recommendation. Motion was made by Hayes; seconded by Wilber. Chairman Tharpe called for any questions; none were made. Tharpe asked for a vote on the motion. **PASSED**

UNANIMOUSLY

B. Update on Liquor by the Drink Litigation – Crawford provided an update to Board members about current status of lawsuits between member cities and their related counties concerning liquor by the drink tax. Various questions were raised and discussed among Board members and General Council.

C. Bullying Bill – General Council Farrar updated Board members about potential legislation about bullying in schools and the resulting liability to Pool members. Various questions were raised and discussed among Board members and General Council.

MEETING ADJOURNED AT 11:09 a.m.

Samuel Tharpe, Chairman

Charles DeMore, Secretary