

**TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS REGULAR MEETING
DATE OF MEETING: NOVEMBER 30, 2016
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 10:00 a.m. on November 30, 2016 at the Pool’s office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chair Ken Wilber, Vice-Chair Garry Welch, Tommy Green, Curtis Hayes, and Jay Johnson. John Holden participated via telephone on speaker phone.

The Pool staff present were: Dawn R. Crawford, President/CEO and Charles DeMore, Executive Vice President & CFO & Director of Human Resources.

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. APPROVAL OF MINUTES

Chairman Wilber called for a vote to approve the minutes of the September 9, 2016 Board meeting. Motion was made by Hayes and seconded by Johnson. Chairman Wilber called for any questions. None were made. **PASSED UNANIMOUSLY**

2. FY 2016 AUDIT REPORT

Chairman Wilber 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, 2016. The audited financial statements and the auditor’s required communication letter were provided to each Board member in advance of the Board meeting.

Blackburn noted that they issued an unqualified opinion on the financial statements which included some new accounting standards related to additional disclosures. 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. He stated 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. He also commented that there were no internal control issues related to the audit that came to their attention.

Blackburn said he would be glad to answer any questions about the audit report. Chairman Wilber asked Board members if there were any questions about the audited financial statements. There were none.

Welch requested a copy of supplemental documents provided to the State Comptroller’s Office with the audit report, and Crawford stated she would provide those to him.

After some discussion among board members, Chairman Wilber called for a motion to approve the audit report as presented. Motion was made by Hayes; seconded by Welch. **PASSED UNANIMOUSLY**

3. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the three months ended September 30, 2016. In reviewing the Statements of Revenues, Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$17,648,252 was 2.51% or \$432,879 more than this time last year. Reinsurance premiums ceded were \$2,622,482 which was 3.84% or \$104,697 less than last year. Net earned premium was \$15,025,770 was 3.71% or \$537,576 more than last year. Investment income totaled \$2,387,139, which is 9.23% or \$201,783 more than actual last year. DeMore noted that last year's investment income amount includes realized gains of \$425,000. Compared with budget projections, investment income is \$449,639 or 23.2% greater than anticipated for this period. Total revenues of \$17,485,854 were \$704,979 or 4.20% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expenses of \$13,524,882 was \$666,306 or 5.18% more than last year. Policy acquisition costs of \$2,691,726 were 17.9% or \$408,618 more than last year due primarily to additional agent commission expensed in accordance with GASB Statement No. 65.

General and administrative expenses of \$1,952,073 were 9.77% or \$173,765 more than the prior year actual. However, when compared with the budget, general and administrative expenses were 6.55% or \$136,781 less than projected for this period. Total expenses were \$18,168,682, which was more than last year's actual expenses by 7.38% or \$1,248,689. The change in net position before the change in fair value of investments was a decrease of \$682,828, compared to a decrease of \$139,118 this time last year.

This period's change in fair value (unrealized gains and losses) of investments was \$780,646 in net unrealized loss compared with net unrealized gain of \$3,466,757 this time last year. The total change in net position for the three months ended September 30, 2016 was a decrease of \$1,463,473.

In reviewing the Statements of Net Position as of September 30, 2016, DeMore commented that cash and cash equivalents totaled \$38,330,486, and investments totaled \$236,287,436. Premiums receivable at the end of the period were \$7,048,321. Accrued interest was \$2,055,179, and prepaid reinsurance and corporate insurance was \$7,258,868. Reinsurance recoverable totaled \$1,262,224, and net fixed assets totaled \$1,261,225. Assets totaled \$294,036,725 which was an increase of 7.5%.

Deferred outflows of resources of \$850,950 related to the Pool's net pension liability will be actuarially adjusted at the end of this fiscal year. Total assets and deferred outflows of resources were \$294,887,675 at September 30, 2016.

Liabilities included net reserve for losses of \$147,605,534, which was 7.7% or \$10,567,129 more than the prior year amount. The reserve for unearned premiums was \$38,444,043; accounts payable and accrued expenses totaled \$1,637,383; and, dividends payable totaled \$1,694,481 consisting of approximately \$1.6 million of dividends declared for fiscal year 2016/2017.

The Pool's net pension liability of \$898,726 will be actuarially adjusted at the end of this fiscal year, as will also the balance of deferred inflows of resources of \$366,545 related to the net pension liability. Total liabilities and deferred inflows of resources was \$190,646,712. When beginning net position of \$105,704,436 is combined with this period's decrease in net position of \$1,463,473, net position at September 30, 2016 was \$104,240,963.

B. DeMore reviewed the internally-managed fixed income portfolio as of October 31, 2016 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$7,728,072 with an average return of 0.36%.

The Pool's portfolio included 69 municipal bonds and 16 government agency bonds and one Treasury bond. On October 31, 2016 the portfolio had a book value of \$251,084,889 and a market value of \$251,719,906, representing an unrealized loss of \$635,017. DeMore noted that while the overall portfolio had an average coupon of 3.624%, the average coupon rate for municipal bonds was 3.90%. He said the fair market value unrealized loss had changed to \$8.9 million as of November 29, 2016.

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

4. APPOINTMENT OF BOARD MEMBERS

Chairman Wilber said the Board needed to appoint someone to fill the vacancy on the Pool's Board of Directors created when Ann Davis chose not to run for re-election. He informed Board members that the appointment needed to be made now to be considered for confirmation by the Tennessee Municipal League at their March meeting. Welch asked Chairman Wilber if this agenda item had been included on the agenda emailed previously. Chairman Wilber replied no and Crawford added that the previous agenda was a draft.

Green recommended Tom Rowland be considered because of his past service and because he represents East Tennessee as did Ann Davis; seconded by Hayes. Welch recommended Mark Johnson, City Manager of the City of Alcoa, TN to fill the position.

Chairman Wilber called for a vote. Tom Rowland was appointed by a vote of four to one.

5. DATE OF NEXT MEETING

The date of the next meeting is suggested as Friday, February 24, 2017 at the Pool's office in Brentwood, Tennessee.

6. OTHER BUSINESS

A. East Tennessee Fires Update – Crawford provided a brief update of the status of the fire damage to the Gatlinburg, Sevierville and Pigeon Forge area. She told the Board that she would like the Pool to cooperate with some other municipal-related agencies in establishing an online "GoFundMe" account to allow interested parties to donate money via the Internet to benefit certain employees of those cities whose houses were destroyed in the fires. Board members expressed their support for this idea.

B. Facility Search Update – Crawford told Board members she has engaged an office architect to help explore office space opportunities. She said between 12,000 – 12,500 square feet was thought to be needed to accommodate a 10-15 year growth plan. She commented that it was determined our current building does not allow for future growth potential.

C. Hayes asked Crawford about the status of the health insurance study. Crawford said the preliminary information received indicated that of the 10 cities evaluated, only one would not benefit due to its size. Crawford mentioned that the consultants did indicate the size threshold could possibly be lowered two or three years after the program has been launched depending upon the volume of participation at that time. She said that July 1 is the projected launch date but those members with January 1 plan dates could be accommodated.

7. ADJOURNMENT

Chairman Wilber asked for a motion to adjourn. A motion was made by Green and seconded by Welch. PASSED UNANIMOUSLY Meeting adjourned at 10:47 a.m.

Ken Wilber, Chairman

Charles DeMore, Secretary