TENNESSEE MUNICIPAL LEAGUE
RISK MANAGEMENT POOL

Financial Statements and Supplementary Information

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Tennessee Municipal League Risk Management Pool:

We have audited the accompanying balance sheets of Tennessee Municipal League Risk Management Pool (the "Pool") as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that certain investments be reported at fair market value in the balance sheets, with the change in unrealized fair value reported as investment income in the statements of revenues, expenses, and changes in fund equity. As more fully explained in Notes 2 and 3 to the financial statements, the Pool reports the changes in fair value of investments in its statements of revenues, expenses, and changes in fund equity, but has chosen not to present the change in unrealized gains or losses on investments as a component of investment income.

In our opinion, except for the classification of unrealized investment gains and losses as discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Pool, as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purpose of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
October 9, 2012

THE POOL

Tennessee's Leader in Risk Management Services

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Management's Discussion and Analysis

The Tennessee Municipal League Risk Management Pool ("the Pool") management's discussion and analysis is intended to provide an overview and analysis of the Pool's financial activities for the fiscal year ended June 30, 2012. The information contained in this report should be considered in conjunction with the Pool's accompanying financial statements.

The Pool is a nonprofit corporation that provides workers' compensation, liability and property coverage and risk management services for certain municipal entities in the State of Tennessee.

Fiscal Year Highlights

- At June 30, 2012 the Pool had 495 members, representing coverage for more than 38,000 employees and volunteers and coverage for over $6.5 billion of property.

- Total assets of $232,900,876 exceeded liabilities by $86,961,098. Due to the nature of the Pool's operations and responsibility to our membership, the Pool's Board of Directors has adopted category appropriations of fund equity.

- Operating revenues of $60,976,379 decreased 4.8% or $3,067,571 since the prior year due, in part, to base rate reductions approved by the Board of Directors while total operating expenses of $56,742,802 also decreased 3.8% or $2,240,431.

- The Pool's Board of Directors declared a dividend of $4,100,000 to members for the ensuing 2013 policy year.

- As part of our ongoing effort to enhance our technological efficiencies and communication with our members, the Pool launched an updated website that allows each member to access its claims information online through a secure portal.

Overview of the Financial Statements

This report includes the independent auditors' report, the audited financial statements, the related notes to the financial statements and the required supplementary information. The Pool presents its financial statements on a comparative basis using the full accrual method of accounting. *Balance Sheets* present information regarding the Pool's assets, liabilities and fund equity. *Statements of Revenues, Expenses and Changes in Fund Equity* present the results of operations of the Pool and changes in its fund equity. *Statements of Cash Flows* present the various sources and uses of cash provided by and used in the Pool's operating, investing and capital activities. *Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements and are considered an integral part of the financial statements. *Supplementary Information* presents additional information required by applicable regulatory agencies.

An annual budget of general and administrative expenses and a pro-forma *Statement of Revenues and Expenses* are approved by the Board of Directors each year as strategic management tools. Additionally, all budget variances of overhead expenses are reviewed monthly by management for operational accountability. However, the Pool is not legally required to adopt or to adhere to an annual budget.

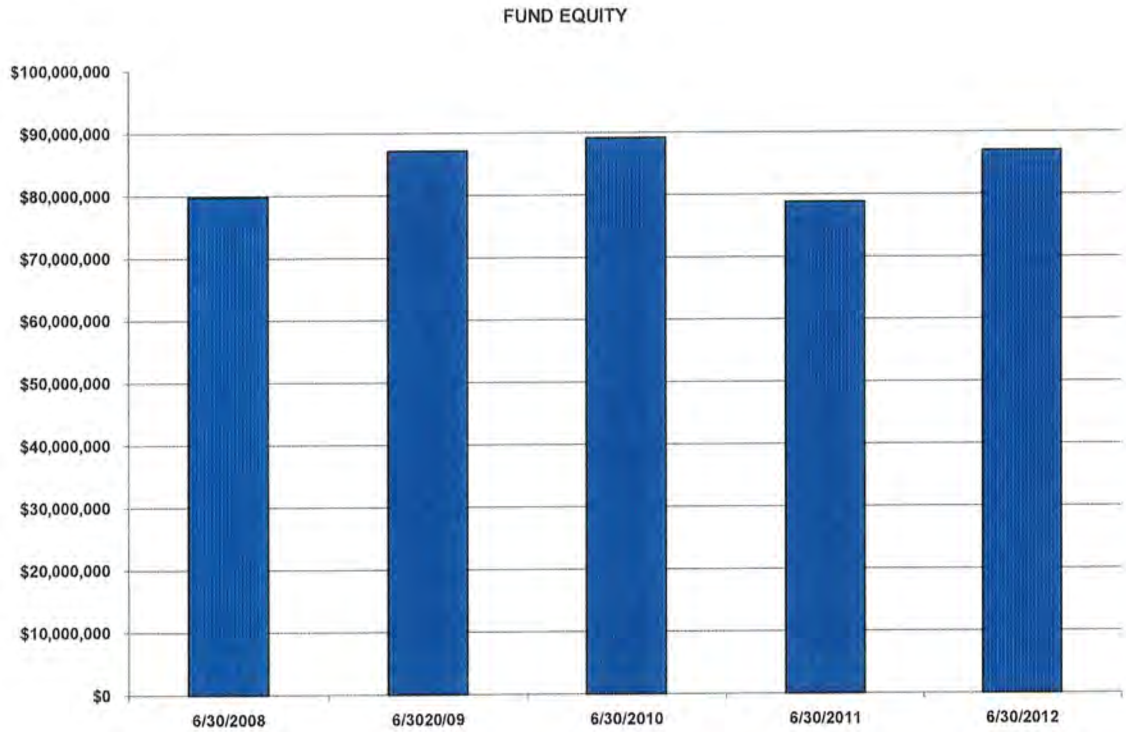
Financial Results and Analysis

Condensed Balance Sheets

	FY 2012	FY 2011
Current assets	$ 231,196,384	$ 225,082,489
Capital assets	1,704,492	1,539,587
Total assets	$ 232,900,876	$ 226,622,076
Current liabilities	$ 145,939,778	$ 147,831,086
Noncurrent liabilities	-	-
Total liabilities	$ 145,939,778	$ 147,831,086
Fund equity	$ 86,961,098	$ 78,790,990

Total assets at June 30, 2012 were $232,900,876, which is 2.8% more than the previous fiscal year-end. Current assets consisted primarily of cash and cash equivalents and investments totaling $215,538,846. The Pool's investable assets at June 30, 2012 were comprised of US agency bonds and government-backed securities of $170,250,890 and cash and cash equivalents, including money market funds, of $45,287,956. The Pool's investment philosophy is to buy and hold investment securities until they mature. However, the Pool does take advantage of market volatility to realize investment gains when appropriate.

Total liabilities were all current at June 30, 2012 and totaled $145,939,778, which is a decrease of 1.3% from the prior year. Reserve for losses and loss adjustment expenses of $122,305,838 increased 1.8% over the previous fiscal year. This amount represents losses reported for the three lines of coverage (workers' compensation, liability and property) as well as the actuarially estimated ultimate costs of such claims.



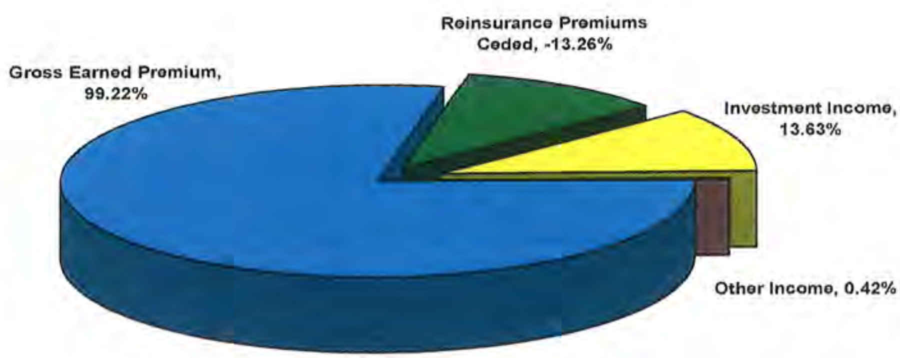
The graph above presents fund equity at year-end for the past five years, which at June 30, 2012 totaled $86,961,098. Fund equity is the result of assets net of liabilities and fluctuates annually due to the Pool's operating results for a given fiscal year as well as any member dividends that may be declared by the Board of Directors.

The Pool's fund equity increased $8,170,108 since the prior year, attributed primarily to changes in investment market values from last year to this year. At June 30, 2012, the change in net unrealized gains on investments totaled $7,621,793. Operating income (including gains on the disposal of capital assets) was $4,241,099 for 2012 compared to $5,079,659 for 2011. The Pool's Board of Directors declared member dividends of $4,100,000 to be distributed as premium credits for policies renewing in fiscal year 2013.

To preserve the Pool's future financial stability, the Board of Directors has adopted category appropriations of fund equity as follows:

	FY 2012	FY 2011
Invested in capital assets	$ 1,704,492	$ 1,539,587
Unrestricted:		
Appropriated for capitalization	40,000,000	40,000,000
Appropriated for member credits	4,649,527	4,101,212
Appropriated for property/casualty catastrophe	25,000,000	25,000,000
Appropriated for market value stabilization	15,607,079	8,150,191
Total fund equity	$ 86,961,098	$ 78,790,990

REVENUES
FYE 6/30/2012



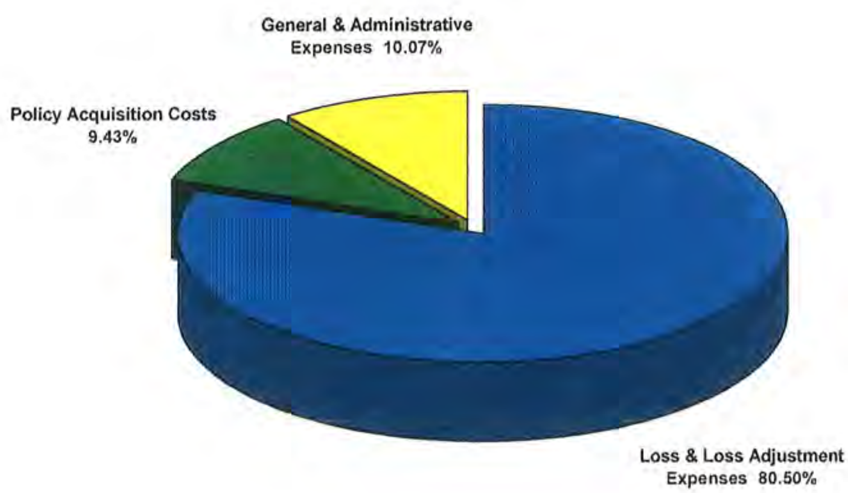
Total revenues of $60,976,379 consisted of earned premiums net of reinsurance premiums ceded, net investment income and other income.

Earned premiums represent premiums charged to members for insurance coverage purchased from the Pool. These premiums are derived from calculations that take into consideration a member's exposures (such as payroll volume, operating budget, physical properties owned, etc.) as applied to a base rate. Additionally, each member is rated on its actual loss experience (referred to as experience modifications) and its compliance with the Pool's loss control surveys and recommendations (referred to as schedule modifications). For the fiscal year ended June 30, 2012, gross earned premiums totaled $60,505,259, which were 2.4% less than the previous year due to a base rate reduction approved by the Board of Directors.

Reinsurance premiums ceded totaled $8,087,478 and represents a 20.7% increase over the prior year due primarily to the increased cost of property reinsurance because of increased claims for property damages incurred from severe wind and hail storms in 2012.

The Pool earned $8,309,847 in net investment income for fiscal year 2012, which is 2.7% less than the prior year. The Pool presents its investments at market value and records the unrealized gain or loss component of market value in the *Statement of Revenues, Expenses and Changes in Fund Equity* in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31. However, the Pool's Board of Directors has elected to present the change in fair value as a separate line item in the *Statement of Revenues, Expenses and Changes in Fund Equity* instead of including it in investment income. The reason for this alternate presentation is that when "unrealized" gains or losses in market value are combined with investment income, the unrealized component severely distorts the Pool's operating income, which is based on actual or "realized" results. This misrepresentation of "real" operating income would prevent Pool management from properly serving its municipal-based membership in the competitive insurance market in which it operates. Change in unrealized investment market values is reported in the *Statement of Revenues, Expenses and Changes in Fund Equity* as required by GASB Statement No. 31 but is merely displayed as its own line item within the statement. Consequently, the change in fund equity is the same amount as it would have been had the change in fair value been combined with investment income. The Pool's management believes this alternate presentation enhances financial disclosure to readers.

EXPENSES
FYE 6/30/2012



Total expenses of $56,742,802 consisted of loss and loss adjustment expenses, policy acquisition costs and general and administrative costs.

Loss and loss adjustment expenses include actual claim payments made as well as adjustments for reserves on claims. Adjustments to case reserves are made as claims are developed and more information about potential loss amounts is known. Reserves for claims incurred but not reported ("IBNR"), as determined by independent actuaries, are also part of this expense category. Loss and loss adjustment expenses totaled $45,679,966 for the fiscal year, which is 5.3% less than the previous year.

Policy acquisition costs are expenses incurred by the Pool that are part of the cost of the policy and include agents' commissions, property inspections, property appraisals and workers' compensation audit fees. Policy acquisition costs totaled $5,348,686 for fiscal year 2012, which is 1.4% more than the prior year.

In providing insurance coverage and risk management services to its members, the Pool incurs overhead and contractual expenses that are budgeted and approved by the Board of Directors annually. As previously mentioned, all budget-to-actual variances are analyzed and reviewed by management on a monthly basis. For the fiscal year ended June 30, 2012, general and administrative expenses were $5,714,150, which represents an increase of 4.1% over the prior year.

Capital Assets

Net capital assets totaled $1,704,492 at year-end and consisted of Pool-owned land, building, vehicles, computers, software, and office furniture and equipment. Capital additions of $342,163 relate to the Pool's continued technology and communication upgrade for its membership. The Pool had a gain of $7,522 from the disposal of certain capital assets during the year.

The Pool had no outstanding debt associated with capital assets.

Economic Factors

Similar to last year, several of the Pool's members sustained significant property damage due to hail and high winds during multiple storms in late spring of 2012. Such damage resulted in additional property and auto physical damage claims, for which the Pool is adequately insured through reinsurance coverage. However, due to the increased storm-related losses, the Pool expects increases in its property reinsurance costs for the upcoming fiscal year 2013.

In light of current market conditions and loss trends, our Board of Directors, upon recommendation from our independent actuaries, approved some base rate changes for fiscal year 2013 in the property and workers compensation lines of coverage.

Requests for Information

This report is designed to provide an overview of the Pool's finances and to demonstrate the Pool's accountability. Questions and requests for additional financial information should be addressed to the Executive Vice President/Chief Financial Officer, TML Risk Management Pool, 5100 Maryland Way, Brentwood, Tennessee 37027.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Balance Sheets

June 30, 2012 and 2011

Assets

	2012	2011
Current assets:		
Cash and cash equivalents	$ 45,287,956	$ 36,520,957
Investments	170,250,890	173,145,277
Premiums receivable	8,196,463	7,940,445
Accrued interest and other receivables	2,465,677	2,587,375
Reinsurance recoverable on paid losses	4,432,243	4,258,913
Deferred acquisition costs, net	563,155	629,522
Total current assets	231,196,384	225,082,489
Premises, property and equipment, net	1,704,492	1,539,587
	$ 232,900,876	$ 226,622,076

Liabilities and Fund Equity

	2012	2011
Current liabilities:		
Reserve for losses and loss adjustment expenses	$ 122,305,838	$ 120,181,090
Deferred premium revenue	5,699,587	6,178,094
Reserve for unearned premiums	12,106,494	11,927,927
Dividends payable	4,131,490	7,768,331
Accounts payable and accrued liabilities	1,696,369	1,775,644
Total liabilities	145,939,778	147,831,086
Fund equity:		
Invested in capital assets	1,704,492	1,539,587
Unrestricted:		
Appropriated for capitalization	40,000,000	40,000,000
Appropriated for member credits	4,649,527	4,101,212
Appropriated for property/casualty catastrophe	25,000,000	25,000,000
Operational appropriated fund equity	69,649,527	69,101,212
Appropriated for market value stabilization	15,607,079	8,150,191
Total fund equity	86,961,098	78,790,990
	$ 232,900,876	$ 226,622,076

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Revenues, Expenses, and Changes in Fund Equity

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues:		
Gross earned premiums	$ 60,505,259	$ 61,974,819
Reinsurance premiums ceded	(8,087,478)	(6,697,727)
Net earned premiums	52,417,781	55,277,092
Investment income, net	8,309,847	8,537,870
Other income	248,751	228,988
Total operating revenues	60,976,379	64,043,950
Operating expenses:		
Losses and loss adjustment expenses	45,679,966	48,217,825
Policy acquisition costs	5,348,686	5,274,457
General and administrative expenses	5,714,150	5,490,951
Total operating expenses	56,742,802	58,983,233
Operating income	4,233,577	5,060,717
Nonoperating revenues:		
Gain on disposal of capital assets	7,522	18,942
Change in fund equity before change in unrealized gains (losses) on investments	4,241,099	5,079,659
Change in net unrealized gains (losses) on investments	7,621,793	(7,930,820)
Total change in fund equity	11,862,892	(2,851,161)
Fund equity, beginning of year	78,790,990	89,142,151
Dividend declared	(4,100,000)	(7,500,000)
Member lapsed dividends credits	407,216	-
Fund equity, end of year	$ 86,961,098	$ 78,790,990

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash receipts:		
Premiums received	$ 53,486,336	$ 53,181,801
Interest received	7,610,618	8,090,909
Special rating plan reimbursements	3,447,780	3,508,961
Reinsurance recoveries received	11,506,770	12,221,169
Claims recoveries	1,302,311	953,321
Other cash receipts	352,898	573,924
Total cash receipts	77,706,713	78,530,085
Cash disbursements:		
Claim payments	55,394,950	49,891,221
General and administrative	6,924,179	7,421,890
Reinsurance premiums	8,129,293	2,685,656
Claims administration	3,799,723	3,463,866
Policy acquisition	5,033,607	4,940,263
Total cash disbursements	79,281,752	68,402,896
Net cash provided (used) by operating activities	(1,575,039)	10,127,189
Cash flows from capital activities:		
Purchases of premises, property and equipment	(369,522)	(586,393)
Sales of premises, property and equipment	7,522	16,974
Net cash used in capital activities	(362,000)	(569,419)
Cash flows from investing activities:		
Purchases of investments	(191,832,372)	(169,622,733)
Sales and maturities of investments	202,536,410	148,969,531
Net cash used by investing activities	10,704,038	(20,653,202)
Net increase (decrease) in cash and cash equivalents	8,766,999	(11,095,432)
Cash and cash equivalents, beginning of year	36,520,957	47,616,389
Cash and cash equivalents, end of year	$ 45,287,956	$ 36,520,957

See accompanying notes to the financial statements.

Statements of Cash Flows (continued)

Years ended June 30, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 4,233,577	$ 5,060,717
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	204,617	176,739
Net accretion of discount on investments	196,579	(6,547)
(Gain) loss on sale of investments	(384,436)	(170,824)
(Increase) decrease in premiums receivable	(256,018)	3,860,410
(Increase) decrease in reinsurance recoverable on paid losses	(173,331)	3,969,026
(Increase) decrease in deferred acquisition cost	66,367	120,248
(Increase) decrease in accrued interest and other receivables	34,965	(651,801)
(Increase) decrease in prepaid reinsurance and other expenses	86,733	3,944,683
Increase in reserve for losses and loss adjustment expenses	2,124,748	7,612,141
Increase (decrease) in deferred premium revenue	(478,507)	(3,244,603)
Increase (decrease) in reserve for unearned premiums	178,566	(1,533,763)
Dividend credits	(7,329,628)	(8,893,617)
Decrease in accounts payable and accrued liabilities	(79,271)	(115,620)
Net cash provided (used) by operating activities	$ (1,575,039)	$ 10,127,189

See accompanying notes to the financial statements.

(1) Nature of operations

Tennessee Municipal League Risk Management Pool (the "Pool"), a nonprofit corporation, provides liability, property and workers' compensation coverage for certain governmental entities in the State of Tennessee. Liability coverage provided by the Pool includes comprehensive general liability, comprehensive automobile liability, law enforcement, automobile physical damage and public officials' error and omissions. Property coverage includes all risk on real property, personal property, business interruption, electronic data processing systems, extra expense, accounts receivable, valuable papers, rental income, property in transit, demolition and increased cost of construction, subject to specified sub-limits. Workers' compensation coverage conforms to the workers' compensation law of Tennessee excluding the provisions of the state law dealing with nonoccupational disability benefits.

Pool membership currently consists of 495 governmental entities. The Pool provides risk management services with emphasis on loss control as part of the coverage. The Pool also provides claims management services and insurance above certain self-insured levels to participating entities. Participants in these services are, for the most part, not general policyholders and the Pool receives fees and premiums, respectively, for claims management services and retention-type contracts.

(2) Summary of significant accounting policies

The financial statements of the Pool have been prepared in conformity with accounting principles generally accepted in the United States of America. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Pool elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(a) Revenues

Revenues from net earned premiums, investment income, and other miscellaneous income are reported as operating revenues. Investment income, consistent with prior years, is reported as operating revenue because it is used extensively in the operations of the Pool. Capital transactions are reported as non-operating revenues. Loss and loss adjustment expenses, policy acquisition costs, and general and administrative expenses are reported as operating expenses.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with original maturities of three months or less. Money market funds, which are held by third-party investment managers, are classified as investments.

(c) Investments

The Pool carries its investments in securities at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The changes in unrealized gains and losses on investments for the years ended June 30, 2012 and 2011 are reflected as separate components in the statement of revenues, expenses and changes in fund equity. Realized gains and losses on sales of investments are recognized based on the specific identification method at the date of sale. Interest income is recognized when earned.

(d) Deferred acquisition costs

Policy acquisition costs consist of commissions incurred at policy or contract issue date. These costs vary with, and are primarily related to, the acquisition of business and are deferred and amortized over the period in which the related premiums are earned.

(e) Premises, property and equipment

Premises, property and equipment are carried at original cost less accumulated depreciation and consist of premises and improvements and furniture, fixtures and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. The Pool's policy is to capitalize assets with a cost of $1,000 or more.

(f) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses is estimated as losses are incurred. The reserve consists of amounts for unpaid reported losses, net of salvage and subrogation and reinsurance recoveries, and estimates for incurred but not reported ("IBNR") losses. The estimates for IBNR were developed by management based on a consulting actuarial evaluation of the Pool's expected loss experience with consideration given to the Pool's historical loss experience and general industry information. Insurance liabilities are necessarily based on estimates and the ultimate liability may vary from such estimates. Adjustments to these estimates are reflected in expenses as determined.

(g) Risk management and insurance arrangements

In addition to the loss related to operational risks, the Pool is exposed to various risk of loss related to theft of, damage to, and destruction of assets; illness or injuries to employees; and natural disasters. The Pool carries commercial insurance for these additional types of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past five fiscal years.

(h) Recognition of premium

Premium is earned on a pro rata basis over the term of the policy, which is generally one year. Unearned premium represents the portion of premium applicable to the unexpired portion of policies in force. Deferred premium revenue represents premium billed in the current fiscal year for policies becoming effective in the next fiscal year.

(i) Income taxes

The Pool has received a favorable determination letter from the Internal Revenue Service and is exempt from income taxes under Section 115 of the Internal Revenue Code.

(j) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(k) Events occurring after reporting date

The Pool has evaluated events and transactions that occurred between June 30, 2012 and October 9, 2012, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires certain investments to be reported at fair value in the balance sheet, with the change in fair value reported as a component of investment income in the statement of revenues, expenses, and changes in fund equity. The Pool has reported the change in fair value in the statement of revenues, expenses, and changes in fund equity, but has elected to present the change after operating income, instead of including it in investment income. The Pool's decision to present this amount separately is based on its desire to report to the membership the Pool's operational status before recording market value fluctuations in investment holdings. After reporting operating income and nonoperating revenues, the change in fair value of investments is reported, with a final change in fund equity reported in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Board of Directors has authorized management to invest in obligations of the U.S. Treasury and U.S. governmental agencies, mortgage related securities, the State of Tennessee Local Government Investment Pool ("LGIP"), short-term investment funds, corporate bonds, municipal bonds, and equity securities. The average quality of the securities must be rated at or above Aa, as defined by Moody, Standard and Poor, or an equivalent rating agency.

The Pool's investments at June 30, 2012 are categorized below to give an indication of the level of risk assumed by the Pool. Category 1 includes investments that are insured or registered or for which the securities are held by the Pool or its agent in the Pool's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer's agent, in its trust department, in the Pool's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer's agent, in its trust department, but not in the Pool's name.

	Category 1	Category 2	Category 3	Fair Value
U.S. Government Securities	$ 79,221,360	$ -	$ -	$ 79,221,360
Municipal Bonds	91,029,530	-	-	91,029,530
	$ 170,250,890	$ -	$ -	$ 170,250,890

The Pool's cash and cash equivalent bank balances totaling $33,782,805 at June 30, 2012 (investment proceeds in transit are added to the bank balances, and outstanding checks are subtracted from bank balances to determine a carrying value of $45,287,956) represent a variety of time deposits with banks and include bank balances that are insured or collateralized with securities held by the Pool or by its agent in the Pool's name.

Net realized gains from the sale of investments were $384,436 and $170,824 for the fiscal years ended June 30, 2012 and 2011, respectively. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

In 1986, the Pool invested in the NLC-Mutual Insurance Company ("NLC-MIC"), which is a captive insurance company formed by risk pools associated with certain state municipal leagues, as a prerequisite for membership. The Pool subsequently ceased its membership in NLC-MIC and received the cost basis of its investment in full in fiscal year 2010. During the 2012 fiscal year, the Pool received an additional distribution from NLC-MIC in the amount of $864,043, representing the return of equity in excess of the cost of the Pool's initial membership investment. The additional distribution is included in investment income on the statements of revenues, expenses, and changes in fund equity.

(4) Premises, property and equipment

Premises, property and equipment are comprised of:

	2012	2011
Buildings and improvements	$ 2,039,997	$ 1,970,174
Furniture, fixtures and equipment	2,185,403	1,913,064
	4,225,400	3,883,238
Accumulated depreciation	(2,520,908)	(2,343,651)
	$ 1,704,492	$ 1,539,587

(5) Reserve for losses and loss adjustment expenses

Reserve for losses and loss adjustment expenses is comprised of:

	2012	2011
Reserve for reported claims	$ 74,826,064	$ 78,647,218
Reserve for incurred but not reported claims	56,673,743	54,342,731
Reserve for unallocated loss adjustment expenses	7,056,508	7,024,976
Less: reinsurance recoverable	(16,250,477)	(19,833,835)
Total reserve for losses and loss adjustment expenses	$ 122,305,838	$ 120,181,090

As discussed in Note 2, the Pool 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 table represents changes in those aggregate liabilities for the Pool during the past two years. Reserves are stated on a net basis after deductions for losses recoverable from reinsurers.

	2012	2011
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 120,181,090	$ 112,568,949
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	47,507,981	50,641,219
Decrease in provision for insured events of prior fiscal years	(5,484,570)	(5,731,680)
Unallocated claim adjustment expenses	3,656,555	3,308,286
Total incurred claims and claim adjustments expenses	45,679,966	48,217,825
Reinsurance:		
Reinsurance recoveries received attributable to insured events of prior fiscal years	10,642,727	12,187,520
Change in reinsurance recoverable on paid losses	173,330	(3,969,026)
Total reinsurance	10,816,057	8,218,494
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	13,554,782	14,170,671
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	37,159,938	31,345,224
Unallocated claim adjustment expenses	3,656,555	3,308,283
Total payments	54,371,275	48,824,178
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 122,305,838	$ 120,181,090

The Pool has accumulated a base of mature reported loss data, supplemented with industry data, to project ultimate losses. Estimates of incurred losses for all lines of business and policy years involve estimation of future events and costs, which may differ from amounts ultimately realized due to a number of factors. Estimated loss reserves have been developed by management of the Pool with assistance from a consulting actuary. Management believes the reserve for losses and loss adjustment expenses is reasonably stated for all obligations as of June 30, 2012 and 2011. However, adjustments to these estimates may nevertheless be required and would be reflected as additions or reductions to expenses in the period the adjustment is determined.

(6) Premiums written and reinsurance

Premiums written for the years ended June 30, 2012 and 2011 were as follows:

	2012	2011
Premiums written	$ 60,683,825	$ 60,441,056
Premiums ceded	(8,087,478)	(6,697,727)
Net premiums written	$ 52,596,347	$ 53,743,329

The Pool limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with various reinsurance companies. Ceded reinsurance is treated as the risk and liability of the assuming companies. In general, such reinsurance contracts limit the Pool's retention on individual occurrences as follows: workers' compensation - $750,000; general liability, personal injury liability, errors and omissions liability and auto liability - $700,000; property (including auto physical damage) - $300,000; and crime coverage - $300,000.

This reinsurance coverage does not relieve the Pool from its obligations to its members. Failure of the reinsurer to honor its obligations could result in losses to the Pool and its members. Accordingly, the Pool evaluates the financial condition of any reinsurers to minimize its losses because of potential reinsurer insolvency.

Estimated amounts recoverable from reinsurers of $16,250,477 and $19,833,835 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2012 and 2011. The Pool remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(7) Fund equity

The Pool appropriates, as directed by its Board of Directors, its fund equity into separate categories that include capitalization, member credits, property/casualty catastrophe and market value stabilization. The Board of Directors may, at its discretion, adjust the amounts of appropriated fund equity.

During the year ended June 30, 2012, the Board declared a $4,100,000 dividend, to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2012 through June 30, 2013. The Board also approved lapsed dividends totaling $407,216 from fiscal years 2005-2010 to be returned to fund equity.

During the year ended June 30, 2011, the Board declared a $7,500,000 dividend, which was paid in the form of renewal credits issued for policies with effective dates of July 1, 2011 through June 30, 2012.

(8) Related party transactions

The formation of the Pool was sponsored by the Tennessee Municipal League (the "League"), and the Pool is governed by a board of directors whose members are approved by the board of the League. The elected board members consist of elected officials and city managers from cities that are members of the Pool. The League receives an annual sponsorship fee from the Pool of 1.90% of net earned premiums, subject to a cap that is based on a percentage of the prior year's fee. Beginning in fiscal year 2011, the cap increased from 3.25% to 4.00%. In 2012 and 2011, these fees were $996,129 and $1,088,950, respectively.

(9) Employee benefit plan

Plan Description--Employees of the Pool are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Pool, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/PS/.

Funding Policy--The Pool has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

The Pool is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012 was 15.49% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Pool is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost--For the years ending June 30, 2012 and 2011, the Pool's annual pension cost of $356,199 and $335,696, respectively, to TCRS was equal to the Pool's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Pool's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 10 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	$ 356,199	100.00 %	$ -
June 30, 2011	$ 335,696	100.00 %	$ -
June 30, 2010	$ 470,421	100.00 %	$ -

Funded Status and Funding Progress-As of July 1, 2011, the most recent actuarial valuation date, the plan was 91.50% percent funded. The actuarial accrued liability for benefits was $6.6 million, and the actuarial value of assets was $6.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $2.1 million, and the ratio of the UAAL to the covered payroll was 25.98% percent.

The schedule of funding progress presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Schedule of Funding Progress (Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ 6,004	$ 6,562	$ 558	91.50%	$ 2,148	25.98%
July 1, 2009	$ 4,444	$ 5,072	$ 628	87.62%	$ 2,552	24.61%
July 1, 2007	$ 3,539	$ 4,228	$ 689	83.70%	$ 2,016	32.72%

(10) Commitments and contingencies

In the normal course of operations, the Pool is involved in litigation related to certain claims. In the opinion of management, the disposition of these matters will not have a material adverse effect on the Pool's financial position.

Tennessee Municipal League Risk Management Pool
Ten-Year Claims Development Information

Year ended June 30, 2012

The table below illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of losses (net of losses assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last ten fiscal years. 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 Pool including overhead and claims expense not allocable to individual claims. (3) This line shows the Pool'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 (policy year). (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of 10 rows shows how each policy year's incurred claims increased or decreased as of the end of successive 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 (line 5) to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less that originally estimated. As data for individual policy 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 policy years. The columns of the table show data for successive policy years.

	June 30,									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1. Net earned required contribution and investment revenues	$ 49,171,296	$ 53,533,626	$ 58,819,885	$ 65,485,896	$ 69,537,278	$ 71,036,536	$ 67,407,104	$ 66,071,645	$ 64,062,890	$ 60,983,901
2. Unallocated expenses	10,948,849	12,123,842	11,676,230	12,309,907	12,287,325	14,147,927	13,462,216	13,928,489	14,073,693	14,719,391
3. Estimated incurred claims and expenses, end of accident year	42,209,752	40,425,023	40,230,398	41,404,943	42,571,480	44,357,938	43,738,304	46,827,211	50,641,219	47,507,981
4. Net Paid (cumulative) as of:										
End of accident year	12,958,472	12,074,831	10,780,705	9,692,686	11,044,685	10,682,950	10,383,927	11,960,924	14,170,671	13,554,782
One year later	23,679,805	22,100,069	18,507,560	18,007,390	24,071,928	22,178,806	22,503,451	21,946,111	28,567,327	
Two years later	29,554,861	27,601,383	23,212,693	21,031,854	27,493,192	28,059,198	26,581,822	28,850,196		
Three years later	32,607,005	32,338,496	25,469,618	24,391,517	32,024,370	30,762,829	29,468,494			
Four years later	34,441,752	33,520,916	26,851,678	25,083,252	34,349,210	32,613,755				
Five years later	35,290,471	34,677,038	28,153,118	26,522,247	35,460,726					
Six years later	35,682,110	35,536,205	28,962,045	26,963,096						
Seven years later	36,060,017	36,472,359	29,512,330							
Eight years later	36,264,698	37,057,697								
Nine years later	36,412,195									

Tennessee Municipal League Risk Management Pool
Ten-Year Claims Development Information (continued)

Year ended June 30, 2012

	June 30, 2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
5. Reestimated incurred claims and expenses:										
End of accident year	$ 42,209,752	$ 40,425,023	$ 40,230,398	$ 41,404,943	$ 42,571,480	$ 44,357,938	$ 43,738,304	$ 46,827,211	$ 50,641,219	$ 47,507,981
One year later	41,215,595	39,543,774	38,308,079	37,576,804	44,052,737	42,734,103	42,588,900	45,209,547	47,774,196	
Two years later	40,537,529	41,012,991	35,109,231	33,390,710	45,514,860	42,075,676	40,180,438	42,870,101		
Three years later	39,841,028	43,766,228	34,479,011	31,890,264	47,274,092	41,797,919	38,843,097			
Four years later	42,148,938	44,221,670	33,684,386	31,694,825	47,681,591	39,226,518				
Five years later	41,970,549	42,914,034	33,481,347	33,230,571	42,749,923					
Six years later	41,808,246	42,576,476	33,403,425	31,625,867						
Seven years later	41,814,689	42,911,150	32,760,516							
Eight years later	41,576,280	40,877,502								
Nine years later	39,230,052									
6. Increase (decrease) in estimated incurred claims and expenses from end of accident year	(2,979,700)	452,479	(7,469,882)	(9,779,076)	178,443	(5,131,420)	(4,895,207)	(3,957,110)	(2,867,023)	

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2012

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 38,888,523	$ 78,595,562	$ 2,697,005	$ 120,181,090
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	18,696,610	24,156,123	4,655,248	47,507,981
Increase (decrease) in provision for insured events of prior fiscal years	(2,747,901)	(2,517,076)	(219,593)	(5,484,570)
Unallocated claims adjustment expenses	1,509,520	1,521,849	625,186	3,656,555
Total incurred claims and claim adjustment expenses	17,458,229	23,160,896	5,060,841	45,679,966
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	496,249	368,647	9,777,831	10,642,727
Change in reinsurance recoverable on paid losses	(49,122)	911,510	(689,058)	173,330
Total reinsurance	447,127	1,280,157	9,088,773	10,816,057
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,952,691	6,472,316	2,129,775	13,554,782
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	12,253,487	14,046,221	10,860,230	37,159,938
Unallocated claim adjustment expenses	1,509,520	1,521,849	625,186	3,656,555
Total payments	18,715,698	22,040,386	13,615,191	54,371,275
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 38,078,181	$ 80,996,229	$ 3,231,428	$ 122,305,838

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2011

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 37,520,563	$ 73,023,916	$ 2,024,470	$ 112,568,949
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	20,650,664	25,203,887	4,786,668	50,641,219
Increase (decrease) in provision for insured events of prior fiscal years	(4,828,461)	(1,324,349)	421,130	(5,731,680)
Unallocated claims adjustment expenses	1,371,617	1,398,728	537,941	3,308,286
Total incurred claims and claim adjustment expenses	17,193,820	25,278,266	5,745,739	48,217,825
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	673,679	424,910	11,088,931	12,187,520
Change in reinsurance recoverable on paid losses	277,533	(15,100)	(4,231,459)	(3,969,026)
Total reinsurance	951,212	409,810	6,857,472	8,218,494
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,997,188	6,404,041	2,769,442	14,170,671
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,408,267	12,313,664	8,623,293	31,345,224
Unallocated claim adjustment expenses	1,371,617	1,398,725	537,941	3,308,283
Total payments	16,777,072	20,116,430	11,930,676	48,824,178
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 38,888,523	$ 78,595,562	$ 2,697,005	$ 120,181,090

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

To the Board of Directors
Tennessee Municipal League Risk Management Pool

We have audited the financial statements of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the year ended June 30, 2012 and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Tennessee Municipal League Risk Management Pool is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Tennessee Municipal League Risk Management Pool's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tennessee Municipal League Risk Management Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and the Comptroller of the Treasury of the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
October 9, 2012