

**TML RISK MANAGEMENT POOL  
BOARD OF DIRECTORS REGULAR MEETING  
DATE OF MEETING: DECEMBER 16, 2015  
BRENTWOOD, TENNESSEE**

The Board of Directors of the TML Risk Management Pool (“The Pool”) met at 9:00 a.m. on December 16, 2015 at the Pool’s office in Brentwood, Tennessee in its regular meeting.

Board Members present included: Chair Samuel Tharpe, Vice-Chair Ken Wilber, Ann Davis, Tommy Green, Curtis Hayes, Pete Peterson, Tom Rowland and Garry Welch. Kay Senter joined the meeting via telephone conference call.

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 Tharpe called for a vote to approve the minutes of the September 11, 2015 Board meeting. Motion was made by Green and seconded by Rowland. Chairman Tharpe called for any questions. None were made. **PASSED UNANIMOUSLY**

**2. FY 2015 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, 2015. The audited financial statements and the auditor’s required communication letter were provided to each Board member in advance of the Board meeting.

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 said he would be glad to answer any questions about the audit report. Chairman Tharpe asked Board members if there were any questions about the audited financial statements. Peterson asked about the impact on the financials due to the new pension reporting standards. Blackburn noted that the financial statements for this fiscal year are presented as a single year because of the new pension standards and the lack of actuarially-determined data that would have been necessary to restate prior years’ information. He commented that next year’s audit report will be able to resume with comparative financial statements.

Blackburn also noted that in the past a qualified audit opinion had been issued due to the way investment income had been presented in the financial statements. This has changed and an unqualified opinion has been issued for this fiscal year. He asked DeMore if he would like to comment.

DeMore stated that years ago the Governmental Accounting Standards Board (“GASB”) issued accounting standards about how to report unrealized investment gains and losses due to daily fluctuations in investment market prices. Having adopted the standards, the Pool reports its investments at market value, meaning that unrealized or “paper” increases and decreases in a security’s market price are recorded in our financial statements as “unrealized gains and losses” even though the Pool’s investment policy is to hold securities to maturity. However, he explained that for management and operating decisions, for example dividend declarations, Pool management does not consider investment paper gains and losses. Consequently, up until this year such unrealized investment gains and losses have been shown in the statement of revenues, expenses and changes in net position as a separate line below the total for operating income, instead of including it as part of operating income. Because this presentation has not been in strict compliance with GASB Statement No. 31, it generated the qualified audit opinions.

He commented that our Pool has not been alone in its position, but while other state pools held the same view and reported their paper gains and losses the same as the Pool in the past, they have more recently changed to conform to the GASB standard. In considering future compliance issues and given the fact that the Pool is issuing single year financial statements due to the new pension standards, we decided to change our presentation format this year to come into strict compliance with the GASB standard.

DeMore also called attention to the amount of the Pool’s unfunded net pension liability as being slightly under \$700,000 at June 30, 2015 and that it is 91.97% funded as a pension plan.

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

### **3. FINANCIAL REPORTS**

A. Charles DeMore presented the financial statements for the three months ended September 30, 2015. In reviewing the Statements of Revenues, Expenses and Changes in Net Position, DeMore stated that gross earned premium of \$17,215,373 was 4.09% or \$676,407 more than this time last year. Reinsurance premiums ceded were \$2,727,179 which was 3.27% or \$86,452 more than last year due to increased workers compensation reinsurance. Net earned premium was \$14,488,194 was 4.24% or \$589,955 more than last year. Investment income totaled \$2,185,356, which is 13.93% or \$353,625 less than actual last year. DeMore noted that last year’s investment income amount includes realized gains of \$556,596. Compared with budget projections, investment income is \$329,106 or 17.73% greater than anticipated for this period. Total revenues of \$16,778,475 were \$251,251 or 1.52% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expenses of \$12,858,576 was relatively flat at being 0.51% or \$64,908 more than last year. Policy acquisition costs of \$2,283,108 were 3.82% or \$90,626 less than last year.

General and administrative expenses of \$1,778,308 were 3.97% or \$67,933 more than the prior year actual. However, when compared with the budget, general and administrative expenses were 10.16% or \$201,149 less than projected for this period. Total expenses were \$16,919,993, which was slightly more than last year’s actual expenses by 0.25% or \$42,215. The change in net position before the

change in fair value of investments was a decrease of \$141,518, compared to a decrease of \$350,554 this time last year.

This period's change in fair value (unrealized gains and losses) of investments was \$3,466,757 in net unrealized gains compared with unrealized gains of \$844,831 this time last year. The total change in net position for the three months ended September 30, 2015 was an increase of \$3,325,239.

In reviewing the Statements of Net Position as of September 30, 2015, DeMore commented that cash and cash equivalents totaled \$10,477,141, and investments totaled \$241,605,500. Premiums receivable at the end of the period were \$7,920,233. Accrued interest was \$2,557,639, and prepaid reinsurance and corporate insurance was \$7,603,708. Reinsurance recoverable totaled \$1,239,875, and net fixed assets totaled \$1,364,314. Assets totaled \$273,523,404 which was an increase of 6.3%.

Deferred outflows of resources of \$486,778 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 \$274,010,182 at September 30, 2015.

Liabilities included net reserve for losses of \$137,038,406, which was 3.3% or \$4,391,360 more than the prior year amount. The reserve for unearned premiums was \$39,786,992; accounts payable and accrued expenses totaled \$1,424,437; and, dividends payable totaled \$1,048,994 consisting of approximately \$1 million of dividends declared for fiscal year 2015/2016).

The Pool's net pension liability of \$694,918 will be actuarially adjusted at the end of this fiscal year, as will also the balance of deferred inflows of resources of \$488,726 related to the net pension liability. Total liabilities and deferred inflows of resources was \$180,482,472. When beginning net position of \$90,202,471 is combined with this period's change in net position of \$3,325,239, net position at September 30, 2015 was \$93,527,710.

B. DeMore reviewed the internally-managed fixed income portfolio as of November 30, 2015 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling \$6,627,295 with an average return of 0.18%.

The Pool's portfolio included 85 fixed income securities consisting of government and agency bonds, more specifically 56 municipal bonds and 29 agency bonds. On November 30, 2015, the portfolio had a book value of \$245,384,118 and a market value of \$242,969,752, representing an unrealized loss of \$2,414,366. DeMore noted that while the overall portfolio had an average coupon of 3.892%, the average coupon rate for municipal bonds was 4.26%. He said the fair market value unrealized loss had changed to \$1,914,373 as of December 14, 2015.

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 these financial reports as presented. Motion was made by Rowland to accept the financial reports as presented; seconded by Wilber. **PASSED UNANIMOUSLY**

#### **4. DATE OF NEXT MEETING**

The date of the next meeting is suggested as Friday, February 12, 2016 at the Pool's office in Brentwood, Tennessee.

## **5. OTHER BUSINESS**

**A. Upcoming Conferences – Crawford informed Board members of the National League of Cities RISC Conference for Pool Trustees will be held in San Antonio, Texas this year in May 4-6, 2016. Also, the Association of Government Risk Pools (“AGRIP”) will be holding its annual Governance and Leadership conference here in Nashville on March 6-9, 2016 at the Gaylord Opryland and Resort Convention Center. Crawford said because of the Nashville venue the Pool will pay for Board members to attend AGRIP in addition to the NLC-RISC conference. She wanted Board members to know of the dates and said she will be getting more information out.**

**Margaret Mahery mentioned that the TML Legislative Conference will be March 14-15, 2016.**

**MEETING ADJOURNED AT 9:46 a.m.**

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**Samuel Tharpe, Chairman**

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**Charles DeMore, Secretary**