TENNESSEE MUNICIPAL LEAGUE
RISK MANAGEMENT POOL

Financial Statements and Supplementary Information

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

Accounting principles generally accepted in the United States of America require that certain investments be reported at fair market value in the statements of net position, with the change in unrealized fair value reported as investment income in the statements of revenues, expenses, and changes in net position. 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 net position, but has chosen not to present the change in unrealized gains or losses on investments as a component of investment income.

Qualified Opinion

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Municipal League Risk Management Pool as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–9 as well as the Ten-Year Claims Development Information, the Reconciliation of Claims Liabilities by Type of Contract, and the Schedule of Funding Progress - Employee Retirement System on pages 28–31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
October 28, 2013

THE POOL
Tennessee's Leader in Risk Management Services

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Management's Discussion and Analysis

The management of Tennessee Municipal League Risk Management Pool ("the Pool") offers the readers of the Pool's financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The information presented in this report should be considered in conjunction with the Pool's audited financial statements.

The Pool is a public entity risk pool that provides workers' compensation, liability and property insurance and risk management services to participating governmental entities in the State of Tennessee.

2013 Fiscal Year Highlights

- The Pool had 495 members at 2013 year-end, representing coverage for more than 38,800 member employees and coverage for approximately 16,000 government buildings valued at more than $6.9 billion.

- Total Pool assets of $226,492,348 exceeded liabilities by $78,434,938 at June 30, 2013. All liabilities are current as the Pool has no long-term debt obligations.

- Operating revenues of $61,551,590 increased by $575,211 since last year while total operating expenses of $52,685,373 decreased by $4,057,429.

- The Pool's Board of Directors declared a dividend of $4,640,000 to members for the ensuing 2014 policy year.

- During 2013 the Pool launched 24/7 online claims filing capability to its membership for all lines of coverage and continues to enhance its communication venues to and resources for membership through improved technology.

Overview of the Financial Statements

The Pool's annual financial report consists of management's discussion and analysis, the independent auditors' report, the basic audited financial statements that include notes which more fully explain information in the financial statements, required supplementary information and the independent auditors' report on internal control and compliance. The Pool's financial statements are presented on a comparative basis using the full accrual method of accounting similar to those used by private-sector companies.

The *Statements of Net Position* present information about the Pool's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at year-end. The *Statements of Revenues, Expenses and Changes in Net Position* present the results of the Pool's operations and changes in its net position over the course of the fiscal year. The *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 without regard to the timing of earnings and obligation events or depreciation. The *Notes to the Financial Statements* provide required disclosures and other information essential to a full understanding of material data provided in the financial statements, including information about the Pool's significant accounting policies and account balances, material risks, obligations, contingencies and subsequent events, if any. The *Required Supplementary Information* presents additional information required by generally accepted accounting principles and applicable regulatory agencies.

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

Financial Analysis

The following table presents the Pool's assets, liabilities and net position at the end of the current fiscal year and the two prior fiscal years.

Condensed Statements of Net Position
At June 30,
(in millions of dollars)

	2013	2012	Net Increase (Decrease) $	Net Increase (Decrease) %	2011	Net Increase (Decrease) $	Net Increase (Decrease) %
Current assets	$ 224.7	$ 231.2	$ (6.5)	-2.8%	$ 225.1	$ 6.1	2.7%
Capital assets	1.8	1.7	0.1	6.0%	1.5	0.2	10.7%
Total assets	$ 226.5	$ 232.9	$ (6.4)	-2.8%	$ 226.6	$ 6.3	2.8%
Current liabilities	$ 148.1	$ 145.9	$ 2.1	1.5%	$ 147.8	$ (1.9)	-1.3%
Noncurrent liabilities	-	-	-	- %	-	-	- %
Total liabilities	148.1	145.9	2.1	1.5%	147.8	(1.9)	-1.3%
Investment in capital assets	1.8	1.7	0.1	6.0%	1.5	0.2	10.7%
Unrestricted	76.6	85.3	(8.6)	-10.1%	77.3	8.0	10.4%
Total net position	78.4	87.0	(8.5)	-9.8%	78.8	8.2	10.4%
Total liabilities and net position	$ 226.5	$ 232.9	$ (6.4)	-2.8%	$ 226.6	$ 6.3	2.8%

The Pool had total assets of $226.5 million at June 30, 2013, which is 2.8% less than the previous fiscal year-end. Current assets consist primarily of cash and cash equivalents and investments totaling $204.2 million, premiums and interest receivable of $11.5 million and prepaid reinsurance costs of $7.2 million. The Pool's investable assets at June 30, 2013 were comprised of US agency bonds and municipal bonds of $194.6 million and cash and cash equivalents, including money market funds, of $9.6 million.

The Pool's total liabilities of $148 million were all current at June 30, 2013 and were comprised primarily of the reserve for losses and loss adjustment expenses totaling $122.9 million. The reserve represents losses reported for workers' compensation, liability and property lines of coverage to members as well as the actuarially estimated ultimate costs of such claims offset by any reinsurance recoveries accrued on outstanding claims.

Net position is the residual measure of assets and deferred outflows of resources net of liabilities and deferred inflows of resources and totaled $78.4 million at June 30, 2013. Net position fluctuates annually due to the Pool's operating results for a given fiscal year as well as member dividends that may be declared by the Board of Directors.

The Pool's net position at June 30, 2013 was $8.5 million less than the prior year. The change resulted from both an overall decrease in net position of $3.9 million during fiscal year 2013 and a dividend of $4.6 million declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2014.

To preserve the Pool's future financial stability, the Board of Directors has committed the Pool's unrestricted net position for specific purposes as presented in the following table:

Net Position
At June 30,
(in millions of dollars)

	2013	2012	2011
Invested in capital assets	$ 1.8	$ 1.7	$ 1.5
Unrestricted:			
Committed for capitalization	40.0	40.0	40.0
Committed for member credits	3.0	4.7	4.1
Committed for property/casualty catastrophe	25.0	25.0	25.0
Committed for market value stabilization	8.6	15.6	8.2
Total unrestricted	76.6	85.3	77.3
Total net position	$ 78.4	$ 87.0	$ 78.8

The following table presents the Pool's revenues, expenses and changes in net position for the current and two prior fiscal years.

Condensed Statements of Revenues, Expenses and Changes in Net Position
Fiscal year ended June 30,
(in millions of dollars)

			Net Increase (Decrease)			Net Increase (Decrease)	
	2013	2012	$	%	2011	$	%
Operating revenues	$ 61.6	$ 60.9	$ 0.7	1.1%	$ 64.0	(3.10)	-4.8%
Operating expenses	52.7	56.7	(4.0)	-7.1%	59.0	(2.3)	-3.9%
Operating income	8.9	4.2	4.7	111.9%	5.0	(0.8)	-16.0%
Nonoperating revenues	-	-	-	- %	-	-	- %
Change in net position before change in fair value of investments	8.9	4.2	4.7	111.9%	5.0	(0.8)	-16.0%
Change in fair value of investments	(12.8)	7.6	(20.4)	-268.4%	(7.9)	15.5	196.2%
Change in net position	$ (3.9)	$ 11.8	$ (15.7)	-133.1%	$ (2.9)	$ 14.7	506.9%

Operating revenues consist of earned premiums net of reinsurance premiums ceded plus net investment income and other income.

Earned premiums represent premiums charged to members for workers' compensation, liability and/or property insurance coverage. Premiums are determined through the Pool's underwriting process that takes into consideration each member's risk exposures (such as payroll volume, operating budget, physical properties owned, etc.) as applied to a base rate. Each member is also rated on its actual loss experience (referred to as experience modifications) and schedule modifications which include member compliance with the Pool's loss control surveys and recommendations. For the fiscal year ended June 30, 2013, gross earned premiums totaled $62.8 million, which is 3.8% more than the previous year due to an increase in base rates for workers' compensation and property coverage.

Reinsurance premiums ceded totaled $9.4 million which is 16.1% more than the prior year. This increase is due primarily to a 24% increase in property reinsurance costs resulting from increased wind and hail storm claims incurred in recent years.

The Pool earned $7.9 million in net investment income for fiscal year 2013, which is 4.5% less than the prior year. While the Pool's investment philosophy is to buy and hold investment securities until they mature, the Pool does take advantage of market conditions to realize investment gains when appropriate. Consequently, in fiscal year 2013 the Pool realized more than $960,000 in gains on the sale of investments. Like many organizations, the Pool has experienced significant volatility in the investment market as evidenced by substantial swings in investment fair values from one year to the next. While the Pool's operating income increased $4.6 million from fiscal year 2012 to 2013, the change in investment fair value shifted from an unrealized gain of $7.6 million in 2012 to an unrealized loss of $12.8 million in 2013.

The Pool presents its investments at fair (market) value and records the related change in fair value (unrealized gains and losses component) in the *Statement of Revenues, Expenses and Changes in Net Position* in accordance with Governmental Accounting Standards Board ("GASB") pronouncements. The Pool's Board of Directors, however, has elected to present the change in fair value as a separate line item in the *Statement of Revenues, Expenses and Changes in Net Position*, instead of including it in investment income. The reason for this alternate presentation is that when "unrealized" gains and losses in market value are combined with actual investment income, the "unrealized" gains and losses component severely distorts the Pool's "real" operating income which is based on actual or "realized" results and would hinder the Pool from properly serving its members in the competitive insurance market in which it operates. The Pool reports the change in unrealized investment market values in the *Statement of Revenues, Expenses and Changes in Net Position* as required by GASB pronouncements but merely chooses to display it as its own line item within the statement. Consequently, the year-end amount of the change in net position is the same as it would have been had the change in fair value been combined with investment income. The Pool believes this alternate presentation enhances financial disclosure to readers.

Operating expenses consist of losses and loss adjustment expenses, policy acquisition costs and general and administrative costs.

Losses and loss adjustment expenses include actual claim payments made as well as adjustments for reserves on claims. Claim case reserves are adjusted as claims develop and mature 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. Losses and loss adjustment expenses totaled $41.3 million for fiscal year 2013, which is 9.4% 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 contract fees for workers' compensation premium audits. Policy acquisition costs totaled $5.4 million for fiscal year 2013, which is 2.1% more than the prior year.

In providing insurance coverage and risk management services to its members, the Pool incurs general and administrative 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. Compared with the prior year, general and administrative expenses for fiscal year 2013 were $5.8 million, which is 2.1% more due to the cost of additional personnel. General and administrative expenses were, however, almost $480,000 or 7.6% less than budgeted for the 2013 fiscal year.

Capital Assets

The Pool's premises, property and equipment had a total cost of $4.5 million at June 30, 2013 and a book value (after accumulated depreciation) of $1.8 million. These capital assets consist of land, building and improvements, vehicles, computer hardware and software, and office furniture and equipment used in Pool operations. During fiscal year 2013, the Pool acquired $384,064 in new technology software and hardware as part of the Pool's initiative to upgrade technology resources for its members and for vehicle replacements. The Pool realized a gain of $20,913 from the disposal of certain capital assets, and depreciation of $282,326 was charged to operations during fiscal year 2013.

The Pool had no outstanding debt associated with capital assets.

Economic Factors and Other Matters

- In its continuing effort to enhance and to expand its services to meet membership needs, the Pool has employed additional Member Services representatives to service members in each grand division of the State beginning in July 2014.
- The Pool's Board of Directors approved premium base rates for 2014 to remain unchanged from the 2013 base rates.
- For fiscal year 2014 the Pool's reinsurance costs increased approximately 7.5% or $700,000. Additionally, the Pool's retention level for workers' compensation reinsurance also increased to $1,250,000 from $750,000. Given national and global reinsurance market conditions, Pool management anticipates reinsurance costs to continue to rise in future years.

- The State of Tennessee passed the Workers' Compensation Reform Act of 2013 which implements major changes that will become effective July 1, 2014. The impact of such changes is not yet known.

Requests for Information

This report is designed to provide an overview of the Pool's financial activities and to demonstrate the Pool's transparency and accountability to its members and other interested readers. 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

Statements of Net Position

June 30, 2013 and 2012

Assets

	2013	2012
Current assets:		
Cash and cash equivalents	$ 9,656,683	$ 45,287,956
Investments	194,604,284	170,250,890
Premiums receivable	8,534,643	8,196,463
Accrued interest and other receivables	3,087,940	2,465,677
Prepaid reinsurance	7,167,404	-
Reinsurance recoverable on paid losses	875,223	4,432,243
Policy acquisition costs, net	759,941	563,155
Total current assets	224,686,118	231,196,384
Premises, property and equipment, net	1,806,230	1,704,492
	$ 226,492,348	$ 232,900,876

Liabilities and Net Position

	2013	2012
Current liabilities:		
Reserve for losses and loss adjustment expenses	$ 122,991,530	$ 122,305,838
Premiums billed in advance	5,644,822	5,699,587
Unearned premiums	12,827,578	12,106,494
Dividends payable	4,651,829	4,131,490
Accounts payable and accrued liabilities	1,941,651	1,696,369
Total liabilities	148,057,410	145,939,778
Net position:		
Invested in capital assets	1,806,230	1,704,492
Unrestricted	76,628,708	85,256,606
Total net position	78,434,938	86,961,098
	$ 226,492,348	$ 232,900,876

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Gross earned premiums	$ 62,778,323	$ 60,505,259
Reinsurance premiums ceded	(9,389,485)	(8,087,478)
Net earned premiums	53,388,838	52,417,781
Investment income, net	7,936,163	8,309,847
Other income	226,589	248,751
Total operating revenues	61,551,590	60,976,379
Operating expenses:		
Losses and loss adjustment expenses	41,389,831	45,679,966
Policy acquisition costs	5,460,365	5,348,686
General and administrative expenses	5,835,177	5,714,150
Total operating expenses	52,685,373	56,742,802
Operating income	8,866,217	4,233,577
Nonoperating revenues:		
Gain on disposal of capital assets	20,913	7,522
Change in net position before change in fair value of investments	8,887,130	4,241,099
Change in fair value of investments	(12,773,290)	7,621,793
Total change in net position	(3,886,160)	11,862,892
Net position, beginning of year	86,961,098	78,790,990
Dividend declared	(4,640,000)	(4,100,000)
Member lapsed dividend credits	-	407,216
Net position, end of year	$ 78,434,938	$ 86,961,098

See accompanying notes to the financial statements.

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash receipts:		
Premiums received	$ 59,877,014	$ 53,486,336
Interest received	7,627,855	7,610,618
Special rating plan reimbursements	3,306,909	3,447,780
Reinsurance recoveries received	6,249,911	11,506,770
Claims recoveries	1,343,089	1,302,311
Other cash receipts	337,997	352,898
Total cash receipts	78,742,775	77,706,713
Cash disbursements:		
Claim payments	43,908,621	55,394,950
General and administrative	7,141,527	6,924,179
Reinsurance premiums	17,077,043	8,129,293
Claims administration	3,904,403	3,799,723
Policy acquisition	5,159,796	5,033,607
Total cash disbursements	77,191,390	79,281,752
Net cash provided by (used in) operating activities	1,551,385	(1,575,039)
Cash flows from capital activities:		
Purchases of premises, property and equipment	(384,064)	(369,522)
Sales of premises, property and equipment	20,913	7,522
Net cash used in capital activities	(363,151)	(362,000)
Cash flows from investing activities:		
Purchases of investments	(204,934,613)	(191,832,372)
Sales and maturities of investments	168,115,106	202,536,410
Net cash provided by (used in) investing activities	(36,819,507)	10,704,038
Net increase (decrease) in cash and cash equivalents	(35,631,273)	8,766,999
Cash and cash equivalents, beginning of year	45,287,956	36,520,957
Cash and cash equivalents, end of year	$ 9,656,683	$ 45,287,956

See accompanying notes to the financial statements.

Statements of Cash Flows (continued)

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	$ 8,866,217	$ 4,233,577
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	282,326	204,617
Net accretion of discount on investments	656,331	196,579
Gain on sale of investments	(963,510)	(384,436)
Increase in premiums receivable	(338,180)	(256,018)
(Increase) decrease in reinsurance recoverable on paid losses	3,557,019	(173,331)
(Increase) decrease in policy acquisition costs	(196,786)	66,367
(Increase) decrease in accrued interest and other receivables	(584,307)	34,965
(Increase) decrease in prepaid reinsurance and other expenses	(7,205,361)	86,733
Increase in reserve for losses and loss adjustment expenses	685,692	2,124,748
Decrease in premiums billed in advance	(54,765)	(478,507)
Increase in unearned premiums	721,084	178,566
Decrease in dividends payable	(4,119,661)	(7,329,628)
Increase (decrease) in accounts payable and accrued liabilities	245,286	(79,271)
Net cash provided by (used in) operating activities	$ 1,551,385	$ (1,575,039)

See accompanying notes to the financial statements.

(1) Nature of organization

The Tennessee Municipal League Risk Management Pool (the "Pool") is a not-for-profit corporation that was created in 1979 as a public entity risk pool to provide liability, property and workers' compensation insurance and risk management services for certain governmental entities in the State of Tennessee. Liability coverage provided by the Pool includes comprehensive general liability, automobile liability, automobile physical damage, law enforcement liability, errors and omissions liability, employment benefit liability, employment practices liability, and privacy and network security liability. Property coverage includes all risk on real property and personal property, business interruption, electronic data processing equipment, extra expenses, accounts receivable, valuable papers, rental income, property in transit, demolition, computer fraud, employee dishonesty, crime, 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 non-occupational disability benefits.

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

All corporate powers of the Pool are vested in and exercised by a nine-member Board of Directors comprised of municipal elected officials and city managers/administrators from cities that are members of the Pool. The Pool's operations alone constitute the reporting entity since the Pool is not financially accountable for any other entities, and the Pool has no relationships with any other entities where the nature and significance of the relationships would require inclusion in the financial statements of the Pool. Pool membership consisted of 495 governmental entities (including 314 cities and towns) at June 30, 2013 and 496 governmental entities (including 316 cities and towns) at June 30, 2012.

(2) Summary of significant accounting policies

A summary of the Pool's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

(a) Basis of presentation, measurement focus, and basis of accounting

The Pool's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"), the standard-setting body responsible for establishing governmental accounting and financial reporting principles. GASB periodically updates its *Codification of Governmental Accounting and Financial Reporting Standards* which, along with subsequent GASB pronouncements (Standards and Interpretations), constitutes GAAP for public entity risk pools.

The Pool adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in fiscal year 2013. This statement provides guidance for reporting deferred outflows of resources and deferred inflows of resources and net position in a statement of financial position. The statement was implemented retroactively and resulted in a change in the presentation of the balance sheets to what is now referred to as the statements of net position and the term "fund equity" is changed to "net position" throughout the financial statements. The adoption of this statement did not impact amounts reported in the financial statements but required the Pool to classify its net position into three components – net investment in capital assets, restricted, and unrestricted. These classifications are defined as follows:

- Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other borrowings, if any, that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt, if any, are also included in this component of net position.

- Restricted – consists of restricted assets, with constraints placed on their use by contractual agreement with other parties, revenue bonds and loan resolutions, or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets.

- Unrestricted – consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available for use, it is the Pool's policy to use restricted resources first, then unrestricted resources as they are needed.

The Pool's accounts are organized on the basis of an enterprise fund. An enterprise fund is a proprietary fund type used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods and services to the public on a continuing basis be financed or recovered primarily through user charges; or, where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control accountability, or other purposes.

Basis of accounting refers to when revenue and expenses are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made, regardless of the measurement focus applied. The Pool's basic financial statements are presented in accordance with GAAP for proprietary funds which uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time a liability is incurred, regardless of the timing of related cash flows.

(b) Revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal ongoing revenues of the Pool are net earned insurance premiums, investment income and other income. Investment income, consistent with prior years, is reported as operating revenue because it is used extensively in the operations of the Pool. Operating expenses include losses and loss adjustment expenses, policy acquisition costs and general and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(c) Cash and cash equivalents

Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with original maturities of three months or less.

(d) Investments

The Pool presents its investments in securities at fair value. The changes in fair value of investments (unrealized gains and losses) for the years ended June 30, 2013 and 2012 are reflected as separate components in the statements of revenues, expenses and changes in net position. 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.

(e) Policy 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.

(f) Premises, property and equipment

Premises, property and equipment are recorded at cost and consist of land, building and improvements, vehicles, computer hardware and software, and office furniture 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 capitalizes assets with an individual cost of $1,000 or more and an estimated useful life of one year or more. Maintenance and repairs are expensed as incurred.

(g) 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.

(h) 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.

(i) 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. Premiums billed in advance represents premium billed in the current fiscal year for policies becoming effective in the next fiscal year.

(j) 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.

(k) 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.

(l) Events occurring after reporting date

The Pool has evaluated events and transactions that occurred between June 30, 2013 and October 28, 2013, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(m) New accounting pronouncements

The Pool plans to adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, required for fiscal periods beginning after December 15, 2012, in the fiscal year ending June 30, 2014. Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows of resources and inflows of resources. In addition, Statement No. 65 requires policy acquisition costs to be recognized as outflows of resources (expenses) in the year the cost is incurred, instead of being recognized as an asset on the balance sheet, as previously required. The Pool is required to implement Statement No. 65 retroactively by restating financial statements for each period presented.

The Pool plans to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, required for fiscal periods beginning after June 15, 2014, in the fiscal year ending June 30, 2015. This statement improves accounting and financial reporting by governmental entities for pensions. The Pool is currently assessing the impact on the financial statements.

(3) Deposits and investments

The Pool's cash and cash equivalent bank balances totaling $11,322,702 at June 30, 2013 (less outstanding checks that are subtracted from bank balances to determine a carrying value of $9,656,682) represent a variety of time deposits with banks and include bank balances that are FDIC insured or collateralized with securities held by the Pool or by its agent in the Pool's name.

The Board of Directors has authorized management to invest in obligations of the U.S. Treasury and U.S. government agencies, municipal bonds, mortgage-related securities, the State of Tennessee Local Government Investment Pool ("LGIP"), short-term investment funds, corporate bonds, and domestic equity securities.

At June 30, 2013, the Pool had the following investments:

	Fair Value	Average Weighted Maturity (in years)	Average Weighted Call Term (in years)
U.S. Government Agencies	$ 73,772,958	19.0	7.8
Municipal Bonds	120,831,326	18.0	10.5
Total	$ 194,604,284		

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in interest rates. One of the ways the Pool manages its exposures to interest rate risk is by purchasing a combination of shorter and longer term investments and by monitoring and managing the average maturity and call terms of the portfolios. As of June 30, 2013, the investments of the Pool had average weighted maturities and call terms as noted in the preceding table.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation. The Pool's investment policy requires the average quality of investments to remain at a rating at or above "Aa", as defined by Moody, Standard and Poor, or an equivalent rating agency. All fixed income securities must have a rating of "A" or better, by at least two of the rating agencies. Obligations of U.S. government agencies are not implicitly guaranteed by the U.S. government but are rated by Moody as "AA". As of June 30, 2013, the Pool's investments in municipal bonds had credit ratings as follows:

Rating	Municipal Bonds
AAA	$ 11,633,207
AA	49,988,849
A	33,890,199
Not rated	25,319,071
	$ 120,831,326

Concentration of credit risk is the risk of loss attributed to the magnitude of the Pool's investment in a single issuer. The Pool's investment policy limits the amount that can be invested in domestic equity securities and corporate bonds to 10% of investable assets.

Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or of a counterparty (e.g. broker-dealer) to a transaction, the Pool will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Pool's investments are registered in the Pool's name as public funds with a financial institution that participates in the Tennessee Bank Collateral Pool administered by the Tennessee State Treasurer. At June 30, 2013, all investments were adequately insured or registered and collateralized or held by the Pool or its agent in the Pool's name.

GASB pronouncements require certain investments to be reported at fair value in the statements of net position, with the change in fair value reported as a component of investment income in the statements of revenues, expenses and changes in net position. The Pool has reported the change in fair value in the statements of revenues, expenses and changes in net position but has elected to present the change in fair value 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 net position reported in accordance with GASB pronouncements.

Net realized gains from the sale of investments were $963,510 and $384,436 for the fiscal years ended June 30, 2013 and 2012, 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 fiscal year 2012, the Pool received from NLC-MIC an additional distribution in the amount of $864,043, representing the return of equity in excess of the cost of its initial membership investment which is presented in investment income.

(4) Premises, property and equipment

Premises, property and equipment activity for the fiscal years ended June 30, 2013 and 2012 is as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Capital assets, not being depreciated:				
Land	$ 402,627	$ -	$ -	$ 402,627
Capital assets, being depreciated:				
Building and improvements	1,637,370	-	-	1,637,370
Furniture and equipment	351,513	6,034	(2,387)	355,160
Vehicles	291,378	115,289	(86,180)	320,487
Computer system	1,542,512	262,741	-	1,805,253
Total capital assets, being depreciated	3,822,773	384,064	(88,567)	4,118,270
Less accumulated depreciation:				
Building and improvements	1,128,861	69,895	-	1,198,756
Furniture and equipment	271,122	20,773	(2,387)	289,508
Vehicles	216,030	63,607	(86,180)	193,457
Computer system	904,895	128,051	-	1,032,946
Total accumulated depreciation	2,520,908	282,326	(88,567)	2,714,667
Capital assets, being depreciated, net	1,301,865	101,738	-	1,403,603
Capital assets, net	$ 1,704,492	$ 101,738	$ -	$ 1,806,230

	Balance June 30, 2011	Additions	Disposals	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 402,627	$ -	$ -	$ 402,627
Capital assets, being depreciated:				
Building and improvements	1,567,547	69,823	-	1,637,370
Furniture and equipment	314,796	42,718	(6,001)	351,513
Vehicles	288,839	23,898	(21,359)	291,378
Computer system	1,309,429	233,083	-	1,542,512
Total capital assets, being depreciated	3,480,611	369,522	(27,360)	3,822,773
Less accumulated depreciation:				
Building and improvements	1,062,073	66,788	-	1,128,861
Furniture and equipment	260,322	16,801	(6,001)	271,122
Vehicles	179,102	58,287	(21,359)	216,030
Computer system	842,154	62,741	-	904,895
Total accumulated depreciation	2,343,651	204,617	(27,360)	2,520,908
Capital assets, being depreciated, net	1,136,960	164,905	-	1,301,865
Capital assets, net	$ 1,539,587	$ 164,905	$ -	$ 1,704,492

Depreciation charged to operating expenses in fiscal years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Losses and loss adjustment expenses	$ 66,294	$ 27,907
General and administrative expenses	216,032	176,710
Total depreciation expense	$ 282,326	$ 204,617

(5) Reserve for losses and loss adjustment expenses

Reserve for losses and loss adjustment expenses is comprised of:

	2013	2012
Reserve for reported claims	$ 71,051,174	$ 74,826,064
Reserve for incurred but not reported claims	59,133,806	56,673,743
Reserve for unallocated loss adjustment expenses	7,099,454	7,056,508
Less: reinsurance recoverable	(14,292,904)	(16,250,477)
Total reserve for losses and loss adjustment expenses	$ 122,991,530	$ 122,305,838

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.

	2013	2012
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 122,305,838	$ 120,181,090
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	46,574,698	47,507,981
Decrease in provision for insured events of prior fiscal years	(9,079,527)	(5,484,570)
Unallocated claim adjustment expenses	3,894,660	3,656,555
Total incurred claims and claim adjustments expenses	41,389,831	45,679,966
Reinsurance:		
Reinsurance recoveries received attributable to insured events of prior fiscal years	5,752,245	10,642,727
Change in reinsurance recoverable on paid losses	(3,557,020)	173,330
Total reinsurance	2,195,225	10,816,057
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	13,312,473	13,554,782
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	25,692,231	37,159,938
Unallocated claim adjustment expenses	3,894,660	3,656,555
Total payments	42,899,364	54,371,275
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 122,991,530	$ 122,305,838

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, 2013 and 2012. 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, 2013 and 2012 were as follows:

	2013	2012
Premiums written	$ 63,499,406	$ 60,683,825
Premiums ceded	(9,389,485)	(8,087,478)
Net premiums written	$ 54,109,921	$ 52,596,347

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:

(a) The Pool's workers' compensation reinsurance retention amount was $750,000 per occurrence for fiscal years 2013 and 2012.

(b) For fiscal years 2013 and 2012, the Pool's reinsurance retention amount was $700,000 per occurrence for events arising from general liability, personal injury liability, errors and omissions liability and auto liability.

(c) For fiscal years 2013 and 2012, the Pool's property reinsurance retention amount was as follows: flood and earthquake - $500,000 per occurrence; all other events, except certain weather-related events (tornado, wind, named windstorm, hail, sleet, lightning and rain) - $300,000 per occurrence; auto physical damage and crime - $300,000 per occurrence.

(d) For fiscal year 2013, the Pool's property reinsurance retention amount for certain weather-related events (tornado, wind, named windstorm, hail, sleet, lightning and rain) was $500,000 per occurrence for the first $1.5 million of loss in any one occurrence and then the next layer of loss in excess of $1.5 million up to $2.5 million. The reinsurer assumed the loss in excess of $2.5 million. For the fiscal year 2012, the Pool's property reinsurance retention amount for such weather-related events was $500,000.

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 $14,292,904 and $16,250,477 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2013 and 2012. The Pool remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(7) Net position

The Board of Directors has committed the Pool's unrestricted net position for the purposes and amounts as presented below. The Board of Directors may, at its discretion, adjust or remove these amounts.

	2013	2012
Investment in capital assets	$ 1,806,230	$ 1,704,492
Unrestricted:		
Committed for capitalization	40,000,000	40,000,000
Committed for member credits	3,000,000	4,649,527
Committed for property/casualty catastrophe	25,000,000	25,000,000
Total operational commitments	68,000,000	69,649,527
Committed for market value stabilization	8,628,708	15,607,079
Total unrestricted net position	76,628,708	85,256,606
Net position, end of year	$ 78,434,938	$ 86,961,098

During the year ended June 30, 2013, the Board declared a $4,640,000 dividend to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2013 through July 30 2014.

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 net position.

(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 ratified by the League's Board of Directors. The League receives an annual sponsorship fee from the Pool of 1.90% of net earned premiums, subject to a 4.0% cap that is based on a percentage of the prior year's fee. In fiscal years 2013 and 2012, sponsorship fees totaled $1,014,388 and $996,129, 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 five 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 five years of service and members joining prior to July 1, 1979 were vested after four 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 http://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, 2013 was 15.42% 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, 2013 and 2012, the Pool's annual pension cost of $366,583 and $356,199, respectively, to TCRS was equal to the Pool's required and actual contributions. The required contribution was determined as part of the July 1, 2011 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, 2013	$ 366,583	100.00 %	$ -
June 30, 2012	$ 356,199	100.00 %	$ -
June 30, 2011	$ 335,696	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 $6.56 million, and the actuarial value of assets was $6.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $0.56 million. The covered payroll (annual payroll of active employees covered by the plan) was $2.15 million, and the ratio of the UAAL to the covered payroll was 25.95 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities (AALs) for benefits.

(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.

(11) Operating leases

The Pool leases certain office equipment and office and storage space from various third-parties under operating lease agreements with fixed rental payments. Total rental expenses under these operating leases were \$33,344 and \$34,092 for years ended June 30, 2013 and 2012, respectively.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Ten-Year Claims Development Information

Year ended June 30, 2013

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 net earned premium 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 net of recoveries 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 re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated 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 re-estimated 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.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. Net earned required premium and investment revenues	$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	$61,572,502
2. Unallocated expenses	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	15,190,197
3. Estimated incurred claims and expense, end of accident year	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	46,574,698
4. Net Paid (cumulative) as of:										
End of accident year	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	13,312,473
One year later	22,100,069	18,507,560	18,007,390	24,071,928	22,178,806	22,503,451	21,946,111	28,567,327	22,089,817	
Two years later	27,601,383	23,212,693	21,031,854	27,493,192	28,059,198	26,581,822	28,850,196	32,547,163		
Three years later	32,338,496	25,469,618	24,391,517	32,024,370	30,762,829	29,468,494	31,061,738			
Four years later	33,520,916	26,851,678	25,083,252	34,349,210	32,613,755	31,113,644				
Five years later	34,677,038	28,153,118	26,522,247	35,460,726	33,587,116					
Six years later	35,536,205	28,962,045	26,963,096	36,009,787						
Seven years later	36,472,359	29,512,330	27,239,431							
Eight years later	37,057,697	30,125,076								
Nine years later	37,363,575									
5. Re-estimated incurred claims and expenses:										
End of accident year	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	46,574,698
One year later	39,543,774	38,308,079	37,576,804	44,052,737	42,734,103	42,588,900	45,209,547	47,774,196	43,177,868	
Two years later	41,012,991	35,109,231	33,390,710	45,514,860	42,075,676	40,180,438	42,870,101	46,907,918		
Three years later	43,766,228	34,479,011	31,890,264	47,274,092	41,797,919	38,843,097	40,802,207			
Four years later	44,221,670	33,684,386	31,694,825	47,681,591	39,226,518	38,947,087				
Five years later	42,914,034	33,481,347	33,230,571	42,749,923	38,450,948					
Six years later	42,576,476	33,403,425	31,625,867	42,876,322						
Seven years later	42,911,150	32,760,516	30,159,607							
Eight years later	40,877,502	33,817,343								
Nine years later	41,016,499									
6. Increase (decrease) in estimated incurred claims and expense from end of accident year	591,476	(6,413,055)	(11,245,336)	304,842	(5,906,990)	(4,791,217)	(6,025,004)	(3,733,301)	(4,330,113)	

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2013

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$38,078,181	$80,996,229	$3,231,428	$122,305,838
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	19,130,293	22,696,478	4,747,927	46,574,698
Increase (decrease) in provision for insured events of prior fiscal years	(2,331,802)	(5,426,041)	(1,321,683)	(9,079,526)
Unallocated claims adjustment expenses	1,546,668	1,646,675	701,317	3,894,660
Total incurred claims and claim adjustment expenses	18,345,159	18,917,112	4,127,561	41,389,832
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	676,540	1,419,017	3,656,688	5,752,245
Change in reinsurance recoverable on paid losses	(660,685)	(702,361)	(2,193,974)	(3,557,020)
Total reinsurance	15,855	716,656	1,462,714	2,195,225
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,942,532	5,751,735	2,618,206	13,312,473
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	11,323,225	11,793,262	2,575,745	25,692,232
Unallocated claim adjustment expenses	1,546,668	1,646,675	701,317	3,894,660
Total payments	17,812,425	19,191,672	5,895,268	42,899,365
Reserve for losses and loss adjustment expenses at end of fiscal year	$38,626,770	$81,438,325	$2,926,435	$122,991,530

TENNESSEE MUNICIPAL LEAGUE 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

Schedule of Funding Progress - Employee Retirement System

June 30, 2013

(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	25.95%
July 1, 2009	$4,444	$5,072	$628	87.61%	$2,552	24.62%
July 1, 2007	$3,538	$4,228	$690	83.68%	$2,105	32.78%

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

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, in accordance with the 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, the financial statements of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated October 28, 2013. Our opinion was qualified because the Pool did not report the changes in fair value of investments as a component of investment income on the statements of revenues, expenses, and changes in net position.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tennessee Municipal League Risk Management Pool's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
October 28, 2013