TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: SEPTEMBER 11, 2015
BRENTWOOD, TENNESSEE

The Board of Directors of the TML Risk Management Pool ("The Pool") met at 10:00 a.m. on September 11, 2015 at the Pool's office in Brentwood, Tennessee.

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

The Pool's 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, TML; and, Charles "Bones" Seivers, President, TML Bond Fund.

1. MOMENT OF SILENCE

Chairman Tharpe requested the Board to observe a moment of silence to honor the victims of 9/11.

2. RECOGNITION OF NEW BOARD MEMBER

Chairman Tharpe recognized and welcomed Garry Welch as a new member of The Pool's Board of Directors.

3. APPROVAL OF MINUTES

Motion was made by Green to approve the minutes of the June 6, 2015 Board meeting; seconded by Rowland. PASSED UNANIMOUSLY

4. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the year ended June 30, 2015. In reviewing the Statement of Revenues and Expenses and Changes in Net Position, DeMore stated that gross earned premium of $67,926,157 was 6.08% or $3,893,051 more than this time last year. Reinsurance premiums ceded were $10,686,444which was 9.80% or $953,394 more than last year. Net earned premium was $57,239,713, which was 5.41% or $2,939,658 more than last year. Investment income totaled $8,400,224, which is 1.47% or $121,780 more than actual last year. Compared with budget projections, investment income is $1,125,224 or 15.47% greater than anticipated for this period. Total revenues of $65,816,446 were $2,999,620 or 4.78% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expense incurred of $44,542,954 was 6.39% or $3,041,001 less than last year. The decrease is attributed to the actuarially-determined adjustment of claim IBNR reserves in the amount of $7,682,358 for the fiscal year due to overall favorable loss trends. Policy acquisition costs of $6,298,676 were 5.58% or $333,072 more than

last year. General and administrative expenses of $6,393,706 were 14.58% or $1,091,483 less than the prior year actual. When compared with the budget, general and administrative expenses were 10.92% or $783,589 under budget for the period. Total expenses were $57,235,336, which was $3,799,412 or 6.22% less than last year's expenses.

Operating income (before change in fair value of investments) totaled $8,581,110, which is $6,799,032 more than last year. This period's change in fair value (unrealized gains and losses) of investments totaled $925,246 in net unrealized gains. The total change in net position for the year ended June 30, 2015 was an increase of $9,506,356.

In reviewing the Statement of Net Position as of June 30, 2015 DeMore commented that cash and cash equivalents totaled $14,667,523, and investments totaled $219,343,258. Premiums receivable at the end of the period were $12,991,554. Accrued interest was $2,182,783 and prepaid insurance was $140,933. Reinsurance recoverable totaled $1,148,864, and net fixed assets totaled $1,425,789. Deferred Outflows of Resources of $486,778 is a new account category created in compliance with Government Accounting Standards Board ("GASB") Statement No. 68 related to The Pool's net pension liability. Assets and deferred outflows of resources totaled $253,003,166 at June 30, 2015.

Liabilities included net reserve for losses of $133,595,179, which was 2.0% or $2,624,442 more than the prior year amount. The reserve for unearned premiums was $13,157,718; premiums billed in advance was $10,330,799; accounts payable and accrued expenses totaled $2,291,534; and, dividends payable totaled $2,241,822 (including $2.2 million declared for the 2015/2016 policy year).

Net pension liability of $694,918 represents The Pool's actuarially-determined obligation for its defined benefit pension plan administered by the Tennessee Consolidate Retirement System. The Pool is required by GASB Statement No. 68 to record this obligation in its financial statements as of June 30, 2015. DeMore noted that The Pool's net pension obligation is 92% funded. Liabilities were $162,311,969, which represents a 3.08% increase over the prior year. Deferred Inflows of Resources of $488,726 is also a new account category required by GASB Statement No. 68 related to The Pool's net pension liability.

The beginning fund balance of $80,696,115 has been restated by $698,074 primarily for the effect of implementing GASB Statement No. 68. Combined with the change in net position of $9,506,356, The Pool's ending fund balance was $90,202,471 at June 30, 2015.

DeMore stated that because GASB Statement No. 68 requires restatement of certain prior year transactions in conjunction with the net pension liability, it may be necessary for The Pool to present single year versus comparative year financial information in the FY 2014/2015 audit report.

A motion was made by Wilber to accept the Financial Report as presented; seconded by Hayes. PASSED UNANIMOUSLY

B. DeMore presented a brief overview of the budget summary of general and administrative expenses for the fiscal year ended June 30, 2015. He stated that while The Pool's combined total revenues were 4.78% greater than last year's actual amounts, they were slightly under budget by 1.01%, mostly related to worker's compensation insurance premium projections. General and administrative expenses were under budget by 10.92%, and each department and operating segment remained within its budgeted amount as in prior years.

C. DeMore reviewed the internally-managed investment portfolio as of August 31, 2015 as classified by type and maturity of securities. Cash equivalents at that time represented funds invested with the

Tennessee Local Government Investment Pool totaling $7,624,703 with an average return of 0.13%.

The Pool's portfolio included 81 fixed income securities consisting of government and agency bonds, more specifically 52 municipal bonds and the remainder as agency bonds. On August 31, 2015, the portfolio had a book value of $234,670,455 and a market value of $231,078,001. DeMore noted that while the overall portfolio has an average coupon of 3.862%, the municipal securities alone have an average coupon rate of 4.32% and the lower coupon rates of the agency securities reduce the overall portfolio average. DeMore also noted that net unrealized investment loss of $3.6 million as of August 31, 2015 had increased to $4.4 million at the close of business yesterday.

D. DeMore presented a Pro Forma Statement of Revenues and Expenses for fiscal year 2015/2016 and reviewed its components. He stated that total projected revenues of $67,891,798 and estimated total expenses of $66,471,838 result in estimated operating income of $1,419,960 for the current fiscal year.

Revenue projections include net earned premium of approximately $60,246,798 comprised of earned premium of $71,136,798 less reinsurance ceded of $10,890,000. Reinsurance costs increased almost 2.0% due to increased property value exposures. Investment income is estimated at $7,425,000 due to current market conditions.

Losses and loss adjustment expenses are estimated at $52,165,122 and are based on a benchmark based on the recent actuarial review. Policy acquisition costs are estimated at $6,388,886 and reflect an increase to coincide with increased premiums. General and administrative expenses are estimated at $7,917,829, based on the budget that the Board previously approved in June 2015. Total expenses are estimated at $66,471,838.

Based on these estimates, operating income for fiscal year 2015/2016 is expected to be $1,419,960 before any actuarial adjustments for loss reserves and for net pension effect as well as the change in investment fair values.

Crawford noted the Board did not need to take any action since this data is for informational purposes only.

5. BENECON HEALTH INSURANCE CONSORTIUM UPDATE

Crawford referred to a letter included in Board materials from Steven Gingrich, Vice President of Public Sector Programs with Benecon, Inc. She stated that the results of Benecon's analysis of health insurance information provided by each of the Board members on behalf of their cities revealed that the current pricing of the submitted data is already very competitive and not far off of what the cities are currently paying. Crawford said as part of Benecon's research they reached out to some large national carriers for pricing comparisons and learned that Tennessee health insurance rates are about 5.0% below the national average. She mentioned Benecon requested The Pool to defer any action on the consortium until such time that Tennessee's health insurance environment changes. Russ Farrar commented that Crawford made it clear to Benecon that The Pool is not obligated to them should circumstances change or another similar party express interest in a health insurance consortium.

6. DATE OF NEXT MEETING

The date of the next meeting will be Wednesday, December 16, 2015 at 9:00 a.m. at the Pool's office in Brentwood, Tennessee.

Chairman Tharpe asked for a motion to adjourn. A motion was made by Hayes and seconded by Green. PASSED UNANIMOUSLY Meeting adjourned at 10:41 a.m.

Samuel Tharpe, Chairman

Charles DeMore, Secretary