TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Financial Statements and Supplementary Information

June 30, 2009 and 2008

(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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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 balance sheets of Tennessee Municipal League Risk Management Pool (the "Pool") as of June 30, 2009 and 2008, 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, 2009 and 2008, 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 basic financial statements. The supplementary information is the responsibility of the Pool's management. Such supplementary information has been subjected to the auditing procedures applied in our audits of basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2009 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 12, 2009

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Management's Discussion and Analysis

The Tennessee Municipal League Risk Management Pool ("the Pool") presents the following overview and analysis of its financial operations for the fiscal year ended June 30, 2009.

Highlights

- Assets exceeded liabilities by $87,122,155, and no amounts were restricted as of the end of the year. Due to the nature of the Pool's operations and obligations to its membership, the Pool's Board of Directors has adopted category appropriations to Fund Equity.

- Combined Fund Equity increased by $7,385,091 during 2008-2009. The increase was due to excess revenues over expenses of $15,635,091 for the year ended June 30, 2009 less $8,250,000 in dividends declared by the Board of Directors.

Overview of Pool's Financial Statements

The Pool presents its financial statements on a comparative basis. The Balance Sheets present information regarding the Pool's Assets, Liabilities and Fund Equity (assets less liabilities).

The Statements of Revenues, Expenses and Changes in Fund Equity present the results of operations of the Pool and changes in Fund Equity. The Pool uses the accrual method for reporting its revenues and expenses.

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.

The Pool presents and the Board of Directors ratifies an annual Overhead Budget and a Proforma Statement of Revenues and Expenses. Additionally, the results of budgeted expenses are reviewed on a monthly basis to ensure compliance with the adopted Overhead Budget. However, the Pool is not under any statutory requirements to produce or to adhere to an annual budget.

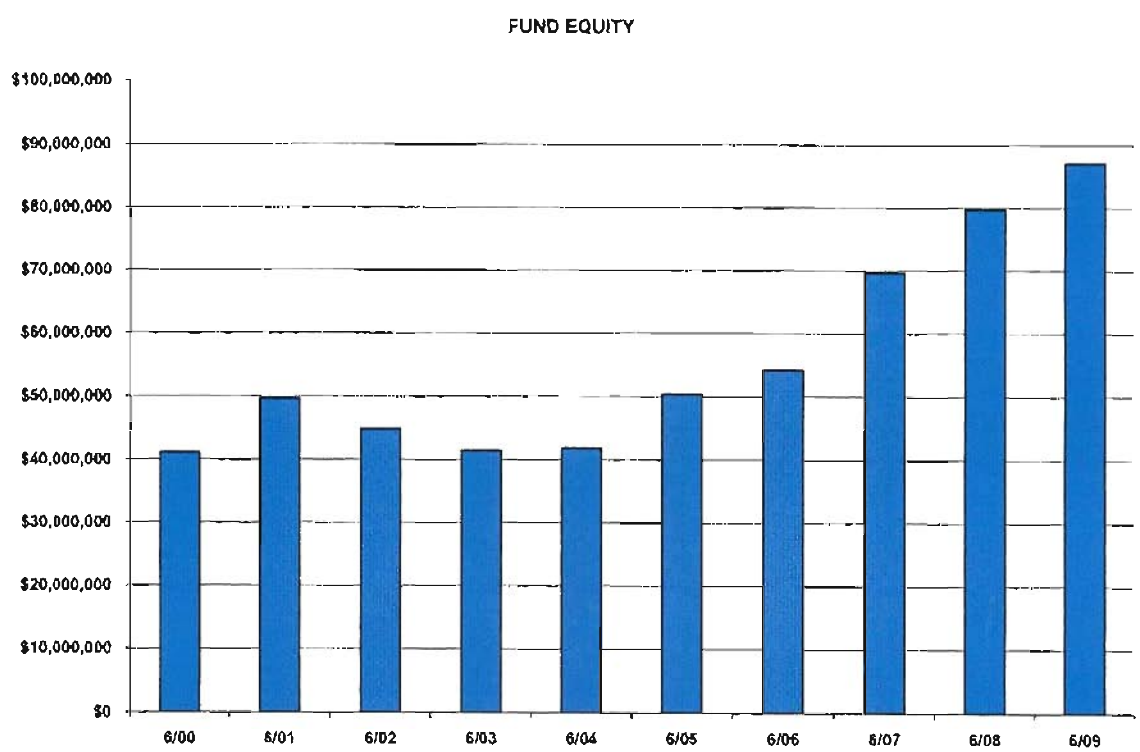
The Notes to the Financial Statements provide additional information and are considered an integral part of this report. The Supplementary Information presents additional information required by applicable regulators.

Results and Analysis

At June 30, 2009, total assets were $219,270,538 or 4.3% more than the previous fiscal year-end. Cash and cash equivalents together with investments totaled $209,418,258 at year-end. The Pool's investable assets at June 30, 2009 were comprised of US Treasury and agency bonds and government-backed securities of approximately $142,100,000, corporate bonds of approximately $4,300,000, and cash and cash equivalents, including money market funds, of approximately $62,000,000. Although the Pool's philosophy is to not actively trade in and out of investment securities, the Pool does take advantage of market volatility to realize gains when appropriate.

The reserve for losses and loss adjustment expenses of $107,269,265 increased 3.0% over the previous fiscal year. This amount represents losses reported for the three major lines of coverage (Liability, Workers' Compensation and Property) as well as the actuarially estimated ultimate costs of such claims. The three-year average of 7.0% is a decline from last year's average of 10.1%.

Fund Equity is the result of assets net of recorded liabilities. Fluctuations in these balances from year to year are affected by member dividends as declared by the Board of Directors and by any excess or deficit of revenues over expenses for a given fiscal year.

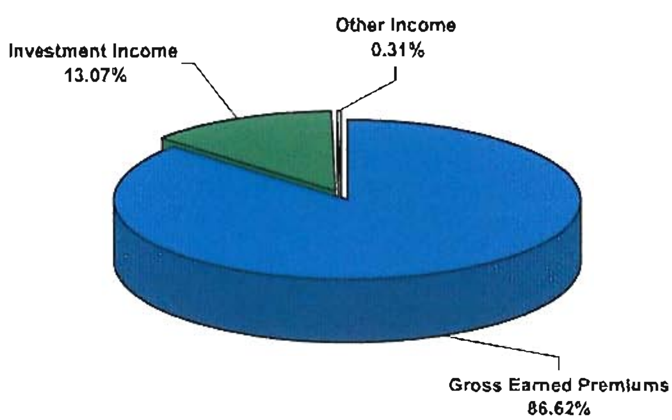


Earned premiums represent the premiums charged to members for insurance coverage purchased through the Pool. These premiums are derived from calculations that take into consideration a member's exposures (payroll volume, operating budget, physical properties owned, etc.) applied to a base rate. Additionally, each member is rated on its actual loss experience and its compliance with the Pool's loss control surveys and recommendations (known as experience and schedule modifications). Gross earned premiums of $63,929,434 for the year ended June 30, 2009 were 3.2% less than the previous year due to base rate reductions approved by the Pool's Board of Directors last year.

Reinsurance premiums ceded in the 2008-2009 fiscal year totaled $6,399,961 and represents a 16.2% increase over the prior year due primarily to property reinsurance coverage for the year.

The Pool earned $9,648,068 in investment income for the 2008-2009 fiscal year compared with $10,220,114 for the prior year due to general market changes. The Pool presents its investments at market value and records the unrealized gain or loss component of market value versus book 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 unrealized investment gains/losses as a separate line item in the Statement of Revenues, Expenses and Changes in Fund Equity instead of including it in the investment income line item for the following reasons. When unrealized changes in market values are reported as part of investment income, the unrealized component severely distorts the Pool's operating income. This misrepresentation of "real" operating income does not allow the Pool to properly serve its municipal-based membership in the competitive insurance market in which it operates. The change in unrealized investment values is reported in the Statement of Revenues, Expenses and Changes in Fund Equity as required. Additionally, excess/deficit revenues over expenses is the same amount as it would have been, had the change in values been combined with investment income. In adopting this presentation method, the Pool believes it is giving added disclosure to its membership that would not appear if such unrealized gains/losses were presented in strict accordance with GASB Statement No. 31.

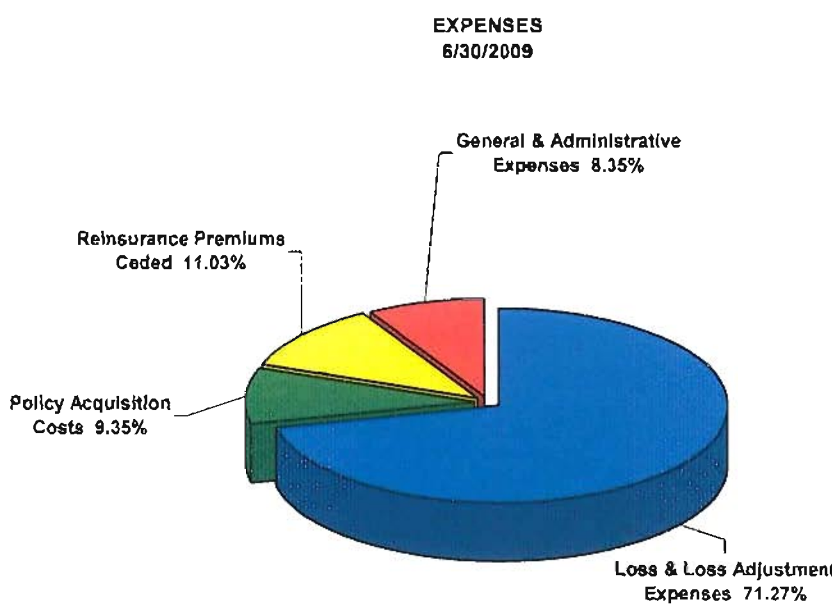
REVENUES
FYE 6/30/2009



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 were $41,356,778, a 7.6% decrease from the previous year. Loss trends on an overall basis are lower than recent years.

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 for the 2008-2009 fiscal year totaled $5,424,801, which is 17.8% less than the prior year. This significant decline is due to a $1,250,000 payment made in the 2007-2008 fiscal year for the retirement of the long-term debt of the Tennessee Municipal League as authorized by the Pool's Board of Directors.

In the course of providing coverage and services to its members, the Pool incurs overhead and contract expenses which are budgeted and approved by the Board of Directors annually. Any budget-to-actual variances are analyzed and reviewed by management on a monthly basis. For the fiscal year ended June 30, 2009, general and administrative expenses were $4,846,679. This total represents an 8.3% increase over the prior year attributed primarily to the cost of new personnel and marked increases in the cost of employee benefits during 2008-2009.



Capital assets are comprised of Pool-owned land, building, vehicles, computers and office furniture and equipment. The Pool had no outstanding debt associated with the capital assets.

Economic Factors

The Pool earned $15,778,846 from its operations this year and had $143,755 in unrealized losses on investments, resulting in net excess revenues over expenses of $15,635,091. Favorable trends in loss development factors contributed to these operating results and are due to the continuing efforts of Pool members in reducing member losses as well as the favorable results of the 2004 Tennessee Legislative Workers' Compensation Reform Act.

Requests for Information

The Pool's financial statements are designed to provide an overview of the Pool's finances and to demonstrate the Pool's accountability. Questions or requests for additional financial information should be addressed to the Chief Financial Officer, TML Risk Management Pool, 5100 Maryland Way, Brentwood, TN 37027.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Balance Sheets

June 30, 2009 and 2008

Assets

		2009		2008
Current assets:				
Cash and cash equivalents	$	60,546,923	$	17,547,969
Investments		148,871,335		172,447,702
Premiums receivable		3,715,943		4,988,623
Accrued interest and other receivables		2,334,011		3,104,172
Reinsurance recoverable on paid losses		1,981,488		9,924,964
Deferred acquisition costs		512,230		701,351
Total current assets		217,961,930		208,714,781
Premises, property and equipment, net		1,308,608		1,435,408
	$	219,270,538	$	210,150,189

Liabilities and Fund Equity

		2009		2008
Current liabilities:				
Reserve for losses and loss adjustment expenses	$	107,269,265	$	104,098,391
Deferred premium revenue		1,143,636		1,909,340
Reserve for unearned premiums		12,991,206		14,168,733
Dividends payable		8,540,262		8,283,863
Accounts payable and accrued liabilities		2,204,014		1,952,798
Total liabilities		132,148,383		130,413,125
Fund equity:				
Invested in capital assets		1,308,608		1,435,408
Unrestricted:				
Appropriated for capitalization		40,000,000		35,500,000
Appropriated for member credits		9,784,396		8,255,550
Appropriated for property/casualty catastrophe		24,000,000		22,500,000
Operational appropriated fund equity		73,784,396		66,255,550
Appropriated for market value stabilization		12,029,151		12,046,106
Total fund equity		87,122,155		79,737,064
	$	219,270,538	$	210,150,189

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, 2009 and 2008

	2009	2008
Operating revenues:		
Gross earned premiums	$ 63,929,434	$ 66,064,325
Reinsurance premiums ceded	(6,399,961)	(5,507,131)
Net earned premiums	57,529,473	60,557,194
Investment income	9,648,068	10,220,114
Other income	214,030	222,278
Total operating revenues	67,391,571	70,999,586
Operating expenses:		
Losses and loss adjustment expenses	41,356,778	44,776,545
Policy acquisition costs	5,424,801	6,601,705
General and administrative expenses	4,846,679	4,476,443
Total operating expenses	51,628,258	55,854,693
Operating income	15,763,313	15,144,893
Nonoperating revenues:		
Gain on disposal of capital assets	15,533	36,949
Change in fund equity before change in unrealized gains and losses on investments	15,778,846	15,181,842
Change in net unrealized gains (losses) on investments	(143,755)	3,218,518
Total change in fund equity	15,635,091	18,400,360
Fund equity, beginning of year	79,737,064	69,636,704
Dividend declared	(8,250,000)	(8,300,000)
Fund equity, end of year	$ 87,122,155	$ 79,737,064

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash receipts:		
Premiums received	$ 56,491,703	$ 62,279,691
Interest received	11,099,798	10,262,595
Special rating plan reimbursements	3,511,980	3,883,838
Reinsurance recoveries received	10,929,833	4,638,303
Claims recoveries	852,092	861,722
Other cash receipts	606,918	401,281
Total cash receipts	83,492,324	82,327,430
Cash disbursements:		
Claim payments	42,184,296	47,464,045
General and administrative	7,016,951	7,662,142
Reinsurance premiums	6,028,883	5,450,774
Claims administration	3,221,492	3,079,574
Policy acquisition	5,015,380	4,905,737
Total cash disbursements	63,467,002	68,562,272
Net cash provided by operating activities	20,025,322	13,765,158
Cash flows from capital activities:		
Purchases of premises, property and equipment	(144,400)	(225,945)
Sales of premises, property and equipment	16,900	13,450
Net cash used in capital activities	(127,500)	(212,495)
Cash flows from investing activities:		
Purchases of investments	(95,238,438)	(91,265,884)
Sales and maturities of investments	118,339,570	85,103,053
Net cash provided by (used) in investing activities	23,101,132	(6,162,831)
Net increase in cash and cash equivalents	42,998,954	7,389,832
Cash and cash equivalents, beginning of year	17,547,969	10,158,137
Cash and cash equivalents, end of year	$ 60,546,923	$ 17,547,969

See accompanying notes to the financial statements.

Statements of Cash Flows (continued)

Years ended June 30, 2009 and 2008

	2009	2008
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 15,763,313	$ 15,144,893
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	269,832	265,077
Net accretion of discount on investments	(7,455)	(5,951)
Loss on sale of investments	338,936	43,528
(Increase) decrease in premiums receivable	1,272,680	(1,740,642)
(Increase) decrease in reinsurance recoverable on paid losses	7,943,476	(7,911,870)
(Increase) decrease in deferred acquisition cost	189,121	(187,833)
(Increase) decrease in accrued interest and other receivables	770,161	(80,930)
Increase in reserve for losses and loss adjustment expenses	3,170,874	11,203,224
Increase (decrease) in deferred premium revenue	(765,704)	1,767,730
Increase (decrease) in reserve for unearned premiums	(1,177,527)	231,695
Dividend credits	(7,993,601)	(5,278,652)
Increase in accounts payable and accrued liabilities	251,216	314,889
Net cash provided by operating activities	$ 20,025,322	$ 13,765,158

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 equities and debt 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, 2009 and 2008 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.

The Pool's investment in NLC Mutual Insurance Company ("NLC-MIC") is not subject to the provisions of GASB Statement No. 31 and is accounted for under the cost method.

(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 four 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, 2009 and October 12, 2009, 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 changes in fair value in the statement of revenues, expenses, and changes in fund equity, but has elected to show the change after operating income (loss), as opposed to being included in investment income. The Pool's decision to show this line separately is based on being able to report to the membership the Pool's operational status before recording market value fluctuations in investment holdings. After reporting operating income (loss) and nonoperating revenues (expenses), the change in fair value of investments is reported, with a final increase (decrease) 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, repurchase agreements, 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, 2009 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			Fair
	1	2	3	Value
U.S. Government Securities	$ 142,089,979	$ -	$ -	$ 142,089,979
Money market funds	1,461,161	-	-	1,461,161
Corporate bonds	4,261,820	-	-	4,261,820
	$ 147,812,960	$ -	$ -	
Investments not categorized - investment in NLC-MIC				1,058,375
				$ 148,871,335

The Pool's cash and cash equivalent bank balances totaling $61,644,440 at June 30, 2009 (outstanding checks are subtracted from bank balances to determine a carrying value of $60,546,923) 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 losses from the sale of investments were $(338,936) and $(43,528) for the fiscal years ended June 30, 2009 and 2008, 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.

The Pool invested $630,000 as a prerequisite for membership in the NLC-Mutual Insurance Company ("NLC-MIC") on September 16, 1986 and invested additional funds of $738,375 during the 2006 fiscal year. The Pool has requested and received returns of $310,000 of its contribution to NLC-MIC through June 30, 2009, leaving a cost basis in the investment of $1,058,375 as of June 30, 2009. NLC-MIC is a captive insurance company formed by risk pools associated with certain state municipal leagues, including the Pool.

(4) Fair value measurements

As of July 1, 2008, the Pool adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The provisions of SFAS 157 are effective prospectively for periods beginning July 1, 2008 for financial assets. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Pool has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement measured at fair value. There have been no changes in the methodologies used at June 30, 2009 and 2008.

(i) *Corporate bonds and U.S. government securities*: Valued at the closing price reported on the active market on which the individual securities are traded.

(ii) *Money market funds*: Valued at the net asset value of shares held by the Pool at year end based on quoted prices in an active market.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Pool's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Pool's assets at fair value as of June 30, 2009:

	Fair Value Measurements as of June 30, 2009 using the following inputs			
	Total	Level 1	Level 2	Level 3
U.S Government Securities	$ 142,089,979	$ 142,089,979	-	-
Money market funds	1,461,161	1,461,161	$ -	$ -
Corporate bonds	4,261,820	4,261,820	-	-
Total	$ 147,812,960	$ 147,812,960	$ -	$ -

(5) Premises, property and equipment

Premises, property and equipment are comprised of:

	2009	2008
Buildings and improvements	$ 2,090,997	$ 2,090,997
Furniture, fixtures and equipment	1,941,020	1,897,774
	4,032,017	3,988,771
Accumulated depreciation	(2,723,409)	(2,553,363)
	$ 1,308,608	$ 1,435,408

(6) Reserve for losses and loss adjustment expenses

Reserve for losses and loss adjustment expenses is comprised of:

	2009	2008
Reserve for reported claims	$ 63,575,201	$ 59,736,979
Reserve for unallocated loss adjustment expenses	50,244,138	49,026,111
Reserve for incurred but not reported claims	6,152,380	5,917,095
Less: reinsurance recoverable	(12,702,454)	(10,581,794)
Total reserve for losses and loss adjustment expenses	$ 107,269,265	$ 104,098,391

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.

	2009	2008
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 104,098,391	$ 92,895,167
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	43,738,304	44,357,938
Decrease in provision for insured events of prior fiscal years	(5,572,262)	(2,651,172)
Unallocated claim adjustment expenses	3,190,736	3,069,779
Total incurred claims and claim adjustments expenses	41,356,778	44,776,545
Reinsurance:		
Reinsurance recoveries received attributable to insured events of current fiscal year	1,000,000	250,000
Reinsurance recoveries received attributable to insured events of prior fiscal years	9,929,110	4,387,258
Change in reinsurance recoverable on paid losses	(7,943,476)	7,911,870
Total reinsurance	2,985,634	12,549,128
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	10,383,927	10,682,950
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	27,596,875	32,369,720
Unallocated claim adjustment expenses	3,190,736	3,069,779
Total payments	41,171,538	46,122,449
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 107,269,265	$ 104,098,391

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, 2009 and 2008. 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.

(7) Premiums written and reinsurance

Premiums written for the years ended June 30, 2009 and 2008 were as follows:

	2009	2008
Premiums written	$ 62,751,907	$ 66,296,020
Premiums ceded	(6,399,961)	(5,507,131)
Net premiums written	$ 56,351,946	$ 60,788,889

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 $12,702,454 and $10,581,794 have been deducted from the reserve for losses and loss adjustment expenses (Note 6) at June 30, 2009 and 2008. The Pool remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(8) 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, 2009, the Board declared a $8,250,000 dividend, to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2009 through June 30, 2010. During the year ended June 30, 2008, the Board declared a $8,300,000 dividend, which was paid in the form of renewal credits issued for policies with effective dates of July 1, 2008 through June 30, 2009.

(9) Related party transactions

The formation of the Pool was sponsored by the Tennessee Municipal League (the "League") and is governed by a Board 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 received an annual sponsorship fee from the Pool of 1.90% of net earned premium, capped at an increase of 3.25% of the prior year's fee. In 2009 and 2008, these fees were $860,851 and $833,754, respectively.

The Pool entered into a pledge agreement in August 1992 with the League and a regional bank whereby the Pool had pledged an investment security with a value of $4,650,000 at June 30, 2008 as collateral for long-term debt issued by the League in connection with its purchase of a building and property. During 2009, the escrow account holding this security was closed, and the pledged security was released and returned to the Pool.

During 2008, the Pool's Board of Directors authorized $1,250,000 to be paid towards the retirement of the League's long term debt. Such payment was made during the 2008 fiscal year.

(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) 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/.

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, 2009 was 16.61% 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, 2009 and 2008, the Pool's annual pension cost of $406,457 and $388,343, respectively, to TCRS was equal to the Pool's required and actual contributions. The required contribution was determined as part of the July 1, 2007 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 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), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 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 five-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, 2007 was 14 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	$ 406,457	100.00 %	$ -
June 30, 2008	$ 388,343	100.00 %	$ -
June 30, 2007	$ 361,261	100.00 %	$ -

Funded Status and Funding Progress-As of July 1, 2007, the most recent actuarial valuation date, the plan was 75.96% percent funded. The actuarial accrued liability for benefits was $4.65 million, and the actuarial value of assets was $3.53 million, resulting in an unfunded actuarial accrued liability (UAAL) of $1.12 million. The covered payroll (annual payroll of active employees covered by the plan) was $2 million, and the ratio of the UAAL to the covered payroll was 53.21% percent.

The schedule of funding progress, presented as required by 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 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.

Funding Progress (Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (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, 2007	$ 3,538	$ 4,658	$ 1,120	75.96%	$ 2,105	53.21%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method was a change made during the year and therefore only the most current year is presented.

Ten-Year Claims Development Information

Year ended June 30, 2009

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,									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Net earned required contribution and investment revenues	$ 35,377,549	$ 38,030,885	$ 43,200,980	$ 49,171,296	$ 53,533,626	$ 58,819,885	$ 65,485,896	$ 69,537,278	$ 71,036,536	$ 67,407,104
2. Unallocated expenses	8,384,387	8,709,570	9,552,082	10,948,849	12,123,842	11,676,230	12,309,907	12,287,325	14,147,927	13,462,216
3. Estimated incurred claims and expenses, end of accident year	28,823,250	33,302,356	36,837,756	42,209,752	40,425,023	40,230,398	41,404,943	42,571,480	44,357,938	43,738,304
4. Net Paid (cumulative) as of:										
End of accident year	8,598,040	9,448,812	11,615,776	12,958,472	12,074,831	10,780,705	9,692,686	11,044,685	10,682,950	10,383,927
One year later	15,658,181	17,416,862	20,154,563	23,679,805	22,100,069	18,507,560	18,007,390	24,071,928	22,178,806	
Two years later	19,155,134	22,220,285	24,345,557	29,554,861	27,601,383	23,212,693	21,031,854	27,493,192		
Three years later	20,779,531	25,036,483	26,845,408	32,607,005	32,338,496	25,469,618	24,391,517			
Four years later	21,761,852	26,178,925	29,226,182	34,441,752	33,520,916	26,851,678				
Five years later	22,154,319	26,803,187	30,087,784	35,290,471	34,677,038					
Six years later	22,410,430	27,097,947	30,652,369	35,682,110						
Seven years later	22,780,703	27,339,268	30,919,478							
Eight years later	22,961,497	27,551,334								
Nine years later	23,128,386									

TENNESSEE MUNICIPAL LEA

Ten-Year Claims Development Information (continued)

Year ended June 30, 2009

	June 30, 2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
5. Reestimated incurred claims and expenses:										
End of accident year	$ 28,823,250	$ 33,302,356	$ 36,837,756	$ 42,209,752	$ 40,425,023	$ 40,230,398	$ 41,404,943	$ 42,571,480	$ 44,357,938	$ 43,738,304
One year later	28,802,726	32,537,314	36,102,549	41,215,595	39,543,774	38,308,079	37,576,804	44,052,737	$ 42,734,103	
Two years later	27,139,912	31,500,752	33,715,854	40,537,529	41,012,991	35,109,231	33,390,710	45,514,860		
Three years later	26,521,741	31,445,079	33,717,999	39,841,028	43,766,228	34,479,011	31,890,264			
Four years later	26,864,970	31,449,256	34,250,550	42,148,938	44,221,670	33,684,386				
Five years later	27,402,064	30,967,850	34,470,201	41,970,549	42,914,034					
Six years later	27,059,607	32,085,396	35,468,487	41,808,246						
Seven years later	27,140,245	32,206,533	36,119,116							
Eight years later	27,646,058	32,529,138								
Nine years later	27,433,971									
6. Increase (decrease) in estimated incurred claims and expenses from end of accident year	(1,389,279)	(773,218)	(718,640)	(401,506)	2,489,011	(6,546,012)	(9,514,679)	2,943,380	(1,623,835)	

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2009

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 35,350,980	$ 65,830,317	$ 2,917,094	$ 104,098,391
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	19,234,541	21,061,468	3,442,295	43,738,304
Decrease in provision for insured events of prior fiscal years	(3,130,732)	(490,241)	(1,951,289)	(5,572,262)
Unallocated claims adjustment expenses	1,292,881	1,443,231	454,624	3,190,736
Total incurred claims and claim adjustment expenses	17,396,690	22,014,458	1,945,630	41,356,778
Reinsurance:				
Reinsurance recoveries received attributable to insured events of current fiscal year	-	-	1,000,000	1,000,000
Reinsurance recoveries received attributable to insured events of prior fiscal years	2,536,638	680,205	6,712,267	9,929,110
Change in reinsurance recoverable on paid losses	(2,333,177)	31,087	(5,641,386)	(7,943,476)
Total reinsurance	203,461	711,292	2,070,881	2,985,634
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,403,972	4,995,116	984,839	10,383,927
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,636,626	14,256,060	2,704,189	27,596,875
Unallocated claim adjustment expenses	1,292,881	1,443,231	454,624	3,190,736
Total payments	16,333,479	20,694,407	4,143,652	41,171,538
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 36,617,652	$ 67,861,660	$ 2,789,953	$ 107,269,265

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2008

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 31,371,324	$ 59,495,649	$ 2,028,194	$ 92,895,167
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	19,512,999	21,743,242	3,101,697	44,357,938
Increase (decrease) in provision for insured events of prior fiscal years	(3,530,647)	1,051,419	(171,944)	(2,651,172)
Unallocated claims adjustment expenses	1,269,366	1,388,627	411,786	3,069,779
Total incurred claims and claim adjustment expenses	17,251,718	24,183,288	3,341,539	44,776,545
Reinsurance:				
Reinsurance recoveries received attributable to insured events of current fiscal year	-	-	250,000	250,000
Reinsurance recoveries received attributable to insured events of prior fiscal years	607,438	634,568	3,145,252	4,387,258
Change in reinsurance recoverable on paid losses	2,004,209	61,887	5,845,774	7,911,870
Total reinsurance	2,611,647	696,455	9,241,026	12,549,128
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,244,390	4,936,187	1,502,373	10,682,950
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,369,953	12,220,261	9,779,506	32,369,720
Unallocated claim adjustment expenses	1,269,366	1,388,627	411,786	3,069,779
Total payments	15,883,709	18,545,075	11,693,665	46,122,449
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 35,350,980	$ 65,830,317	$ 2,917,094	$ 104,098,391

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, 2009 and have issued our report thereon dated October 12, 2009. 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

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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Pool's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Pool's financial statements that is more than inconsequential will not be prevented or detected by the Pool's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Pool's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 12, 2009