TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: SEPTEMBER 13, 2013
BRENTWOOD, TENNESSEE

The Board of Directors of the TML Risk Management Pool ("The Pool") met at 10:00 a.m. on September 13, 2013 at the Pool's office in Brentwood, Tennessee.

Board Members present included: Chair Tommy Green, Vice-Chair Sam Tharpe, Curtis Hayes, Regina Holt, Pete Peterson, Tom Rowland, and Ken Wilber. Kay Senter was present via telephone conference.

The Pool's staff present were: Dawn R. Crawford, President/CEO; Charles DeMore, Executive Vice President & Chief Financial Officer; Jon Calvin, Director of Underwriting; and Jim Morrison, Director of Claims.

Also present were Russ Farrar, General Counsel; Margaret Mahery, Executive Director, TML; and, Charles "Bones" Seivers, President, TML Bond Fund.

1. APPROVAL OF MINUTES

Motion was made by Rowland to approve the minutes of the June 22, 2013 Board meeting; seconded by Tharpe. PASSED UNANIMOUSLY

2. FINANCIAL REPORTS

A. Charles DeMore presented the financial statements for the fiscal year ended June 30, 2013. In reviewing the Statement of Revenues and Expenses, DeMore stated that gross earned premium of $62,778,322 was 3.76% or $2,273,063 more than this time last year. Reinsurance premiums ceded were $9,389,485 which was 16.1% or $1,302,007 more than last year. Net earned premium was $53,388,837, which was 1.85% or $971,057 more than last year. Investment income totaled $7,936,163, which is 4.50% or $373,685 less than actual last year. However, compared with budget projections, investment income is $856,163 or 12.09% greater than anticipated for this period. Total revenues of $61,572,502 were $588,602 or 0.97% more than actual revenues for the prior year.

In the expense category, DeMore stated that total losses and loss adjustment expense incurred of $41,389,831 was 9.39% or $4,290,135 less than last year. DeMore explained that the actuarial review of loss reserves resulted in a $7.9 million reduction for the year. Policy acquisition costs of $5,460,365 were 2.09% or $111,680 more than last year. General and administrative expenses of $5,835,172 were 2.12% or $121,022 more than the prior year actual. When compared with the budget, however, general and administrative expenses were 7.60% or $479,768 less than projected for this period. Total expenses were $52,685,368, which was $4,057,434 or 7.15% less than last year's actual expenses. Excess revenues over expenses before unrealized gains and losses on investments totaled $8,887,134, which is $4,646,036 more than actual for this time last year.

This period's change in unrealized gains and losses on investments totaled $12,773,290 in net unrealized losses. Excess expenses over revenues for the fiscal year ended June 30, 2013 totaled $3,886,156.

In reviewing the Balance Sheet as of June 30, 2013, DeMore commented that cash and cash equivalents totaled $9,656,682, and investments totaled $194,604,285. Premiums receivable at the end of the period were $8,534,644. Other assets of $9,484,835 were comprised of prepaid reinsurance of $7.2 million and accrued interest of $2.2 million. Reinsurance recoverable totaled $875,223, and deferred acquisition costs totaled $759,941. DeMore commented on the impact of GASB Statement No. 65 on the Pool's financial statements beginning July 1, 2013 by requiring policy acquisition costs to be expensed as policies are issued instead of being deferred and amortized against premium revenue. Net fixed assets totaled $1,806,230 and included new acquisitions of $384,000 for technology improvements and vehicle replacements. Total assets were $226,492,350 at June 30, 2013.

Liabilities included net reserve for losses of $122,991,530, which was 0.6% or $685,692 more than the prior year amount. The reserve for unearned premiums was $12,827,577; deferred premium revenue totaled $5,644,822; accounts payable and accrued expenses totaled $1,941,650; and, dividends payable totaled $4,651,829 (including $4.64 million of dividends declared for the 2013/2014 fiscal year). Total liabilities of $148,057,408 represent a 1.50% increase over the prior year. The beginning fund balance of $82,321,098 added to excess expenses over revenues of $3,886,156 resulted in an ending fund balance of $78,434,942 at June 30, 2013. Crawford commented that in addition to a premium rate study, a capital adequacy study is also currently in progress that will help in determining what level of surplus to maintain. She noted that the studies should be completed by the next Board meeting.

B. DeMore reviewed the internally-managed fixed income portfolio as of August 30, 2013 as classified by type and maturity. Cash equivalents at that time represented funds deposited with the Tennessee Local Government Investment Pool totaling $10,546,512 with an average return of 0.10%.

The Pool's portfolio included 73 fixed income securities consisting of U.S. Government agency bonds and municipal bonds. On August 30, 2013, the portfolio had a book value of $216,917,592 and a market value of $197,242,632 with an average coupon of 3.983%.

DeMore noted that the amount of unrealized losses on investments of $19.6 million at the end of August had changed to $22.2 million at the close of business yesterday due to continuing market fluctuations. In response to Holt's question about whether any securities had been called, Crawford said no but as renewal monies are coming in she is being judicious as to what she is buying. DeMore stated that while the overall portfolio has a combined average coupon rate of 3.983%, the municipal bonds segment had an average coupon rate of 4.46%.

C. DeMore presented a brief overview of the budget summary of general and administrative expenses for the fiscal year ended June 30, 2013. He mentioned that total revenues were slightly over budget by 2.53%. Gross earned premium for all three lines of coverage were virtually on target as projected at 0.08% more than budgeted. Investment income was $856,163 more than budgeted and included realized gains on investments of approximately $963,000. Total operating expenses of $5,835,172 were 7.60% or $479,768 under budget. Each department remained within its budgeted amount as in the past.

D. Crawford presented a pro-forma statement of revenues and expenses for fiscal year 2013/2014 and reviewed its components. Earned premium is projected at $64,090,700, which is relatively flat at 2.00% more than this year's actual. Reinsurance costs increased almost 7.50% or $700,000 to an estimated $10,092,361, mostly attributed to workers compensation reinsurance. For the upcoming fiscal year, the Pool's retention level for workers compensation reinsurance increased to $1,250,000 as did the premium. Crawford noted that the Pool's total reinsurance costs for all three lines of coverage have increased 50.7% over the past three years. She added that increases in both reinsurance premiums and retention levels are anticipated in the next year due to general market conditions and that such

increases have been taken into consideration in the current rate study. Net earned premium is projected at $53,998,339.

Investment income is projected at $7,270,000 due to current market conditions. Total revenues are budgeted at $61,488,339.

Losses and loss adjustment expenses are estimated at $48,453,009 and assume a slightly lower benchmark based on the recent actuarial review. Policy acquisition costs are estimated at $6,243,028 and include the effect of implementing GASB Statement No. 65 which requires agent commissions to be expensed as policies are written. Overhead (general and administrative) expenses are estimated at $6,779,892, based on the budget that the Board previously approved in June 2013. Total expenses are estimated at $61,475,930.

Based on these projections, operating income for fiscal year 2013/2014 (before actuarial review and adjustments) is expected to be at break-even at $12,409.

Holt asked whether reinsurance costs have ever been included as a part of the cost of policy. Crawford replied that there is a factor for that but that rates have not been adjusted actuarially for 100% of the costs since we do not want to hit the membership all in one year with the increases. However, the increased costs have been addressed and included in the current rate study.

Chairman Green asked Board members if there were any further questions, and there were none. He then asked for a motion to approve all of the financial reports as presented. A motion was made by Wilber and seconded by Holt. PASSED UNANIMOUSLY

3. COVERAGE RECOMMENDATION

Jon Calvin, Director of Underwriting presented a recommendation to provide coverage under employment practices liability insurance ("EPLI") for punitive damages and for front and back pay. Such coverage would be available under EPLI only and become effective October 1, 2013 through an automatic endorsement. Calvin reviewed the coverage features and the benefits to members and to the Pool.

After some discussion, a motion was made by Hayes to approve the recommendation as presented; seconded by Peterson. PASSED UNANIMOUSLY

4. DATE OF NEXT MEETING

The date of the next meeting will be Friday, November 22, 2013 at 8:30 a.m. at the Pool's office in Brentwood, Tennessee.

5. OTHER BUSINESS

Crawford presented an updated informational guide for Pool board members and reviewed its contents, including the Pool's charter, bylaws and ethics policy.

MEETING ADJOURNED AT 11:01 a.m.

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Tommy Green, Chairman

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Charles DeMore, Secretary