

# **TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Financial Statements and Supplementary Information**

**June 30, 2016 and 2015**

**(With Independent Auditors' Report Thereon)**



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

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# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Board of Directors and Senior Management

June 30, 2016

### Board of Directors

Chairman	Samuel Tharpe, Commissioner, City of Paris, TN
Vice-Chairman	Kenneth Wilber, Mayor, City of Portland, TN
Director	Ann Davis, Mayor, City of Athens, TN
Director	Tommy Green, Mayor, City of Alamo, TN
Director	Curtis Hayes, Mayor of Livingston, TN
Director	Denis (Pete) Peterson, City Manager, City of Johnson City, TN
Director	Tom Rowland, Mayor, City of Cleveland, TN
Director	Kay Senter, Vice Mayor, City of Morristown, TN
Director	Garry Welch, City Manager, City of Savannah, TN

### Senior Management

President/CEO	Dawn R. Crawford, CPA
Executive Vice President, CFO, Director of Human Resources and Corporate Secretary	Charles DeMore, CPA
Controller	Amanda Shrum, CPA
Director of Underwriting	Jon Calvin
Director of Loss Control	Michael Fann
Director of Information Technology	Anthony Ponessa

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying statements of net position of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the years ended June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, 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 audit. 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. 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 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 policies 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.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pool as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance 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, and the Ten-Year Claims Development Information, the Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System, the Schedule of Contributions Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System and the Notes to the Required Supplementary Information on pages 35–37 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 Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Reconciliation of Claims Liabilities by Type of Contract on pages 38 - 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Reconciliation of Claims Liabilities by Type of Contract is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016 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.

### *Adoption of New Accounting Pronouncement*

As discussed in Note 2 of the financial statements, the Pool adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* during fiscal year 2016. Our opinion is not modified with respect to this matter.

LBMC, PC

Brentwood, Tennessee  
October 26, 2016



## **TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

### **Management's Discussion and Analysis**

The Tennessee Municipal League Risk Management Pool ("The Pool") offers this overview and analysis of the financial activities for the fiscal year ended June 30, 2016. 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 organized in 1979 as a not-for-profit tax-exempt corporation under the Tennessee Governmental Tort Liability Act. The Pool provides workers' compensation, liability and property insurance and risk management services to participating governmental entities in the State of Tennessee.

#### **2016 Fiscal Year Highlights**

- The Pool had 497 members at 2016 year-end, representing coverage for more than 37,000 local government employees and coverage for more than 17,700 government buildings valued at more than \$8.7 billion.
- Total Pool assets and deferred outflows of resources of \$271,786,335 exceeded liabilities and deferred inflows of resources by \$105,704,436 at June 30, 2016.
- The Pool's 2016 change in net position of \$19,501,965 represents an increase of \$9,995,605 over last year and is attributed primarily to the strength of its investment portfolio which represented net unrealized gains on investment market values of \$11,241,904 for 2016.
- The Pool's Board of Directors declared a dividend of \$4,000,000 to members for the ensuing 2017 policy year.

#### **Overview of the Financial Statements**

The Pool's annual financial report consists of management's discussion and analysis, the independent auditor's report, the basic audited financial statements that include notes which more fully explain information in the financial statements, required supplementary information and the independent auditor's 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 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, deferred outflows of resources, liabilities, deferred inflows of resources 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)							
	2016	2015	Net Increase (Decrease)		2014	Net Increase (Decrease)	
			\$	%		\$	%
Current assets	\$ 269.6	\$ 251.1	\$ 18.5	7.4%	\$ 239.5	\$ 11.6	4.8%
Capital assets	1.3	1.4	(0.1)	-7.1%	1.7	(0.3)	-17.6%
Total assets	270.9	252.5	18.4	7.3%	241.2	11.3	4.7%
Deferred outflows of resources	0.9	0.5	0.4	-%	-	0.5	-%
Total assets and deferred outflows	<u>\$ 271.8</u>	<u>\$ 253.0</u>	<u>\$ 18.8</u>	7.4%	<u>\$ 241.2</u>	<u>\$ 11.8</u>	4.9%
Current liabilities	\$ 164.8	\$ 161.6	\$ 3.2	2.0%	\$ 157.5	\$ 4.1	2.6%
Noncurrent liabilities	0.9	0.7	0.2	-%	-	0.7	-%
Total liabilities	<u>165.7</u>	<u>162.3</u>	<u>3.4</u>	2.0%	<u>157.5</u>	<u>4.8</u>	2.6%
Deferred inflows of resources	0.4	0.5	(0.1)	-%	-	0.5	-%
Investment in capital assets	1.3	1.4	(0.1)	-7.1%	1.7	(0.3)	-17.6%
Unrestricted	104.4	88.8	15.6	17.6%	82.0	6.8	8.3%
Total net position	<u>105.7</u>	<u>90.2</u>	<u>15.5</u>	17.2%	<u>83.7</u>	<u>6.5</u>	7.8%
Total liabilities, deferred inflows and net position	<u>\$ 271.8</u>	<u>\$ 253.0</u>	<u>\$ 18.8</u>	7.4%	<u>\$ 241.2</u>	<u>\$ 11.8</u>	4.9%

The Pool had total assets of \$270.9 million at June 30, 2016, which is 7.3% more than the previous year. Current assets consist primarily of cash and cash equivalents and investments totaling \$262 million, premiums and interest receivable of \$3.5 million and \$3 million, respectively, and reinsurance on recoverable paid losses of \$1 million. The Pool's investable assets at June 30, 2016 were comprised of municipal bonds and U.S. agency bonds of \$220 million and cash and cash equivalents, including money market funds, of \$41.8 million. Deferred outflows of resources totaled approximately \$0.9 million and represents actuarially-determined deferred outflows related to the Pool's net pension obligation.

The Pool's total liabilities of \$165.7 million were comprised of current liabilities of \$164.8 million and noncurrent liabilities of \$0.9 million at June 30, 2016. Current liabilities were comprised primarily of reserve for losses and loss adjustment expenses totaling \$144 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 on outstanding claims.

Noncurrent liabilities of \$0.9 million consist of the Pool's net pension liability at June 30, 2016. The Pool adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, in 2015 which requires the Pool to record the actuarially-determined net pension liability in the *Statements of Net Position*.

Deferred inflows of resources totaled \$0.4 million and represents actuarially-determined deferred inflows related to the Pool's net pension obligation.

Net position is the residual measure of assets and deferred outflows of resources net of liabilities and deferred inflows of resources and totaled \$105.7 million at June 30, 2016. Net position fluctuates annually due to the Pool's operating results (referred to as "change in net position") for a given fiscal year as well as member dividends that may be declared by the Board of Directors. Net position as of June 30, 2014 was restated for the cumulative effect of recording a net pension liability of \$1.0 million in compliance with GASB Statement No. 68.

During 2016 the Pool's net position increased by \$15.5 million due to the current year's change in net position of \$19.5 million and a \$4 million dividend declared by the Board of Directors to be distributed to members as premium credits for policies renewing in fiscal year 2017.

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)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Investment in capital assets	\$ 1.3	\$ 1.4	\$ 1.7
Unrestricted:			
Committed for capitalization	40.0	40.0	40.0
Committed for member credits	8.5	4.1	3.2
Committed for property/casualty catastrophe	30.0	30.0	25.0
Committed for market value stabilization	25.9	14.7	13.8
Total unrestricted net position	<u>104.4</u>	<u>88.8</u>	<u>82.0</u>
Total net position	<u>\$ 105.7</u>	<u>\$ 90.2</u>	<u>\$ 83.7</u>

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)**

	<u>2016</u>	<u>2015</u>	<u>Net Increase (Decrease)</u>		<u>2014</u>	<u>Net Increase (Decrease)</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>%</u>
Net earned premiums	\$ 59.3	\$ 57.2	\$ 2.1	3.7%	\$ 54.3	\$ 2.9	5.3%
Investment income-interest, net	8.6	7.9	0.7	8.9%	7.4	0.5	6.8%
Investment income-net increase (decrease)							
in fair value of investments	14.2	1.4	12.8	914.3%	6.0	(4.6)	-76.7%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	<u>82.3</u>	<u>66.7</u>	<u>15.6</u>	<u>23.4%</u>	<u>67.9</u>	<u>(1.2)</u>	<u>-1.8%</u>
Operating expenses	<u>62.8</u>	<u>57.2</u>	<u>5.9</u>	<u>10.3%</u>	<u>61.0</u>	<u>(3.8)</u>	<u>-6.2%</u>
Operating income (loss)	<u>19.5</u>	<u>9.5</u>	<u>9.7</u>	<u>102.1%</u>	<u>6.9</u>	<u>2.6</u>	<u>37.7%</u>
Nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>- %</u>	<u>-</u>	<u>-</u>	<u>- %</u>
Change in net position	<u>\$ 19.5</u>	<u>\$ 9.5</u>	<u>\$ 9.7</u>	<u>102.1%</u>	<u>\$ 6.9</u>	<u>\$ 2.6</u>	<u>37.7%</u>

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 property insurance coverage pursuant to insurance policy contracts. 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 actual loss experience (referred to as experience modifications) and compliance with the Pool's loss control surveys and recommendations (referred to as schedule modifications). Gross earned premiums totaled \$70.2 million for 2016 and represent a 3% increase over the previous year due primarily to growth in members' insured exposures, such as employee payroll bases and real and personal property values.

Reinsurance premiums ceded totaled \$10.9 million which is 2.5% more than the prior year due primarily to an increased reinsurance retention level in workers' compensation reinsurance.

Investment income is an important part of operating income and is comprised of two different components: interest earned on investments and changes in the fair value of investments. Net interest earned on investments is based on stated coupon rates of Pool investments and totaled \$8.6 million for 2016 which is \$0.6 million more than last year.

Changes in the fair value of investments include both "realized" and "unrealized" gains and losses on investments. Such unrealized gains and losses result from fluctuations in the market price of securities which can occur on a daily basis and sometimes with extreme volatility based on world events unrelated to the Pool's operations. GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* requires all investment income, including unrealized gains and losses on investments, to be reported as operating income in the accompanying audited financial statements.

For the 2016 fiscal year, net "unrealized" gains on investments totaled \$14.2 million. Because the Pool operates in a competitive business environment and has the intent and ability to hold investment securities to maturity, Pool management elects not to distort actual operating results with unrealized or "paper" gains and losses. Consequently, Pool management does not consider unrealized investment gains and losses in making internal management and operational decisions. The following proforma schedule presents operating income (loss) as determined without regard to unrealized investment gains and losses and, consequently, does not conform to GASB Statement No. 31:



**Management's Proforma Schedule of Operating Income (Loss)**

**Fiscal year ended June 30,**

**(in millions of dollars)**

	<b>2016</b>	<b>2015</b>	<b>Net Increase (Decrease)</b>		<b>2014</b>	<b>Net Increase (Decrease)</b>	
			<b>\$</b>	<b>%</b>		<b>\$</b>	<b>%</b>
Net earned premiums	\$ 59.3	\$ 57.2	\$ 2.1	3.7%	\$ 54.3	2.9	5.3%
Investment income-interest, net	8.3	7.6	0.7	9.2%	7.9	(0.3)	-3.8%
Investment income-realized gains (losses)	3.2	0.8	2.4	300.0%	0.4	0.4	100.0%
Other income	0.2	0.2	-	0.0%	0.2	-	0.0%
Total operating revenues	71.0	65.8	5.2	7.9%	62.8	3.0	4.8%
Operating expenses	62.7	57.2	5.8	10.1%	61.0	(3.8)	-6.2%
<b>Operating income (loss)</b>	<b>8.3</b>	<b>8.6</b>	<b>(0.6)</b>	<b>-7.0%</b>	<b>1.8</b>	<b>6.8</b>	<b>377.8%</b>
Nonoperating revenues (expenses)	-	-	-	- %	-	-	- %
Change in net position before change in fair value of investments	8.3	8.6	(0.6)	-7.0%	1.8	6.8	377.8%
Change in fair value of investments - unrealized gains (losses)	11.2	0.9	10.3	1144.4%	5.1	(4.2)	82.4%
Change in net position	<u>\$ 19.5</u>	<u>\$ 9.5</u>	<u>\$ 9.7</u>	102.1%	<u>\$ 6.9</u>	<u>\$ 2.6</u>	-37.7%

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 \$50.3 million for fiscal year 2016, which is 12.9% more than the previous year due to revaluation of certain open claims for revised actuarial mortality tables.

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 \$5.6 million for 2016, which is 10.5% less than the prior year and were expensed when incurred in compliance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

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. General and administrative expenses were \$6.8 million for fiscal year 2016 and include new staff positions approved by the Board of Directors in addition to increased Safety Grant funding available to participating members.



### **Capital Assets**

The Pool's premises, property and equipment had a total cost of \$4.5 million and a book value (after accumulated depreciation) of \$1.3 million at June 30, 2016. These capital assets consist of land, building and improvements, computer hardware and software, and office furniture and equipment used in Pool operations. The Pool acquired \$137,017 in new technology software and hardware during 2016 in its effort to enhance technology services and support to its membership.

The Pool had no outstanding debt associated with capital assets.

### **Long-term Debt**

The Pool's only long-term debt consists of its net pension liability which is actuarially-determined by the State of Tennessee Consolidated Retirement System. The Pool's net pension liability totaled \$898,726 and was 90.31% funded as of the most recent actuarial valuation date.

### **Economic Factors and Other Matters**

- A premium base rate reduction of approximately 2.0% was approved by the Board of Directors effective July 1, 2016.
- The Pool created two new positions to better serve its membership in 2016, both directly and indirectly, and continues to adopt technologies to strengthen operations and communication with members.

### **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, 2016 and 2015**

**Assets and Deferred Outflows of Resources**

	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 41,792,318	\$ 14,667,523
Investments	220,166,553	219,343,258
Premiums receivable	3,507,855	12,991,554
Accrued interest and other receivables	3,094,812	2,939,400
Reinsurance recoverable on paid losses	<u>1,062,903</u>	<u>1,148,864</u>
Total current assets	269,624,441	251,090,599
 Premises, property and equipment, net	 <u>1,310,944</u>	 <u>1,425,789</u>
Total assets	270,935,385	252,516,388
 Deferred outflows of resources - pension	 <u>850,950</u>	 <u>486,778</u>
	<u><b>\$ 271,786,335</b></u>	<u><b>\$ 253,003,166</b></u>

**Liabilities, Deferred Inflows of Resources and Net Position**

<b>Current liabilities:</b>		
Reserve for losses and loss adjustment expenses	\$ 144,245,048	\$ 133,595,179
Premiums billed in advance	714,825	10,330,799
Unearned premiums	13,745,789	13,157,718
Dividends payable	4,058,370	2,241,822
Accounts payable and accrued liabilities	<u>2,052,596</u>	<u>2,291,533</u>
Total current liabilities	164,816,628	161,617,051
 Net pension liability	 <u>898,726</u>	 <u>694,918</u>
Total liabilities	<u>165,715,354</u>	<u>162,311,969</u>
 Deferred inflows of resources - pension	 <u>366,545</u>	 <u>488,726</u>
 <b>Net position:</b>		
Investment in capital assets	1,310,944	1,425,789
Unrestricted	<u>104,393,492</u>	<u>88,776,682</u>
Total net position	<u>105,704,436</u>	<u>90,202,471</u>
	<u><b>\$ 271,786,335</b></u>	<u><b>\$ 253,003,166</b></u>

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, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Gross earned premiums	\$ 70,258,384	\$ 67,926,157
Reinsurance premiums ceded	<u>(10,956,437)</u>	<u>(10,686,444)</u>
Net earned premiums	59,301,947	57,239,713
Investment income - interest earnings, net	8,577,709	7,937,549
Investment income - net increase in fair value of investments	14,180,949	1,387,921
Other income	<u>202,736</u>	<u>222,566</u>
Total operating revenues	<u>82,263,341</u>	<u>66,787,749</u>
Operating expenses:		
Losses and loss adjustment expenses	50,323,702	44,542,954
Policy acquisition costs	5,632,615	6,298,676
General and administrative expenses	<u>6,814,909</u>	<u>6,393,702</u>
Total operating expenses	<u>62,771,226</u>	<u>57,235,332</u>
Operating income	<u>19,492,115</u>	<u>9,552,417</u>
Nonoperating revenues (expenses):		
Gain (loss) on disposal of capital assets	250	(49,257)
Software licenses fee	<u>9,600</u>	<u>3,200</u>
Total nonoperating revenues (expenses)	<u>9,850</u>	<u>(46,057)</u>
Total change in net position	19,501,965	9,506,360
Net position, beginning of year	90,202,471	83,787,747
Cumulative effect of restatement	<u>-</u>	<u>(698,074)</u>
Net position, beginning of year - as restated	90,202,471	83,089,673
Dividend declared	(4,000,000)	(2,500,000)
Member lapsed dividend credits	<u>-</u>	<u>106,438</u>
Net position, end of year	\$ <u>105,704,436</u>	\$ <u>90,202,471</u>

See accompanying notes to the financial statements.



**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Statements of Cash Flows**

**Years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts:		
Premiums received	\$ 69,859,593	\$ 66,009,584
Interest received	8,788,981	8,726,189
Special rating plan reimbursements	3,781,639	3,365,509
Reinsurance recoveries received	484,263	713,823
Claims recoveries	3,601,675	1,165,240
Other cash receipts	<u>185,409</u>	<u>335,762</u>
Total cash receipts	<u>86,701,560</u>	<u>80,316,107</u>
Cash disbursements:		
Claim payments	43,026,739	43,354,869
General and administrative	8,856,392	8,343,509
Reinsurance premiums	10,984,901	10,686,444
Claims administration	4,241,915	4,067,472
Policy acquisition	<u>5,687,704</u>	<u>5,460,240</u>
Total cash disbursements	<u>72,797,651</u>	<u>71,912,534</u>
Net cash provided by operating activities	<u>13,903,909</u>	<u>8,403,573</u>
Net cash used in capital activities:		
Purchases of premises, property and equipment	(137,017)	(39,616)
Proceeds from disposal of premiums, property and equipment	<u>250</u>	<u>-</u>
Net cash used in capital activities	<u>(136,767)</u>	<u>(39,616)</u>
Cash flows from investing activities:		
Purchases of investments	(140,037,341)	(58,977,438)
Proceeds from sales and maturities of investments	<u>153,394,994</u>	<u>56,068,785</u>
Net cash provided (used) in investing activities	<u>13,357,653</u>	<u>(2,908,653)</u>
Net increase in cash and cash equivalents	27,124,795	5,455,304
Cash and cash equivalents, beginning of year	<u>14,667,523</u>	<u>9,212,219</u>
Cash and cash equivalents, end of year	\$ <u>41,792,318</u>	\$ <u>14,667,523</u>

See accompanying notes to the financial statements.

**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Statements of Cash Flows (continued)**

**Years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 19,492,115	\$ 9,552,417
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	251,862	317,660
Net amortization of premium paid on investments	257,820	318,177
Net realized gain on sales of investments	(3,196,865)	(780,852)
Net unrealized gain on investments	(11,241,904)	(925,246)
Software licenses fee	9,600	-
(Increase) decrease in premiums receivable	9,483,699	(1,750,051)
(Increase) decrease in reinsurance recoverable on paid losses	85,962	(411,642)
(Increase) decrease in accrued interest and other receivables	(155,412)	348,927
(Increase) decrease in prepaid reinsurance and other expenses	-	(32,109)
Increase in deferred outflows of resources	(364,172)	(486,778)
Increase in reserve for losses and loss adjustment expenses	10,649,869	2,624,442
Increase (decrease) in premiums billed in advance	(9,615,974)	1,153,736
Increase (decrease) in unearned premiums	588,071	(62,533)
Decrease in dividends payable	(2,183,452)	(2,163,474)
Increase (decrease) in accounts payable and accrued liabilities	(238,937)	212,173
Increase in net pension liability	203,808	-
Increase (decrease) in deferred inflows of resources	<u>(122,181)</u>	<u>488,726</u>
Net cash provided by operating activities	\$ <u>13,903,909</u>	\$ <u>8,403,573</u>

See accompanying notes to the financial statements.



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

### (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, unmanned aerial vehicles (drones), 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 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 497 governmental entities (including 313 cities and towns) at June 30, 2016.

### (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.



Notes to the Financial Statements

June 30, 2016 and 2015

The Pool adopted the following new pronouncements in 2016:

- **GASB Statement No. 72, *Fair Value Measurement and Application*.** This statement enhances comparability of financial statements by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques and by expanding certain fair value disclosures.
- **GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*.** This statement was issued to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- **GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.** This statement was issued to simplify the structure of the hierarchy of GAAP. The GAAP hierarchy identifies the sources of guidance that state and local governments follow when preparing financial statements in conformity with GAAP and lists the order of priority for pronouncements to which a government should look for guidance.
- **GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.** This statement was issued to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool's compliance or noncompliance with the criteria in the statement impacts how pool participants are required to measure and report their investments in that external investment pool.

The Pool adopted the following new pronouncements in 2015:

- **GASB Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*** which provides guidance for improving accounting and financial reporting of pensions by state and local governments and state and local governmental employers about financial support for pensions that is provided by other entities. The effect of this new statement is more fully explained in Note 9.

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

- **GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*.** This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to defined benefit pension plans offered by employers. The statement requires the liability of employers for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. Valuations for the fiscal year ended June 30, 2015 were based on actuarial data as of June 30, 2014. The effect of this new statement is more fully explained in Note 9.
- **GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement 68*.** This statement requires the Pool to record pension contributions made after the measurement date as deferred outflow of resources.

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.



Notes to the Financial Statements

June 30, 2016 and 2015

(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.

Cash equivalents include the Pool's deposits in the State of Tennessee Local Government Investment Pool ("LGIP"), an external investment pool that is part of the State of Tennessee State Pooled Investment Fund ("SPIF"). Administration of and responsibility for the SPIF vests with the State Treasurer while investment policy is set by the State Funding Board composed of the Governor, Commissioner of Finance and Administration, Comptroller, Secretary of State and Treasurer. The SPIF, which includes the LGIP, elects to measure for financial reporting purposes all of its investments and securities at amortized cost and transacting with participants at a stable net asset value of \$1. Deposits in the LGIP are available daily as needed, with the exception of withdrawals in excess of \$5 million which require 24 hour advance notice.

(d) Investments

The Pool presents its investments in securities at fair value. 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 expensed in the period incurred.



Notes to the Financial Statements

June 30, 2016 and 2015

(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) Deferred outflows and inflows of resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense) until then. The deferred outflows relate to pension results from the actuarially-determined pension liability. In addition to liabilities, the Statement of Net Position will also sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. The deferred inflows relate to pension results from the actuarially-determined pension liability. (See Note 9).

(h) 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.

(i) Employee pension plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Pool's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System ("TCRS"), and additions to/deductions from the Pool's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan.

For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value. (See Note 9).

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Events occurring after reporting date

The Pool has evaluated events and transactions that occurred between June 30, 2016 and October 26, 2016, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Deposits and investments

The Pool's cash and cash equivalent bank balances totaling \$43,358,159 and \$16,216,134 at June 30, 2016 and 2015, respectively (less outstanding checks that are subtracted from bank balances to determine a carrying value of \$41,792,318 and \$14,667,523), 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.



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

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, 2016, the Pool had the following investments:

	<u>Fair Value</u>	<u>Average Weighted Maturity (in years)</u>	<u>Average Weighted Call Term (in years)</u>
U.S. Government Agencies:			
FFCB	\$ 28,000,720	15.4	3.9
FHLB	42,743,361	17.9	3.1
FNMA	<u>5,006,870</u>	16.1	16.1
Total U.S. Government Agencies	75,750,951		
Municipal Bonds	<u>144,415,602</u>	15.9	9.4
Total	<u>\$ 220,166,553</u>		

At June 30, 2015, the Pool had the following investments:

	<u>Fair Value</u>	<u>Average Weighted Maturity (in years)</u>	<u>Average Weighted Call Term (in years)</u>
U.S. Government Agencies:			
FFCB	\$ 30,768,867	15.2	10.3
FHLB	43,982,205	16.7	12.3
FHLMC	4,868,300	10.6	10.6
FNMA	<u>20,075,518</u>	16.2	16.2
Total U.S. Government Agencies	99,694,890		
Municipal Bonds	<u>119,648,368</u>	16.4	9.8
Total	<u>\$ 219,343,258</u>		

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, 2016 and 2015, the investments of the Pool had average weighted maturities and call terms as noted in the preceding table.



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, the Pool's investments in municipal bonds had credit ratings as follows:

<u>Rating</u>	<u>Municipal Bonds</u>	
	<u>2016</u>	<u>2015</u>
AAA	\$ 21,406,608	\$ 10,114,699
AA	93,224,381	79,042,665
A	26,985,350	30,491,004
BBB	<u>2,799,263</u>	<u>-</u>
	<u>\$ 144,415,602</u>	<u>\$ 119,648,368</u>

The Pool is in the process of disposing of one municipal security whose rating was revised from Aa3 to BBB+ during the 2016 fiscal year.

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, 2016 and 2015, all investments were adequately insured or registered and collateralized or held by the Pool or its agent in the Pool's name.

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1 - Investments reflect prices quoted in active markets for identical assets;
- Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and,
- Level 3 - Investments reflect prices based on unobservable sources.

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

The Pool had the following recurring fair value measurements as of June 30, 2016:

Investments by Fair Value	Total Investments	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agencies	\$ 75,750,951	\$ 75,750,951	\$ -	\$ -
Municipal Bonds	<u>144,415,602</u>	<u>144,415,602</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 220,166,553</u>	<u>\$ 220,166,553</u>	<u>\$ -</u>	<u>\$ -</u>

### Investments measured at amortized cost

Local Government Investment Pool \$ 31,705,871

The Pool had the following recurring fair value measurements as of June 30, 2015:

Investments by Fair Value	Total Investments	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Agencies	\$ 99,694,890	\$ 99,694,890	\$ -	\$ -
Municipal Bonds	<u>119,648,368</u>	<u>119,648,368</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$ 219,343,258</u>	<u>\$ 219,343,258</u>	<u>\$ -</u>	<u>\$ -</u>

### Investments measured at amortized cost

Local Government Investment Pool \$ 10,122,360

Investment income consisted of interest earned on investments and changes in fair value of investments. Interest earned on investments is based on the stated coupon rate of the securities, net of investment fees. The net increase (decrease) in fair value of investments for the fiscal years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Realized gains (losses), net	\$ 3,196,865	\$ 780,852
Amortization of premium	(269,585)	(335,209)
Accretion of discounts	11,765	17,032
Unrealized gains (losses), net	<u>11,241,904</u>	<u>925,246</u>
Net increase in fair value of investments	<u>\$ 14,180,949</u>	<u>\$ 1,387,921</u>



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

Net realized gains from the sale of investments were \$3,196,865 and \$780,852 for 2016 and 2015, respectively. Net realized gains for 2016 include a distribution from NLC - Mutual Insurance Company, a captive insurance company, in the amount of \$1,916,513 which represents the final return of the Pool's equity in excess of its initial investment.

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.

### (4) Premises, property and equipment

Premises, property and equipment activity for the fiscal year ended June 30, 2016 and 2015 is as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ <u>402,627</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>402,627</u>
Capital assets, being depreciated:				
Building and improvements	1,640,195	-	-	1,640,195
Furniture and equipment	359,059	3,591	(6,500)	356,150
Vehicles	-	-	-	-
Computer system	<u>1,944,398</u>	<u>133,426</u>	<u>-</u>	<u>2,077,824</u>
Total capital assets, being depreciated	<u>3,943,652</u>	<u>137,017</u>	<u>(6,500)</u>	<u>4,074,169</u>
Less accumulated depreciation:				
Building and improvements	1,315,588	57,163	-	1,372,751
Furniture and equipment	331,650	19,478	(6,500)	344,628
Vehicles	-	-	-	-
Computer system	<u>1,273,252</u>	<u>175,221</u>	<u>-</u>	<u>1,448,473</u>
Total accumulated depreciation	<u>2,920,490</u>	<u>251,862</u>	<u>(6,500)</u>	<u>3,165,852</u>
Capital assets, being depreciated, net	<u>1,023,162</u>	<u>(114,845)</u>	<u>-</u>	<u>908,317</u>
Capital assets, net	\$ <u>1,425,789</u>	\$ <u>(114,845)</u>	\$ <u>-</u>	\$ <u>1,310,944</u>



**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Notes to the Financial Statements**

**June 30, 2016 and 2015**

	<u>Balance</u> <u>June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ <u>402,627</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>402,627</u>
Capital assets, being depreciated:				
Building and improvements	1,637,370	2,825	-	1,640,195
Furniture and equipment	356,180	2,879	-	359,059
Vehicles	328,509	-	(328,509)	-
Computer system	<u>1,910,486</u>	<u>33,912</u>	<u>-</u>	<u>1,944,398</u>
Total capital assets, being depreciated	<u>4,232,545</u>	<u>39,616</u>	<u>(328,509)</u>	<u>3,943,652</u>
Less accumulated depreciation:				
Building and improvements	1,258,372	57,216	-	1,315,588
Furniture and equipment	310,495	21,155	-	331,650
Vehicles	211,142	68,110	(279,252)	-
Computer system	<u>1,102,070</u>	<u>171,182</u>	<u>-</u>	<u>1,273,252</u>
Total accumulated depreciation	<u>2,882,079</u>	<u>317,663</u>	<u>(279,252)</u>	<u>2,920,490</u>
Capital assets, being depreciated, net	<u>1,350,466</u>	<u>(278,047)</u>	<u>(49,257)</u>	<u>1,023,162</u>
Capital assets, net	\$ <u>1,753,093</u>	\$ <u>(278,047)</u>	\$ <u>(49,257)</u>	\$ <u>1,425,789</u>

Depreciation charged to operating expenses in 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Losses and loss adjustment expenses	\$ <u>101,863</u>	\$ <u>96,345</u>
General and administrative expenses	<u>149,999</u>	<u>221,318</u>
Total depreciation expense	\$ <u>251,862</u>	\$ <u>317,663</u>

**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Notes to the Financial Statements**

**June 30, 2016 and 2015**

**(5) Reserve for losses and loss adjustment expenses**

Reserve for losses and loss adjustment expenses at June 30, 2016 and 2015 is comprised of:

	<u>2016</u>	<u>2015</u>
Reserve for reported claims	\$ 91,657,664	\$ 78,622,650
Reserve for incurred but not reported claims	68,533,184	64,235,153
Reserve for unallocated loss adjustment expenses	8,577,151	7,765,985
Less: reinsurance recoverable	<u>(24,522,951)</u>	<u>(17,028,609)</u>
Total reserve for losses and loss adjustment expenses	\$ <u>144,245,048</u>	\$ <u>133,595,179</u>

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.

	<u>2016</u>	<u>2015</u>
Reserve for losses and loss adjustment expenses at beginning of fiscal year	\$ <u>133,595,179</u>	\$ <u>130,970,736</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	45,699,807	46,676,947
Decrease in provision for insured events of prior fiscal years	227,997	(6,320,542)
Unallocated claim adjustment expenses	<u>4,395,898</u>	<u>4,186,549</u>
Total incurred claims and claim adjustments expenses	<u>50,323,702</u>	<u>44,542,954</u>
Reinsurance:		
Reinsurance recoveries (payments) received (paid) attributable to insured events of current fiscal year	(2,000,000)	132,470
Reinsurance recoveries received attributable to insured events of prior fiscal years	4,511,533	581,353
Change in reinsurance recoverable on paid losses	<u>(85,962)</u>	<u>411,641</u>
Total reinsurance	<u>2,425,571</u>	<u>1,125,464</u>

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

### Payments:

Claims and claim adjustment expenses attributable to insured events of current fiscal year	12,053,539	13,208,337
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	25,649,967	25,649,089
Unallocated claim adjustment expenses	<u>4,395,898</u>	<u>4,186,549</u>
Total payments	<u>42,099,404</u>	<u>43,043,975</u>
Reserve for losses and loss adjustment expenses at end of fiscal year	\$ <u>144,245,048</u>	\$ <u>133,595,179</u>

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, 2016 and 2015. 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 year ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Premiums written	\$ 70,846,455	\$ 67,863,624
Premiums ceded	<u>(10,956,437)</u>	<u>(10,686,444)</u>
Net premiums written	<u>\$ 59,890,018</u>	<u>\$ 57,177,180</u>

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 \$1,350,000 and \$1,250,000 per occurrence for fiscal years 2016 and 2015, respectively.

(b) For fiscal years 2016 and 2015, the Pool's reinsurance retention amount was \$700,000 per occurrence for events arising from general liability, personal injury liability, errors and omissions liability, law enforcement liability, unmanned aerial vehicles (drones), and auto liability.



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

(c) For fiscal years 2016 and 2015, 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 years 2016 and 2015, 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.

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 \$24,522,951 and \$17,028,609 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2016 and 2015, respectively. 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.

	<u>2016</u>	<u>2015</u>
Investment in capital assets	\$ <u>1,310,944</u>	\$ <u>1,425,789</u>
Unrestricted:		
Committed for capitalization	40,000,000	40,000,000
Committed for member credits	8,449,644	4,074,737
Committed for property/casualty catastrophe	<u>30,000,000</u>	<u>30,000,000</u>
Total operational commitments	78,449,644	74,074,737
Committed for market value stabilization	<u>25,943,848</u>	<u>14,701,945</u>
Total unrestricted net position	<u>104,393,492</u>	<u>88,776,682</u>
Net position, end of year	\$ <u>105,704,436</u>	\$ <u>90,202,471</u>

During the year ended June 30, 2016, the Board declared a \$4,000,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2016 through June 30, 2017.

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

During the year ended June 30, 2015, the Board declared a \$2,500,000 dividend to members to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2015 through June 30, 2016. The Board also approved lapsed dividends totaling \$106,438 from recent fiscal years to be returned to net position.

During the year ended 2015, the Pool implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*. Accordingly, net position as of June 30, 2014 was retroactively reduced in the amount of \$997,395 to recognize a net pension liability at that date in compliance with the Statement (See Note 9).

Net position as of June 30, 2014 has also been adjusted retrospectively for the cumulative effect of requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, concerning reporting of certain policy acquisition costs (Note 2). The effect of the restatement was an increase in net position of \$299,321 as of June 30, 2014.

### (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 year 2016 and 2015, sponsorship fees totaled \$1,115,888 and \$1,072,969, respectively.

### (9) Employee pension plan

#### (a) General information about the pension 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"). The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

### *Benefits provided*

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the second day of July of the previous year. The COLA is based on the change in the consumer price index ("CPI") during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

### *Employees covered by benefit terms*

At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>29</u>
	<u>43</u>



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

### *Contributions*

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Pool has adopted a noncontributory retirement plan for its employees. The Pool makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the Pool were \$444,391 based on a rate of 15.21 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Pool's state shared taxes, if applicable, if required employer contributions are not remitted. The employer's actuarially determined contributions ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

### (b) Net pension liability

The Pool's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

### *Actuarial assumptions*

The total pension liability as of the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost of living adjustments	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

# **TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

## **Notes to the Financial Statements**

**June 30, 2016 and 2015**

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33 %
Developed market international equity	6.26%	17 %
Emerging market international equity	6.40%	5 %
Private equity and strategic lending	4.61%	8 %
U.S. fixed income	0.98%	29 %
Real estate	4.73%	7 %
Short-term securities	0.00%	<u>1 %</u>
		<u>100 %</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

### *Discount rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Pool will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.



**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Notes to the Financial Statements**

**June 30, 2016 and 2015**

**(c) Changes in the net pension liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at June 30, 2014	\$ 8,648,829	\$ 7,953,911	\$ 694,918
Changes for the year:			
Service cost	180,845	-	180,845
Interest	652,233	-	652,233
Differences between expected and actual experience	61,392	-	61,392
Contributions - employer	-	444,391	(444,391)
Net investment income	-	247,692	(247,692)
Benefit payments, including refunds of employee contributions	(266,470)	(266,470)	-
Administrative expense	-	(1,421)	1,421
Net changes	628,000	424,192	203,808
Balance at June 30, 2015	\$ 9,276,829	\$ 8,378,103	\$ 898,726

***Sensitivity of the net pension (asset) liability to changes in the discount rate***

The following presents the net pension (asset) liability of the Pool calculated using the discount rate of 7.5%, as well as what the net position liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
The Pool's net position liability (asset)	\$ 2,091,506	\$ 898,726	\$ (103,053)

**(d) Pension expense (income) and deferred outflows of resources and deferred inflows of resources related to the pension**

***Pension expense***

For the years ended June 30, 2016 and 2015, the Pool recognized pension expense of \$198,959 and \$143,862, respectively.

# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

### *Deferred outflows of resources and deferred inflows of resources*

For the year ended June 30, 2016, the Pool reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 85,070	\$ -
Net difference between projected and actual earnings on pension plan investments	284,376	366,545
Contributions subsequent to the measurement date of June 30, 2015	<u>481,504</u>	<u>-</u>
Total	<u>\$ 850,950</u>	<u>\$ 366,545</u>

For the year ended June 30, 2015, the Pool reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,387	\$ -
Net difference between projected and actual earnings on pension plan investments	-	488,726
Contributions subsequent to the measurement date of June 30, 2014	<u>444,391</u>	<u>-</u>
Total	<u>\$ 486,778</u>	<u>\$ 488,726</u>

The amounts shown above for "Contributions subsequent to the measurement date of June 30, 2015 and 2014," will be recognized as a reduction to net pension liability in the following measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

#### Year Ended June 30:

2017	\$ (32,378)
2018	(32,378)
2019	(32,378)
2020	89,803
2021	10,232

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.



# TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

## Notes to the Financial Statements

June 30, 2016 and 2015

(e) Payable to the pension plan

At June 30, 2016 and 2015, the Pool did not owe any outstanding contributions to the pension plan.

(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 \$35,688 and \$32,684 for the year ended June 30, 2016 and 2015, respectively.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Ten-Year Claims Development Information

Year ended June 30, 2016

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) Net earned required premium and investment revenues – This line shows the total of each fiscal year's net earned premium revenues and investment revenues. (2) Unallocated expenses – This line shows each fiscal year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims. (3) Estimated incurred claims and expenses, end of accident year – 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) Net paid (cumulative) – This section of ten rows shows the cumulative amounts paid net of recoveries as of the end of successive years for each policy year. (5) Re-estimated incurred claims and expenses – This section of ten 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) Increase (decrease) in estimated incurred claims and expenses from end of accident year – 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 than originally estimated. As data for individual policy years matures, 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.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1. Net earned required premium and investment revenues	\$69,537,278	\$71,036,536	\$67,407,104	\$66,071,645	\$64,062,890	\$60,983,901	\$61,902,588	\$62,816,826	\$66,741,692	\$82,273,191
2. Unallocated expenses	12,287,325	14,147,927	13,462,216	13,928,489	14,073,693	14,719,391	15,478,609	17,449,760	16,878,932	16,843,422
3. Estimated incurred claims and expense, end of accident year	42,571,480	44,357,938	43,738,304	46,827,211	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807
4. Net Paid (cumulative) as of:										
End of accident year	11,044,685	10,682,950	10,383,927	11,960,924	14,170,671	13,554,782	13,312,473	13,084,348	13,208,337	12,053,539
One year later	24,071,928	22,178,806	22,503,451	21,946,111	28,567,327	22,089,817	22,634,009	23,347,626	24,079,927	
Two years later	27,493,192	28,059,198	26,581,822	28,850,196	32,547,163	26,887,613	27,545,762	27,922,722		
Three years later	32,024,370	30,762,829	29,468,494	31,061,738	34,977,023	29,124,795	30,406,417			
Four years later	34,349,210	32,613,755	31,113,644	32,610,625	38,284,196	29,910,731				
Five years later	35,460,726	33,587,116	32,598,083	33,610,677	39,130,026					
Six years later	36,009,787	34,272,765	33,066,340	33,959,333						
Seven years later	36,426,031	34,650,588	33,805,178							
Eight years later	37,328,910	34,949,375								
Nine years later	37,717,893									
5. Re-estimated incurred claims and expenses:										
End of accident year	42,571,480	44,357,938	43,738,304	46,827,211	50,641,219	47,507,981	46,574,698	45,820,056	46,676,947	45,699,807
One year later	44,052,737	42,734,103	42,588,900	45,209,547	47,774,196	43,177,868	43,553,794	46,024,778	46,723,332	
Two years later	45,514,860	42,075,676	40,180,438	42,870,101	46,907,918	40,536,108	40,606,116	43,189,636		
Three years later	47,274,092	41,797,919	38,843,097	40,802,207	45,765,147	38,581,460	40,368,831			
Four years later	47,681,591	39,226,518	38,947,087	40,869,336	47,232,903	37,605,162				
Five years later	42,749,923	38,450,948	39,125,187	39,716,596	47,174,143					
Six years later	42,876,322	39,073,944	37,870,138	39,214,612						
Seven years later	43,292,557	38,746,690	37,900,916							
Eight years later	43,323,664	39,094,139								
Nine years later	43,532,556									
6. Increase (decrease) in estimated incurred claims and expense from end of accident year	961,076	(5,263,799)	(5,837,388)	(7,612,599)	(3,467,077)	(9,902,820)	(6,205,868)	(2,630,421)	46,385	



**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Schedule of Changes in Net Pension Liability (Asset)  
and Related Ratios Based on Participation in the  
Public Employee Pension Plan of the Tennessee Consolidated Retirement System**

**Last Fiscal Year Ended June 30,**

	<b>2014</b>	<b>2015</b>
<b>Total pension liability:</b>		
Service Cost	\$ 154,134	\$ 180,845
Interest	609,688	652,233
Changes in benefit terms	-	-
Differences between actual and expected experience	50,864	61,392
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	(281,807)	(266,470)
<b>Net change in total pension liability</b>	<u>532,879</u>	<u>628,000</u>
<b>Total pension liability, beginning</b>	8,115,950	8,648,829
<b>Total pension liability, ending (a)</b>	<u><u>\$ 8,648,829</u></u>	<u><u>\$ 9,276,829</u></u>
<b>Plan fiduciary net position:</b>		
Contributions from employer	\$ 416,207	\$ 444,391
Contributions from employees	-	-
Net investment income	1,118,570	247,692
Benefit payments, including refunds of employee contributions	(281,807)	(266,470)
Administrative expense	(1,407)	(1,421)
<b>Net change in plan fiduciary net position</b>	<u>1,251,563</u>	<u>424,192</u>
<b>Plan fiduciary net position, beginning</b>	6,702,348	7,953,911
<b>Plan fiduciary net position, ending (b)</b>	<u><u>\$ 7,953,911</u></u>	<u><u>\$ 8,378,103</u></u>
<b>Net Pension Liability (Asset), ending (a) - (b)</b>	<u><u>\$ 694,918</u></u>	<u><u>\$ 898,726</u></u>
 <b>Plan fiduciary net position as a percentage of total pension liability:</b>	 91.97%	 90.31%
 <b>Covered-employee payroll:</b>	 \$ 2,699,019	 \$ 2,921,704
 <b>Net pension liability (asset) as a percentage of covered-employee payroll:</b>	 25.75%	 30.76%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Schedule of Contributions Based on Participation in the  
Public Employee Pension Plan of the Tennessee Consolidated Retirement System**

**Last Fiscal Year Ended June 30,**

	<b>2014</b>	<b>2015</b>	<b>2016</b>
Actuarially determined contribution	\$ 416,207	\$ 444,391	\$ 481,504
Contribution in relation to the actuarially determined contribution	416,207	444,391	481,504
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered-employee payroll	 \$ 2,699,019	 \$ 2,921,704	 \$ 3,165,707
Contributions as a percentage of covered-employee payroll	15.42%	15.21%	15.21%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information of information is available.

**Notes to Schedule**

*Valuation Date* - Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2013 actuarial valuation.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method:	Frozen initial liability
Amortization method:	Level dollar, closed (not to exceed 20 years)
Remaining amortization period:	10 years
Asset valuation:	10-year smoothed within a 20 percent corridor to market value
Inflation:	3.0 percent
Salary increases:	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment rate of return:	7.5 percent, net of investment expense, including inflation
Retirement age:	Pattern of retirement determined by experience study
Mortality:	Customized tables based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustment:	2.5 percent



**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Reconciliation of Claims Liabilities by Type of Contract**

**Year ended June 30, 2016**

	<b>Liability</b>	<b>Workers' Compensation</b>	<b>Property</b>	<b>Total</b>
<b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>	\$41,294,595	\$89,960,260	\$2,340,324	\$133,595,179
<b>Incurred claims and claim adjustment expenses:</b>				
Provision for insured events of the current fiscal year	20,513,855	20,885,952	4,300,000	45,699,807
Increase (decrease) in provision for insured events of prior fiscal years	(3,128,563)	3,594,849	(238,289)	227,997
Unallocated claims adjustment expenses	1,721,500	1,789,559	884,839	4,395,898
<b>Total incurred claims and claim adjustment expenses</b>	<b>19,106,792</b>	<b>26,270,360</b>	<b>4,946,550</b>	<b>50,323,702</b>
<b>Reinsurance:</b>				
Reinsurance recoveries (payments) received (paid) attributable to insured events of current fiscal year	-	-	(2,000,000)	(2,000,000)
Reinsurance recoveries received attributable to insured events of prior fiscal years	-	484,263	4,027,270	4,511,533
Change in reinsurance recoverable on paid losses	(6,404)	236,877	(316,435)	(85,962)
<b>Total reinsurance</b>	<b>(6,404)</b>	<b>721,140</b>	<b>1,710,835</b>	<b>2,425,571</b>
<b>Payments:</b>				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,908,067	5,106,828	2,038,644	12,053,539
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	11,135,925	11,674,196	2,839,846	25,649,967
Unallocated claim adjustment expenses	1,721,500	1,789,559	884,839	4,395,898
<b>Total payments</b>	<b>17,765,492</b>	<b>18,570,583</b>	<b>5,763,329</b>	<b>42,099,404</b>
<b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>	<b>\$42,629,491</b>	<b>\$98,381,177</b>	<b>\$3,234,380</b>	<b>\$144,245,048</b>

**TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL**

**Reconciliation of Claims Liabilities by Type of Contract**

**Year ended June 30, 2015**

	<b>Liability</b>	<b>Workers' Compensation</b>	<b>Property</b>	<b>Total</b>
<b>Reserve for losses and loss adjustment expenses at beginning of fiscal year</b>	\$39,634,987	\$88,407,682	\$2,928,067	\$130,970,736
<b>Incurred claims and claim adjustment expenses:</b>				
Provision for insured events of the current fiscal year	21,129,165	21,547,782	4,000,000	46,676,947
Increase (decrease) in provision for insured events of prior fiscal years	(2,442,218)	(3,120,700)	(757,624)	(6,320,542)
Unallocated claims adjustment expenses	1,631,919	1,722,294	832,336	4,186,549
<b>Total incurred claims and claim adjustment expenses</b>	<b>20,318,866</b>	<b>20,149,376</b>	<b>4,074,712</b>	<b>44,542,954</b>
<b>Reinsurance:</b>				
Reinsurance recoveries received attributable to insured events of current fiscal year	39,827	-	92,643	132,470
Reinsurance recoveries received attributable to insured events of prior fiscal years	-	558,305	23,048	581,353
Change in reinsurance recoverable on paid losses	50,032	169,566	192,043	411,641
<b>Total reinsurance</b>	<b>89,859</b>	<b>727,871</b>	<b>307,734</b>	<b>1,125,464</b>
<b>Payments:</b>				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	5,784,266	4,914,325	2,509,746	13,208,337
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	11,332,932	12,688,050	1,628,107	25,649,089
Unallocated claim adjustment expenses	1,631,919	1,722,294	832,336	4,186,549
<b>Total payments</b>	<b>18,749,117</b>	<b>19,324,669</b>	<b>4,970,189</b>	<b>43,043,975</b>
<b>Reserve for losses and loss adjustment expenses at end of fiscal year</b>	<b>\$41,294,595</b>	<b>\$89,960,260</b>	<b>\$2,340,324</b>	<b>\$133,595,179</b>



**Independent Auditors' 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, 2016, 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 26, 2016.

**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 (internal control) 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*. There were no prior findings reported.

#### 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.

LBMC, PC

Brentwood, Tennessee  
October 26, 2016