TML RISK MANAGEMENT POOL
BOARD OF DIRECTORS MEETING
DATE OF MEETING: SEPTEMBER 9, 2011
BRENTWOOD, TENNESSEE

The Board of Directors of the TML Risk Management Pool ("The Pool") met at 10:00 a.m. on September 9, 2011 at the Pool's office in Brentwood, Tennessee.

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

The Pool's staff present were: Dawn R. Crawford, President, and Charles DeMore, Executive Vice-President and Chief Financial Officer.

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

1. APPROVAL OF MINUTES

Motion was made by Rowland to approve the minutes of the June 11, 2011 Board meeting; seconded by Peterson. PASSED UNANIMOUSLY

2. FINANCIAL REPORTS

A. Charles DeMore, Executive Vice-President and Chief Financial Officer presented the financial statements for the twelve months ended June 30, 2011. In reviewing the Statement of Revenues and Expenses, DeMore stated that gross earned premium of $61,974,819 was 2.62% or $1,670,343 less than last year. Reinsurance premiums ceded was $6,697,727, which was 6.17% or $389,507 more than last year attributed primarily to an increase in property reinsurance. Net earned premium was $55,277,092, which was 3.59% or $2,059,850 less than last year. Investment income totaled $8,537,869, which is 0.66% or $56,211 more than last year. Total revenues of $64,062,890 were $2,008,755 or 3.04% less than the prior year.

In the expense category, DeMore stated that total loss and loss adjustment expense incurred of $48,217,823 was 0.42% or $202,890 more than last year. He commented that the balance includes actuarial adjustments that increased incurred but not reported ("IBNR") reserves by $1.4 million. He noted that the total actuarial adjustments included an increase to workers compensation IBNR reserves of $3.4 million and a decrease of $2.0 million to liability IBNR reserves. Policy acquisition costs of $5,274,459 were 0.89% or $47,488 less than the prior year. General and administrative expenses of $5,490,950 were 3.65% or $193,343 more than the prior year actual due to additional personnel costs as approved by the Board. When compared with the budget, however, total general and administrative expenses were 7.76% or $462,045 less than projected for the year. Total expenses were $58,983,232 which was 0.59% or $348,745 more than last year. Excess revenues over expenses before unrealized gains and losses on investments or "operating income" totaled $5,079,658, which is $2,357,500 less than last year.

This year's change in unrealized gains and losses on investments totaled $7,930,820 in net unrealized

losses. DeMore noted that net unrealized losses on investments are "paper" losses and reflect the market's ongoing volatility. To illustrate, he said that the market value of the Pool's securities had reversed at the close of yesterday's business to become net unrealized gains of $995,938. Excess expenses over revenues for the twelve months ended June 30, 2011 totaled $2,851,162.

In reviewing the Balance Sheet as of June 30, 2011 DeMore commented that cash and cash equivalents totaled $36,520,957, and investments totaled $173,145,277. Premiums receivable at the end of the year were $7,940,445, which included approximately $6.1 million in deferred premium. Other assets of $1,954,246 included accrued interest of approximately $1.8 million and prepaid insurance of approximately $132,000. Reinsurance recoverable totaled $4,258,913 and included approximately $3.3 million for property reinsurance claims. Net fixed assets totaled $1,539,587. Total assets were $226,622,075 at June 30, 2011.

Liabilities included net reserve for losses of $120,181,090, which was 7.0% more than the prior year amount and is a function of claim reserve activity that includes actuarial adjustments. The reserve for unearned premiums was $11,927,927; deferred premium revenue was $6,178,094; and, accounts payable and accrued expenses totaled $1,775,645. Dividends payable of $7,768,330 included $6.9 million of dividends declared for the 2011/2012 policy year, approximately $391,000 of dividends declared for 2010/2011 and approximately $407,000 of dividends from fiscal years 2009/2010 and earlier. Total liabilities of $147,831,086 represent a 1.0% increase over the prior year. The beginning fund balance of $81,642,151 combined with excess expenses over revenues over expenses of $2,851,162 resulted in an ending fund balance of $78,790,989 at June 30, 2011.

Holt asked if there was a trend of members beginning to self-insure their coverage or to increase their deductible amounts. Crawford responded that a lot more members are increasing their deductibles rather than changing to self-insured programs. She commented that self-insured plans require members to assume a large amount of risk and to do so they need dedicated resources for a risk management program that is ongoing. She noted that members who choose deductibles should consider internally allocating such deductibles back to the budget of the department that incurs the loss to emphasize the importance of safety and risk management.

Rowland asked about the Pool's business competition. Crawford responded that there has been some new competition associated with Traveler's Insurance and that they are doing both a city and a county push in the public entity arena. She commented that the competition has taken Wilson County from the County Insurance Pool and that they have also been in a couple of the Pool's accounts working hard with those members. She said that the Pool will continue to give members our best price upfront and not discount premiums in order to beat a competitor's price. The Pool will assist members with available deductible options in order to help them lower their premium costs. She noted that while Traveler's has been in Tennessee before and concentrated heavily at one time on just property coverage, they have now expanded their interest to all three lines of coverage. She told the Board that the Pool will treat them as any other competitor. Crawford also noted other competition from an on-the-job injury ("OJI") program being brokered by a company from Montgomery, Alabama. This competitor has been hitting the cities hard in trying to get them to opt-out of workers compensation and to enroll in their program. The Pool researched OJI in the past and developed points of comparison and contrast for members' information about the benefits and disadvantages, the greatest disadvantage being that members give up exclusive remedy.

B. Crawford presented a Budget Summary for the year ended June 30, 2011 that compares pro-forma amounts with actual amounts. She noted that the pro-forma amounts are estimated twelve months in advance. Total revenues of $64,062,890 were 2.04% less than projected. Total gross

earned premiums were $61,974,819 or 3.71% less than estimates as follows: workers compensation - 3.88% under budget; liability - 2.25% under budget; and property - 6.80% under budget. Investment income of $8,537,869 was 6.72% or $537,869 more than budgeted. Other income consisting of installment and late fees was $247,929 more than anticipated.

Total general and administrative expenses of $5,490,950 were $462,046 or 7.76% under budget. Each department was under its budget allocation for the year as follows: general operations - 8.40%; executive management - 6.65%; finance – 4.69%; loss control – 8.02%; member services – 11.14%; systems – 17.06%; underwriting – 4.78%; and, contracts – 3.42%.

C. DeMore reviewed the internally-managed fixed income portfolio as of July 29, 2011 as classified by type and maturity. Cash equivalents at that time represented funds invested with the Tennessee Local Government Investment Pool totaling $17,024,832 with an average return of 0.14%. The Pool's portfolio included 42 fixed income securities consisting of government and agency bonds and had a book value of $192,650,763 and a market value of $190,466,724 with an average coupon of 4.366%. DeMore commented that since July there have been over $19 million of securities that have been called. He pointed out, however, that while the market has been very volatile, these 42 securities will generate over $8.4 million in realized interest income compared to the $8 million budgeted.

Crawford added that the Pool has accumulated additional monies in LGIP due to recent called securities as well as cash flows from members' premium payments and that she is monitoring coupon rates in order to obtain the most advantageous ones. She said she is balancing how much cash to hold in LGIP in anticipation of the market returning to more favorable rates but not holding too much at such a low interest rate.

D. Crawford presented a Pro-Forma Statement of Revenues and Expenses for the fiscal year ending June 30, 2012 that she commented is prepared twelve months in advance based on historical as well as best available information. Earned premium is projected to be $61,384,311 which is expected to be approximately 1.0% less than last year due to rate reductions approved by the Board last year that are now in effect. Reinsurance premium ceded is anticipated to be $8,173,356, which is about $1.5 million more than last year due to increased property losses. She noted that the Pool will have to consider an increased retention next year for property reinsurance. Net earned premium is projected to be $53,210,955; investment income is projected at $8,000,000; and, other income is projected to be $200,000. Total projected revenues are $61,410,955, which is a reduction of approximately 4.0% or $2.6 million from last year.

Loss and loss adjustment expenses, which are determined as a function of earned premiums, are projected to be $45,210,056, which is about 4.0% more than last year due to increased loss trends in workers compensation. Claims administration expenses are estimated at $3,741,365. Total loss and loss adjustment expenses are projected to be $48,951,421. Policy acquisition costs are expected to be $5,449,674, which is about a 3.3% increase. General and administrative expenses are $6,202,493 as previously approved by the Board. Total expenses are projected at $60,603,588, which are 2.75% greater than last year. Based on these projected revenues and expenses, the Pool expects the excess revenues over expenses (or "operating profit") for fiscal year 2011/2012 to be near breakeven at $807,367. This projection is before any adjustments that might be needed due to the actuarial analysis which cannot be predicted.

A motion was made by Tharpe to accept these Financial Reports as presented; seconded by Holt. PASSED UNANIMOUSLY

3. DATE OF NEXT MEETING

The date of the next meeting will be Thursday, November 3, 2011 at 10:00 a.m. at the Pool's office in Brentwood, Tennessee.

4. OTHER BUSINESS

A. Crawford commented that, as previously mentioned, there are some dividends from prior years that have not been distributed to members who have non-renewed their policy coverage. Such undistributed dividends pertain to fiscal years 2005/2006 through 2009/2010 and have a cumulative total of $407,216.47. Crawford requested approval from the Board to return these undistributed dividends to fund equity.

A motion was made by Holt to return the dividend credits to fund equity; seconded by Rowland. Chairman Green asked Board members for any other discussion. Holt asked Crawford if this amount of dividends was usual. Crawford replied these dividends cover several years since 2005/2006 and would be eligible for re-issuance as dividend credits in the future. PASSED UNANIMOUSLY

B. Crawford thanked Board members for their positive comments about the building's renovation.

MEETING ADJOURNED AT 10:39 a.m.

Tommy Green, Chairman

Charles DeMore, Secretary