TENNESSEE MUNICIPAL LEAGUE
RISK MANAGEMENT POOL

Financial Statements and Supplementary Information

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Tennessee Municipal League Risk Management Pool (the "Pool") as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Pool's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires that certain investments be reported at fair market value in the balance sheets, with the change in unrealized fair value reported as investment income in the statements of revenues, expenses, and changes in fund equity. As more fully explained in Notes 2 and 3 to the financial statements, the Pool reports the changes in fair value of investments in its statements of revenues, expenses, and changes in fund equity, but has chosen not to present the change in unrealized gains or losses on investments as a component of investment income.

In our opinion, except for the classification of unrealized investment gains and losses as discussed in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Pool, as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the table of contents is not a required part of the financial statements, but is supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information listed in the table of contents is presented for purpose of additional analysis, and is not a required part of the basic financial statements. The supplementary information is the responsibility of the Pool's management. Such supplementary information has been subjected to the auditing procedures applied in our audits of basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Brentwood, Tennessee
October 14, 2011

THE
TMI POOL
Tennessee's Leader in Risk Management Services

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Management's Discussion and Analysis

The Tennessee Municipal League Risk Management Pool's ("the Pool") management's discussion and analysis is intended to provide an overview and analysis of the Pool's financial activities for the fiscal year ended June 30, 2011. The information contained in this report should be considered in conjunction with the Pool's accompanying financial statements.

The Pool is a nonprofit corporation that provides workers' compensation, liability and property coverage and risk management services for certain municipal entities in the State of Tennessee.

2011 Fiscal Year Highlights

- Total assets of $226,622,076 exceeded liabilities by $78,790,990. Due to the nature of the Pool's operations and responsibility to its membership, the Pool's Board of Directors has adopted category appropriations of fund equity.

- Fund equity decreased $10,351,161 or 11.6% from the prior year.

- Total revenues of $64,043,950 decreased $2,025,865 or 3.1% from the prior year while total expenses of $58,983,233 increased $348,746 or 0.6% over the prior year.

- During the year, the Pool began an initiative to enhance membership communications and access through major technological efficiencies and upgrades, including converting internal processes to a paperless environment and re-designing its website to allow secured access to members.

Overview of the Financial Statements

This report includes the independent auditors' report, the audited financial statements, the related notes to the financial statements and the required supplementary information. The Pool presents its financial statements on a comparative basis using the full accrual method of accounting. *Balance Sheets* present information regarding the Pool's assets, liabilities and fund equity. *Statements of Revenues, Expenses and Changes in Fund Equity* present the results of operations of the Pool and changes in its fund equity. *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. *Notes to the Financial Statements* provide additional information essential to a full understanding of the data provided in the financial statements and are considered an integral part of the financial statements. *Supplementary Information* presents additional information required by applicable regulatory agencies. An annual budget of general and administrative ("overhead") expenses and a pro-forma *Statement of Revenues and Expenses* are approved by the Board of Directors each year as strategic management tools. Additionally, all budget variances of overhead expenses are reviewed monthly by management for operational accountability. However, the Pool is not legally required to adopt or to adhere to an annual budget.

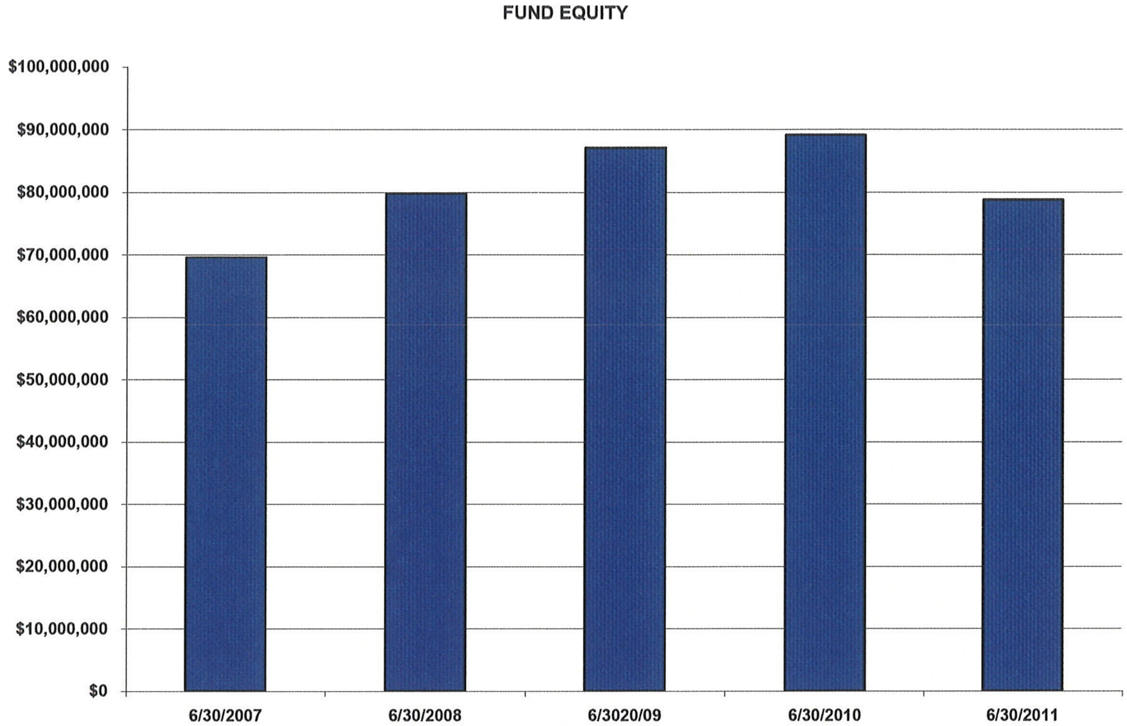
Financial Results and Analysis

Condensed Balance Sheets

	FY 2011	FY 2010
Current assets	$ 225,082,489	$ 234,520,734
Capital assets	1,539,587	1,127,965
Total assets	$ 226,622,076	$ 235,648,699
Current liabilities	$ 147,831,086	$ 146,506,548
Noncurrent liabilities	-	-
Total liabilities	$ 147,831,086	$ 146,506,548
Fund equity	$ 78,790,990	$ 89,142,151

Total assets at June 30, 2011 were $226,622,076, which is 3.8% less than the previous fiscal year-end. Current assets consisted primarily of cash and cash equivalents and investments totaling $209,666,234. The Pool's investable assets at June 30, 2011 were comprised of US Treasury and agency bonds and government-backed securities of $168,359,792, corporate bonds of $4,785,485, and cash and cash equivalents, including money market funds of $36,520,957. The Pool's investment philosophy is to buy and hold investment securities until they mature. However, the Pool does take advantage of market volatility to realize investment gains when appropriate.

Total liabilities were all current at June 30, 2011 and totaled $147,831,086, which is an increase of 0.9% from the prior year. Reserve for losses and loss adjustment expenses of $120,181,090 increased 6.8% over the previous fiscal year. This amount represents losses reported for the three lines of coverage (workers' compensation, liability and property) as well as the actuarially estimated ultimate costs of such claims.



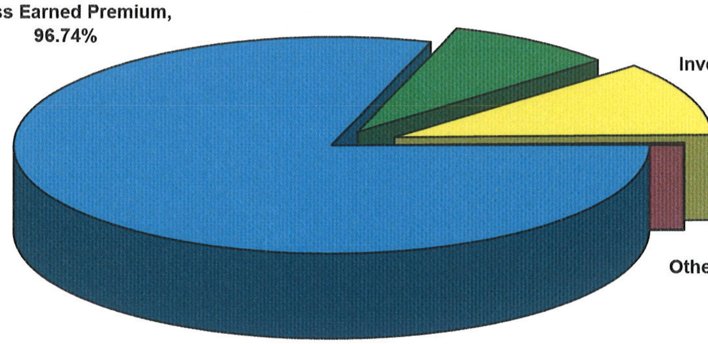
The graph above presents fund equity at year-end for the past five years, which at June 30, 2011 totaled $78,790,990. Fund equity is the result of assets net of liabilities and fluctuates annually due to the Pool's operating results for a given fiscal year as well as any member dividends that may be declared by the Board of Directors.

For fiscal year 2011, the Pool's fund equity decreased $10,351,161 from the prior year attributed to operating income of $5,060,717, net gain of $18,942 realized on the disposal of assets, net unrealized losses on investments of $7,930,820 and member dividends of $7,500,000 declared by the Board of Directors to be distributed as premium credits for policies renewing in the ensuing fiscal year 2012.

To preserve the Pool's future financial stability, the Board of Directors has adopted category appropriations of fund equity as follows:

	FY 2011	FY 2010
Invested in capital assets	$ 1,539,587	$ 1,127,965
Unrestricted:		
Appropriated for capitalization	40,000,000	40,000,000
Appropriated for member credits	4,101,212	7,521,554
Appropriated for property/casualty catastrophe	25,000,000	24,000,000
Appropriated for market value stabilization	8,150,191	16,492,632
Total fund equity	$ 78,790,990	$ 89,142,151

REVENUES
FYE 6/30/2011



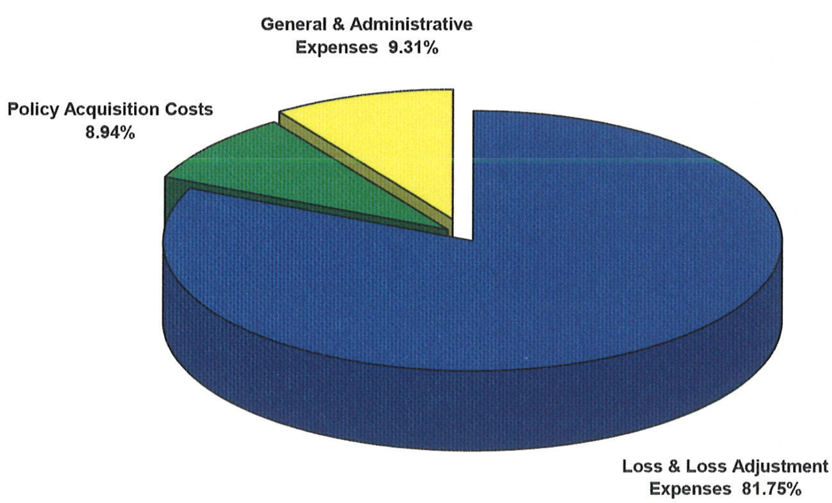
Total Revenues of $64,043,950 consisted of earned premiums net of reinsurance premiums ceded, net realized investment income and other income.

Earned premiums represent premiums charged to members for insurance coverage purchased from the Pool. These premiums are derived from calculations that take into consideration a member's exposures (such as payroll volume, operating budget, physical properties owned, etc.) as applied to a base rate. Additionally, each member is rated on its actual loss experience (referred to as experience modifications) and its compliance with the Pool's loss control surveys and recommendations (referred to as schedule modifications). For the fiscal year ended June 30, 2011, gross earned premiums totaled $61,974,819, which were 2.6% less than the previous year.

Reinsurance premiums ceded in fiscal year 2011 totaled $6,697,727 and represents a 6.2% increase over the prior year due primarily to the increased cost of property reinsurance.

The Pool realized $8,537,870 in net investment income for fiscal year 2011, which is 0.7% more than the prior year. The Pool presents its investments at market value and records the unrealized gain or loss component of market value in the *Statement of Revenues, Expenses and Changes in Fund Equity* in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31. However, the Pool's Board of Directors has elected to present the change in unrealized investment gains/losses as a separate line item in the *Statement of Revenues, Expenses and Changes in Fund Equity* instead of including it in the net investment income line item. The reason for this alternate presentation is that when "unrealized" gains or losses in market value are combined with net investment income, the unrealized component severely distorts the Pool's operating income, which is based on actual or "realized" results. This misrepresentation of "real" operating income would prevent Pool management from properly serving its municipal-based membership in the competitive insurance market in which it operates. Change in unrealized investment market values is reported in the *Statement of Revenues, Expenses and Changes in Fund Equity* as required by GASB Statement No. 31 but is merely displayed as its own line item within the statement. Consequently, excess/deficit revenues over expenses equals the same amount as it would have been, had the change in unrealized market values been combined with net investment income in strict accordance with GASB Statement No. 31. The Pool's management believes this alternate presentation enhances financial disclosure to readers.

EXPENSES
FYE 6/30/2011



Total Expenses of $58,983,233 consisted of loss and loss adjustment expenses, policy acquisition costs and general and administrative ("overhead") costs.

Loss and loss adjustment expenses include actual claim payments made as well as adjustments for reserves on claims. Adjustments to case reserves are made as claims are developed and more information about potential loss amounts is known. Reserves for claims incurred but not reported ("IBNR"), as determined by independent actuaries, are also part of this expense category. Loss and loss adjustment expenses totaled $48,217,825 for the fiscal year, which is 0.4% more than the previous year.

Policy acquisition costs are expenses incurred by the Pool that are part of the cost of the policy and include agents' commissions, property inspections, property appraisals and workers' compensation audit fees. Policy acquisition costs totaled $5,274,457 for fiscal year 2011, which is 0.9% less than the prior year.

In providing insurance coverage and risk management services to its members, the Pool incurs overhead 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. For the fiscal year ended June 30, 2011, general and administrative expenses were $5,490,951, which represents an increase of 3.6% over the prior year. The increase is due primarily to the cost of new personnel and increases in the cost of employee benefits.

Capital Assets

Net capital assets totaled $1,539,587, which is a net increase of $411,622. Capital assets are comprised of Pool-owned land, building, vehicles, computers, software, and office furniture and equipment. The increase in capital assets is attributed primarily to the cost of developing software to convert the Pool's internal processes to a paperless environment as well as the development of a member relational database and an enhanced website to allow members secured access. The Pool had a gain of $18,942 from the disposal of certain capital assets during the year.

The Pool had no outstanding debt associated with capital assets.

Economic Factors

Much of the Pool's membership is facing challenging economic conditions across the state while managing their risks and potential losses. In establishing premium base rates for fiscal year 2012, the Pool's Board of Directors considered many factors, including an independent actuarial review of claim reserves and, consequently, approved a reduction in base rates for workers' compensation and certain lines of liability coverage for fiscal year 2012.

During the spring of 2011, many of the Pool's members sustained significant property damage due to flooding, high winds and hail during multiple storms. Such damage resulted in additional property and auto physical damage claims, for which the Pool is adequately insured through reinsurance coverage.

Requests for Information

This report is designed to provide an overview of the Pool's finances and to demonstrate the Pool's accountability. 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

Balance Sheets

June 30, 2011 and 2010

Assets

	2011	2010
Current assets:		
Cash and cash equivalents	$ 36,520,957	$ 47,616,389
Investments	173,145,277	160,245,524
Premiums receivable	7,940,445	11,800,855
Accrued interest and other receivables	2,587,375	1,935,574
Prepaid reinsurance	-	3,944,683
Reinsurance recoverable on paid losses	4,258,913	8,227,939
Deferred acquisition costs, net	629,522	749,770
Total current assets	225,082,489	234,520,734
Premises, property and equipment, net	1,539,587	1,127,965
	$ 226,622,076	$ 235,648,699

Liabilities and Fund Equity

	2011	2010
Current liabilities:		
Reserve for losses and loss adjustment expenses	$ 120,181,090	$ 112,568,949
Deferred premium revenue	6,178,094	9,422,697
Reserve for unearned premiums	11,927,927	13,461,690
Dividends payable	7,768,331	9,161,948
Accounts payable and accrued liabilities	1,775,644	1,891,264
Total liabilities	147,831,086	146,506,548
Fund equity:		
Invested in capital assets	1,539,587	1,127,965
Unrestricted:		
Appropriated for capitalization	40,000,000	40,000,000
Appropriated for member credits	4,101,212	7,521,554
Appropriated for property/casualty catastrophe	25,000,000	24,000,000
Operational appropriated fund equity	69,101,212	71,521,554
Appropriated for market value stabilization	8,150,191	16,492,632
Total fund equity	78,790,990	89,142,151
	$ 226,622,076	$ 235,648,699

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Revenues, Expenses, and Changes in Fund Equity

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Gross earned premiums	$ 61,974,819	$ 63,645,162
Reinsurance premiums ceded	(6,697,727)	(6,308,220)
Net earned premiums	55,277,092	57,336,942
Investment income, net	8,537,870	8,481,658
Other income	228,988	251,215
Total operating revenues	64,043,950	66,069,815
Operating expenses:		
Losses and loss adjustment expenses	48,217,825	48,014,933
Policy acquisition costs	5,274,457	5,321,947
General and administrative expenses	5,490,951	5,297,607
Total operating expenses	58,983,233	58,634,487
Operating income	5,060,717	7,435,328
Nonoperating revenues:		
Gain on disposal of capital assets	18,942	1,830
Change in fund equity before change in unrealized gains (losses) on investments	5,079,659	7,437,158
Change in net unrealized gains (losses) on investments	(7,930,820)	4,282,838
Total change in fund equity	(2,851,161)	11,719,996
Fund equity, beginning of year	89,142,151	87,122,155
Dividend declared	(7,500,000)	(9,700,000)
Fund equity, end of year	$ 78,790,990	$ 89,142,151

See accompanying notes to the financial statements.

TENNESSEE MUNICIPAL LEAGUE RISK MANAGEMENT POOL

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash receipts:		
Premiums received	$ 53,181,801	$ 56,350,906
Interest received	8,090,909	9,677,708
Special rating plan reimbursements	3,508,961	3,601,712
Reinsurance recoveries received	12,221,169	2,022,676
Claims recoveries	953,321	1,023,851
Other cash receipts	573,924	698,401
Total cash receipts	78,530,085	73,375,254
Cash disbursements:		
Claim payments	49,891,221	51,957,080
General and administrative	7,421,890	7,939,140
Reinsurance premiums	2,685,656	10,713,739
Claims administration	3,463,866	3,454,829
Policy acquisition	4,940,263	4,993,294
Total cash disbursements	68,402,896	79,058,082
Net cash provided (used) by operating activities	10,127,189	(5,682,828)
Cash flows from capital activities:		
Purchases of premises, property and equipment	(586,393)	(36,901)
Sales of premises, property and equipment	16,974	25,850
Net cash used in capital activities	(569,419)	(11,051)
Cash flows from investing activities:		
Purchases of investments	(169,622,733)	(113,372,316)
Sales and maturities of investments	148,969,531	106,135,661
Net cash used by investing activities	(20,653,202)	(7,236,655)
Net decrease in cash and cash equivalents	(11,095,432)	(12,930,534)
Cash and cash equivalents, beginning of year	47,616,389	60,546,923
Cash and cash equivalents, end of year	$ 36,520,957	$ 47,616,389

See accompanying notes to the financial statements.

Statements of Cash Flows (continued)

Years ended June 30, 2011 and 2010

	2011	2010
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	$ 5,060,717	$ 7,435,328
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	176,739	193,525
Net accretion of discount on investments	(6,547)	(6,676)
(Gain) loss on sale of investments	(170,824)	151,979
(Increase) decrease in premiums receivable	3,860,410	(8,084,912)
(Increase) decrease in reinsurance recoverable on paid losses	3,969,026	(6,246,451)
(Increase) decrease in deferred acquisition cost	120,248	(237,540)
(Increase) decrease in accrued interest and other receivables	(651,801)	398,437
(Increase) decrease in prepaid reinsurance	3,944,683	(3,944,683)
Increase in reserve for losses and loss adjustment expenses	7,612,141	5,299,684
Increase (decrease) in deferred premium revenue	(3,244,603)	8,279,061
Increase (decrease) in reserve for unearned premiums	(1,533,763)	470,484
Dividend credits	(8,893,617)	(9,078,314)
Decrease in accounts payable and accrued liabilities	(115,620)	(312,750)
Net cash provided (used) by operating activities	$ 10,127,189	$ (5,682,828)

See accompanying notes to the financial statements.

(1) Nature of operations

Tennessee Municipal League Risk Management Pool (the "Pool"), a nonprofit corporation, provides liability, property and workers' compensation coverage for certain governmental entities in the State of Tennessee. Liability coverage provided by the Pool includes comprehensive general liability, comprehensive automobile liability, law enforcement, automobile physical damage and public officials' error and omissions. Property coverage includes all risk on real property, personal property, business interruption, electronic data processing systems, extra expense, accounts receivable, valuable papers, rental income, property in transit, demolition and increased cost of construction, subject to specified sub-limits. Workers' compensation coverage conforms to the workers' compensation law of Tennessee excluding the provisions of the state law dealing with nonoccupational disability benefits.

Pool membership currently consists of 495 governmental entities. The Pool provides risk management services with emphasis on loss control as part of the coverage. The Pool also provides claims management services and insurance above certain self-insured levels to participating entities. Participants in these services are, for the most part, not general policyholders and the Pool receives fees and premiums, respectively, for claims management services and retention-type contracts.

(2) Summary of significant accounting policies

The financial statements of the Pool have been prepared in conformity with accounting principles generally accepted in the United States of America. In accordance with Government Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Pool elected to apply all Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(a) Revenues

Revenues from net earned premiums, investment income, and other miscellaneous income are reported as operating revenues. Investment income, consistent with prior years, is reported as operating revenue because it is used extensively in the operations of the Pool. Capital transactions are reported as non-operating revenues. Loss and loss adjustment expenses, policy acquisition costs, and general and administrative expenses are reported as operating expenses.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments with original maturities of three months or less. Money market funds, which are held by third-party investment managers, are classified as investments.

(c) Investments

The Pool carries its investments in securities at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The changes in unrealized gains and losses on investments for the years ended June 30, 2011 and 2010 are reflected as separate components in the statement of revenues, expenses and changes in fund equity. Realized gains and losses on sales of investments are recognized based on the specific identification method at the date of sale. Interest income is recognized when earned.

(d) Deferred acquisition costs

Policy acquisition costs consist of commissions incurred at policy or contract issue date. These costs vary with, and are primarily related to, the acquisition of business and are deferred and amortized over the period in which the related premiums are earned.

(e) Premises, property and equipment

Premises, property and equipment are carried at original cost less accumulated depreciation and consist of premises and improvements and furniture, fixtures and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets ranging from 3 to 40 years. The Pool's policy is to capitalize assets with a cost of $1,000 or more.

(f) Reserve for losses and loss adjustment expenses

The reserve for losses and loss adjustment expenses is estimated as losses are incurred. The reserve consists of amounts for unpaid reported losses, net of salvage and subrogation and reinsurance recoveries, and estimates for incurred but not reported ("IBNR") losses. The estimates for IBNR were developed by management based on a consulting actuarial evaluation of the Pool's expected loss experience with consideration given to the Pool's historical loss experience and general industry information. Insurance liabilities are necessarily based on estimates and the ultimate liability may vary from such estimates. Adjustments to these estimates are reflected in expenses as determined.

(g) Risk management and insurance arrangements

In addition to the loss related to operational risks, the Pool is exposed to various risk of loss related to theft of, damage to, and destruction of assets; illness or injuries to employees; and natural disasters. The Pool carries commercial insurance for these additional types of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past five fiscal years.

(h) Recognition of premium

Premium is earned on a pro rata basis over the term of the policy, which is generally one year. Unearned premium represents the portion of premium applicable to the unexpired portion of policies in force. Deferred premium revenue represents premium billed in the current fiscal year for policies becoming effective in the next fiscal year.

(i) Income taxes

The Pool has received a favorable determination letter from the Internal Revenue Service and is exempt from income taxes under Section 115 of the Internal Revenue Code.

(j) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(k) Events occurring after reporting date

The Pool has evaluated events and transactions that occurred between June 30, 2011 and October 14, 2011, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Investments

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires certain investments to be reported at fair value in the balance sheet, with the change in fair value reported as a component of investment income in the statement of revenues, expenses, and changes in fund equity. The Pool has reported the changes in fair value in the statement of revenues, expenses, and changes in fund equity, but has elected to show the change after operating income, as opposed to being included in investment income. The Pool's decision to show this line separately is based on being able to report to the membership the Pool's operational status before recording market value fluctuations in investment holdings. After reporting operating income and nonoperating revenues, the change in fair value of investments is reported, with a final change in fund equity reported in accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

The Board of Directors has authorized management to invest in obligations of the U.S. Treasury and U.S. governmental agencies, mortgage related securities, the State of Tennessee Local Government Investment Pool ("LGIP"), short-term investment funds, repurchase agreements, corporate bonds, municipal bonds, and equity securities. The average quality of the securities must be rated at or above AA, as defined by Moody, Standard and Poor, or an equivalent rating agency.

The Pool's investments at June 30, 2011 are categorized below to give an indication of the level of risk assumed by the Pool. Category 1 includes investments that are insured or registered or for which the securities are held by the Pool or its agent in the Pool's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker or dealer's agent, in its trust department, in the Pool's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer's agent, in its trust department, but not in the Pool's name.

	Category 1	Category 2	Category 3	Fair Value
U.S. Government Securities	$ 168,359,792	$ -	$ -	$ 168,359,792
Corporate bonds	4,785,485	-	-	4,785,485
	$ 173,145,277	$ -	$ -	$ 173,145,277

The Pool's cash and cash equivalent bank balances totaling $38,455,668 at June 30, 2011 (outstanding checks are subtracted from bank balances to determine a carrying value of $36,520,957) represent a variety of time deposits with banks and include bank balances that are insured or collateralized with securities held by the Pool or by its agent in the Pool's name.

Net realized gains (losses) from the sale of investments were $170,824 and $(151,979) for the fiscal years ended June 30, 2011 and 2010, respectively. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

(4) Premises, property and equipment

Premises, property and equipment are comprised of:

	2011	2010
Buildings and improvements	$ 1,970,174	$ 2,093,537
Furniture, fixtures and equipment	1,913,064	1,915,395
	3,883,238	4,008,932
Accumulated depreciation	(2,343,651)	(2,880,967)
	$ 1,539,587	$ 1,127,965

(5) Reserve for losses and loss adjustment expenses

Reserve for losses and loss adjustment expenses is comprised of:

	2011	2010
Reserve for reported claims	$ 78,647,218	$ 71,063,501
Reserve for unallocated loss adjustment expenses	54,342,731	52,761,345
Reserve for incurred but not reported claims	7,024,976	6,621,982
Less: reinsurance recoverable	(19,833,835)	(17,877,879)
Total reserve for losses and loss adjustment expenses	$ 120,181,090	$ 112,568,949

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.

	2011	2010
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 112,568,949	$ 107,269,265
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fiscal year	50,641,219	46,827,211
Decrease in provision for insured events of prior fiscal years	(5,731,680)	(2,121,213)
Unallocated claim adjustment expenses	3,308,286	3,308,935
Total incurred claims and claim adjustments expenses	48,217,825	48,014,933
Reinsurance:		
Reinsurance recoveries received attributable to insured events of prior fiscal years	12,187,520	2,022,676
Change in reinsurance recoverable on paid losses	(3,969,026)	6,246,451
Total reinsurance	8,218,494	8,269,127
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	14,170,671	11,960,924
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	31,345,224	35,714,517
Unallocated claim adjustment expenses	3,308,283	3,308,935
Total payments	48,824,178	50,984,376
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 120,181,090	$ 112,568,949

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, 2011 and 2010. 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 years ended June 30, 2011 and 2010 were as follows:

	2011	2010
Premiums written	$ 60,441,056	$ 64,115,646
Premiums ceded	(6,697,727)	(6,308,220)
Net premiums written	$ 53,743,329	$ 57,807,426

The Pool limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with various reinsurance companies. Ceded reinsurance is treated as the risk and liability of the assuming companies. In general, such reinsurance contracts limit the Pool's retention on individual occurrences as follows: workers' compensation - $750,000; general liability, personal injury liability, errors and omissions liability and auto liability - $700,000; property (including auto physical damage) - $300,000; and crime coverage - $300,000.

This reinsurance coverage does not relieve the Pool from its obligations to its members. Failure of the reinsurer to honor its obligations could result in losses to the Pool and its members. Accordingly, the Pool evaluates the financial condition of any reinsurers to minimize its losses because of potential reinsurer insolvency.

Estimated amounts recoverable from reinsurers of $19,833,835 and $17,877,879 have been deducted from the reserve for losses and loss adjustment expenses (Note 5) at June 30, 2011 and 2010. The Pool remains contingently liable for reinsured losses in the event its reinsurers do not meet their contractual obligations.

(7) Fund equity

The Pool appropriates, as directed by its Board of Directors, its fund equity into separate categories that include capitalization, member credits, property/casualty catastrophe and market value stabilization. The Board of Directors may, at its discretion, adjust the amounts of appropriated fund equity.

During the year ended June 30, 2011, the Board declared a $7,500,000 dividend, to be paid in the form of renewal credits issued for policies with effective dates of July 1, 2011 through June 30, 2012. During the year ended June 30, 2010, the Board declared a $9,700,000 dividend, which was paid in the form of renewal credits issued for policies with effective dates of July 1, 2010 through June 30, 2011.

(8) Related party transactions

The formation of the Pool was sponsored by the Tennessee Municipal League (the "League") and is governed by a Board whose members are approved by the Board of the League. The elected Board members consist of elected officials and city managers from cities that are members of the Pool. TML receives an annual sponsorship fee from the Pool of 1.90% of net earned premiums, subject to a cap that is based on a percentage of the prior year's fee. Beginning in fiscal year 2011, the cap increased from 3.25% to 4.00%. In 2011 and 2010, these fees were $1,088,950 and $888,829, respectively.

(9) Employee benefit plan

***Plan Description*--Employees of the Pool are members of the Political Subdivision Pension Plan ("PSPP"), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System ("TCRS"). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* ("TCA"). State statutes are amended by the Tennessee General Assembly. Political subdivisions, such as the Pool, participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.**

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/PS/.

***Funding Policy*--The Pool has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.**

The Pool is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 15.49% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Pool is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost--For the years ending June 30, 2011 and 2010, the Pool's annual pension cost of $335,696 and $470,421, respectively, to TCRS was equal to the Pool's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The Pool's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 12 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	$ 335,696	100.00 %	$ -
June 30, 2010	$ 470,421	100.00 %	$ -
June 30, 2009	$ 406,457	100.00 %	$ -

Funded Status and Funding Progress-As of July 1, 2009, the most recent actuarial valuation date, the plan was 78.38% percent funded. The actuarial accrued liability for benefits was $5.7 million, and the actuarial value of assets was $4.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of $1 million. The covered payroll (annual payroll of active employees covered by the plan) was $3 million, and the ratio of the UAAL to the covered payroll was 48.02% percent.

The schedule of funding progress, presented as required by supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Funding Progress (Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2009	$ 4,444	$ 5,669	$ 1,225	78.38%	$ 2,552	48.02%
July 1, 2007	$ 3,538	$ 4,658	$ 1,120	75.96%	$ 2,105	53.21%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method went into effect during the year of the 2007 actuarial valuation; therefore, only the two most recent valuations are presented.

(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.

Tennessee Municipal League Risk Management Pool
Ten-Year Claims Development Information

Year ended June 30, 2011

The table below illustrates how the Pool's earned revenues (net of reinsurance) and investment income compare to related costs of losses (net of losses assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the last ten fiscal years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Pool including overhead and claims expense not allocable to individual claims. (3) This line shows the Pool's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (policy year). (4) This section of 10 rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of 10 rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest reestimated incurred claims amount (line 5) to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less that originally estimated. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

	June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Net earned required contribution and investment revenues	43,200,980	49,171,296	53,533,626	58,819,885	65,485,896	69,537,278	71,036,536	67,407,104	66,071,645	64,062,890
2. Unallocated expenses	9,552,082	10,948,849	12,123,842	11,676,230	12,309,907	12,287,325	14,147,927	13,462,216	13,928,489	14,073,693
3. Estimated incurred claims and expenses, end of accident year	36,837,756	42,209,752	40,425,023	40,230,398	41,404,943	42,571,480	44,357,938	43,738,304	46,827,211	50,641,219
4. Net Paid (cumulative) as of:										
End of accident year	11,615,776	12,958,472	12,074,831	10,780,705	9,692,686	11,044,685	10,682,950	10,383,927	11,960,924	14,170,671
One year later	20,154,563	23,679,805	22,100,069	18,507,560	18,007,390	24,071,928	22,178,806	22,503,451	21,946,111	
Two years later	24,345,557	29,554,861	27,601,383	23,212,693	21,031,854	27,493,192	28,059,198	26,581,822		
Three years later	26,845,408	32,607,005	32,338,496	25,469,618	24,391,517	32,024,370	30,762,829			
Four years later	29,226,182	34,441,752	33,520,916	26,851,678	25,083,252	34,349,210				
Five years later	30,087,784	35,290,471	34,677,038	28,153,118	26,522,247					
Six years later	30,652,369	35,682,110	35,536,205	28,962,045						
Seven years later	30,919,478	36,060,017	36,472,359							
Eight years later	31,145,794	36,264,698								
Nine years later	31,273,656									

Tennessee Municipal League Risk Management Pool
Ten-Year Claims Development Information (continued)

Year ended June 30, 2011

	June 30,									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
5. Reestimated incurred claims and expenses:										
End of accident year	$ 36,837,756	$ 42,209,752	$ 40,425,023	$ 40,230,398	$ 41,404,943	$ 42,571,480	$ 44,357,938	$ 43,738,304	$ 46,827,211	$ 50,641,219
One year later	36,102,549	41,215,595	39,543,774	38,308,079	37,576,804	44,052,737	42,734,103	42,588,900	$ 45,209,547	
Two years later	33,715,854	40,537,529	41,012,991	35,109,231	33,390,710	45,514,860	42,075,676	40,180,438		
Three years later	33,717,999	39,841,028	43,766,228	34,479,011	31,890,264	47,274,092	41,797,919			
Four years later	34,250,550	42,148,938	44,221,670	33,684,386	31,694,825	47,681,591				
Five years later	34,470,201	41,970,549	42,914,034	33,481,347	33,230,571					
Six years later	35,468,487	41,808,246	42,576,476	33,403,425						
Seven years later	36,119,116	41,814,689	42,911,150							
Eight years later	36,612,081	41,576,280								
Nine years later	36,629,824									
6. Increase (decrease) in estimated incurred claims and expenses from end of accident year	(207,932)	(633,472)	2,486,127	(6,826,973)	(8,174,372)	5,110,111	(2,560,019)	(3,557,866)	(1,617,664)	

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2011

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 37,520,563	$ 73,023,916	$ 2,024,470	$ 112,568,949
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	20,650,664	25,203,887	4,786,668	50,641,219
Increase (decrease) in provision for insured events of prior fiscal years	(4,828,461)	(1,324,349)	421,130	(5,731,680)
Unallocated claims adjustment expenses	1,371,617	1,398,728	537,941	3,308,286
Total incurred claims and claim adjustment expenses	17,193,820	25,278,266	5,745,739	48,217,825
Reinsurance:				
Reinsurance recoveries received attributable to insured events of prior fiscal years	673,679	424,910	11,088,931	12,187,520
Change in reinsurance recoverable on paid losses	277,533	(15,100)	(4,231,459)	(3,969,026)
Total reinsurance	951,212	409,810	6,857,472	8,218,494
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	4,997,188	6,404,041	2,769,442	14,170,671
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,408,267	12,313,664	8,623,293	31,345,224
Unallocated claim adjustment expenses	1,371,617	1,398,725	537,941	3,308,283
Total payments	16,777,072	20,116,430	11,930,676	48,824,178
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 38,888,523	$ 78,595,562	$ 2,697,005	$ 120,181,090

TML RISK MANAGEMENT POOL

Reconciliation of Claims Liabilities by Type of Contract

Year ended June 30, 2010

	Liability	Workers' Compensation	Property	Total
Reserve for losses and loss adjustment expenses at beginning of fiscal year	$ 36,617,652	$ 67,861,660	$ 2,789,953	$ 107,269,265
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year	19,083,378	24,249,985	3,493,848	46,827,211
Decrease in provision for insured events of prior fiscal years	(4,211,924)	1,198,970	891,741	(2,121,213)
Unallocated claims adjustment expenses	1,331,563	1,469,480	507,892	3,308,935
Total incurred claims and claim adjustment expenses	16,203,017	26,918,435	4,893,481	48,014,933
Reinsurance:				
Reinsurance recoveries received attributable to insured events of current fiscal year	-	-	-	-
Reinsurance recoveries received attributable to insured events of prior fiscal years	446,879	663,381	912,416	2,022,676
Change in reinsurance recoverable on paid losses	236,325	6,491	6,003,635	6,246,451
Total reinsurance	683,204	669,872	6,916,051	8,269,127
Payments:				
Claims and claim adjustment expenses attributable to insured events of current fiscal year	3,929,684	5,906,448	2,124,792	11,960,924
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	10,722,063	15,050,123	9,942,331	35,714,517
Unallocated claim adjustment expenses	1,331,563	1,469,480	507,892	3,308,935
Total payments	15,983,310	22,426,051	12,575,015	50,984,376
Reserve for losses and loss adjustment expenses at end of fiscal year	$ 37,520,563	$ 73,023,916	$ 2,024,470	$ 112,568,949

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Tennessee Municipal League Risk Management Pool

We have audited the financial statements of Tennessee Municipal League Risk Management Pool (the "Pool") as of and for the year ended June 30, 2011 and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Tennessee Municipal League Risk Management Pool's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Pool's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control over financial reporting.

A 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 reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tennessee Municipal League Risk Management Pool's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and the Comptroller of the Treasury of the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Brentwood, Tennessee
October 14, 2011