

**Tennessee Risk Management Trust**  
**October 26, 2007**

Trustees of the Tennessee Risk Management Trust met October 26, 2007 at Sheraton Music City Hotel. Attending the meeting were: Chairman Mark Farley, Vice-Chairman Robert Stidham, trustees Billy Joe Evans, Dawn Robinson, Larry Griffin, Joe Treece; program manager John Evans of Next Generation Underwriters; Buck Wiley of Merrill Lynch Investments; Lisa Dennison of By The Number Actuarial Consulting, Inc.; Ron Connor (by teleconference) of Cole and Reed Certified Public Accountants; staff members: John Wilburn Trust Administrator; and Alice Carnahan Finance Specialist. Trustees David Jones, Tony Tucker and Frank Lacey were unavailable to attend.

Chairman Mark Farley called the meeting to order at 1:32 p.m.

Billy Joe Evans gave the invocation.

Chairman Farley called for the election of officers.

**EVANS/ROBINSON:** Motion to retain current officers, Mark Farley, Chairman and Robert Stidham, Vice Chairman. **Motion Carried Unanimously.**

Chairman Farley asked for any revisions in the consent agenda.

**ROBINSON/GRIFFIN:** Motion to approve the consent agenda, which included the May 11, 2007 minutes. **Motion Carried Unanimously.**

**Trust Administrator's Preliminary Remarks.** Mr. Wilburn reviewed the areas of discussion for the meeting, involving an actuarial, investment and auditor report. Mr. John Evans will be reporting on excess coverage, underwriting and marketing. There will be discussion concerning the options open for office space for the trust in the near future. Mr. Wilburn reviewed claims of interest.

**Actuarial Report.** Ms. Dennison, of By the Numbers Actuarial Consulting discussed the actuarial report and gave a detailed discussion of how our surplus can be affected.

Based on the estimates from the actuarial report, TNRMT-WCP's income from 7/1/06-07 underwritings is \$150,000. Including investment income of approximately \$1,800,000, it is expected that surplus will increase \$1,950,000 from policies written 7/1/06-07.

Ms. Dennison pointed out that based on the audited financials and the actuarial report; operating expenses for the Workers Compensation program are \$0.23 of every one dollar of premium. She informed the board that, "The expense ratio of the Trust is considerably lower than the industry average for workers compensation self-insured groups of 30%."

Ms. Dennison further indicated, "The typical workers compensation group breaks even on an underwriting basis and relies on investment income to contribute to surplus" and according to figures provided this program is following that model.

She explained that projected losses for 07-08 policy year are based on WC experience in the five most recent periods adjusted for IBNR, changes in the TN workers compensation rates, claim cost inflation and increased payroll would range from \$12.1 million to \$14.8 million.

The 07-08 projected losses for liability/property, based on current retention levels, range from \$9.4 million to \$14.5 million.

Ms. Dennison reviewed various detailed graphs and analysis concerning both programs to show how each has performed over the provided policy periods.

**EVANS/ROBINSON:** Motion to accept actuarial report as presented. **Motion Carried Unanimously.**

**Audit Report.** Mr. Ron Connor, of Cole & Reed Certified Public Accountants gave his presentation by conference call. Mr. Connor stated this was the second year for his firm to audit the Trust and the audit this year went very smoothly. He believed that the transition and the consideration that Trust made for some of the recommendations that were made last year were taken to heart. The trust did a very good job in implementing the recommendations and this can be seen in the audit report. The accounting records were supplied in great order and in a timely manner.

In conclusion, Mr. Conner stated that "We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses."

**STIDHAM/ROBINSON:** Motion to accept audit report as presented. **Motion Carried Unanimously.**

**Adjourned for break: 2:50 p.m.**

**Resumed meeting: 3:10 p.m.**

Ms. Dennison did not return to the meeting after the break.

**Investment Report.** Mr. Buck Wiley, of Merrill Lynch presented an analysis of the financials for January 1-September 30, 2007 he stated the Trust began the year with \$38,379,210.00 and as of September 30<sup>th</sup> are holding \$40,176,665.00, an increase of \$1,797,455.00 or 4.68%. The portfolio has realized one change over the year. There was a change of a manager, PIMCO that managed the TIPS section of the portfolio. The change was due to a notification from the Attorney General of Tennessee that made it illegal for the Trust to hold any investments in mutual funds.

The portfolio position going forward is roughly 50% Lord Abbett which is a very traditional mix (immediate grouping), 25% very short (most conservative) and 25% TIPS (inflation protection). He believes the Trust has a good mix for the next 12 months and recommends staying with the current investment allocations.

Mr. Stidham questioned the amount of the fees for PIMCO and BlackRock. Mr. Wiley stated that the fees going forward would be reflected under BlackRock and they would be charging the equivalent of PIMCO.

**TREECE/GRIFFIN:** Motion to accept report and stay on the same investment course. **Motion Carried Unanimously**

**Financial Report.** Mr. Wilburn, Trust Administrator presented the financial report as of September 30, 2007. The total revenue reflecting \$7,947,930.94 (less reinsurance costs), he also review some of the expenses individually particularly office maintenance. He reviewed insurance costs along with services and fees. All of which reflects a surplus of \$19,436,506.89.

Ms. Robinson asked for a review of vehicles owned by the Trust.

**EVANS/STIDHAM:** Motion to approve financials as reported for 7/1-9/30/07  
**Motion Carried Unanimously**

Mr. Wiley left the meeting at this time.

**Building Update.** Mr. Wilburn reviewed his search for a new office location. He stated that he has been unable to find anything for sale in the area of interest for the size that would be required which is essentially 4,000 square feet for a stand alone building. He suggested that the Trust lease an office space for 5 years and continue to look for property to build big enough to rent out some space though a property management company.

Mr. Stidham asked what the rent would be for a year. Mr. Wilburn stated that most locations require a five year lease, costing anywhere from \$17.50 to \$21.50 a foot.

After a review of current yearly building upkeep and the projected yearly income from the money realized from the sale of the current building, it was decided to rent and to continue to look for property to buy.

**EVANS/ROBINSON:** Motion to give Mr. Wilburn the authority to enter into a lease up to 5 years, the total cost prorated not to exceed \$100,000.00 a year, plus or minus 10%, including the build out fees. **Motion Carried Unanimously**

**Budget Proposal.** Mr. Wilburn stated the budget proposal was based on the leasing of space. The trustees were presented with the detail budget proposal with an accompanying explanation of revenue, expenses and capital expenditures.

**ROBINSON/STIDHAM:** Motion to accept proposed budget as presented.  
**Motion Carried Unanimously**

**Marketing Report.** Mr. Evans referred to a letter provided to the trustees. He stated the Trust did gain three new schools, three new counties, and one utility district. Also, the 2 million dividends given to its members were well received. The excellent product, services and the strength of the trust itself is a very strong point with its members.

Mr. Evans expressed his sincere appreciation of the trust boards' trust in him and this program.

**Membership-2007-2008.** The board was provided a membership list of the Trust for the 2007-2008 policy year. The listing reflected 98 schools and 56 government entities.

**EVANS/TREECE:** Motion to approve presented 2007-2008 membership.  
**Motion Carried Unanimously**

**Policy Review.** Mr. Wilburn stated that the policies have to be approved annually. He reviewed two changes being proposed. Under the Section 1000 Board Operations, sub section 1030 Selection of Trustees a sentence was added "In the event there is only one nominee, the nominee shall be elected by acclamation."

Under Section 2200 Employee Benefits, sub section 2210 Group Medical and Dental, request was made for the removal of the two existing paragraphs and replace with "The Trust will provide medical/dental coverage for full time employees, and will also fund a Health Reimbursement Account for the first \$1,000 of the deductible for the employee or \$2,000 for a family plan. If the employee chooses other coverage options, the increased

premium is the responsibility of the employee. The carrier will be selected by the Trust Administrator.”

Mr. Griffin had to leave the meeting.

**EVANS/TREECE:** Motion to approve all policies as presented.  
**Motion Carried Unanimously**

**Excess Coverage Update.** Mr. Evans stated that with the Tort Liability limits going to \$700,000 per occurrence and the cost of legal fees it was discussed by the Trust administration that our coverage needed to be reviewed. After discussion with our excess liability coverage insurers, “clash coverage” was offered, with the annual cost of \$112,000.00 to the Trust. This would assist the trust in paying the limits and legal fees on an occurrence. The limits of clash coverage were revealed to the board for their review.

**TREECE/ROBINSON:** Motion to purchase the “clash coverage”.  
**Motion Carried Unanimously**

**Underwriting and Financial Analysis.** Mr. Wilburn stated that TNRMT ended the fiscal year in the best financial position in its history with a record surplus of approximately \$20.5. He reviewed several graphs which depicted the trust financial history over the past five years.

Chairman Mark Farley stated Mr. Wilburn is celebrating his anniversary as Trust Administrator that the rest of the staff had been given a 5% salary increase and felt that Wilburn should also be considered for a salary increase

**STIDHAM/EVANS:** Motion to increase the Trust Administrator salary by \$5000.00, effective November 1, 2008.  
**Motion Carried Unanimously**

Mr. Farley requested that at the February meeting we include time on the agenda for a discussion of the development of a benefit package for the administrator, along with an evaluation process as well as the development of an audit committee. These would be developed before the October 2008 meeting.

Next meeting date set Monday, February 25, 2008.

Meeting adjourned 5:00 pm.

Mark Farley  
Mark Farley, Trust Chairman

John Wilburn 2-25-08  
John Wilburn, Trust Administrator