



ADMINISTRATION & FINANCE COMMITTEE
Meeting Minutes

Wednesday, May 25, 2016
IRMA Office
9:30 a.m.

PRESENT: Jessica Frances, Chair
Eric Helm
Lynn McCammon
Joe Mangan
Larry Noller

Gerald Sagona
Darrell Langlois
Jason Bielawski
Barry Krumstok

ALSO PRESENT: Margo Ely
Mary Henzler
Brian Goding, Marquette

Rita Boserup
Telly Panousis
Fred Fischer, RSM US LLP

I. CALL TO ORDER

Chair Frances called the meeting to order at 9:30 a.m. Roll was taken and a quorum declared.

II. APPROVAL OF MINUTES: February 11, 2016

Frances asked if there were any changes or additions to the minutes. Hearing none, a motion was made by McCammon and seconded by Helm to approve the minutes of February 11, 2016. A voice vote was called and the motion carried, with one abstention by Krumstok.

III. FINANCIAL REPORTS

- A. IRMA Financial Statements as of April 30, 2016
- B. IRMA Investment Portfolio as of April 30, 2016
- C. IRMA Investment Portfolio Year-End 2016
- D. IRMA Payables for the period January 1, 2016 - April 30, 2016

Frances asked if anyone had any questions on the Financial Reports. Hearing none, a motion was made by Krumstok and seconded by Helm to approve the financial reports as presented. A voice vote was called and the motion carried.

IV. ACTUARIAL REPORT AS OF 12/31/15

A motion was made by Krumstok and seconded by Helm to approve the Actuarial Report as of December 31, 2015. A voice vote was called and the motion carried.

V. 2015 ANNUAL FINANCIAL REPORT (FISCHER)

Fischer stated that this was his first time with IRMA although the firm has been servicing IRMA for a number of years. Fischer commented that he was asked to step in to give a fresh look from a partner perspective in taking over as the engagement partner. Fischer stated that he had over twenty-five years serving the insurance industry and he serves

and helps clients meet their financial goals working with property and health insurers, large agents and brokers, etc. Fischer stated that this all about helping you to discharge your fiduciary responsibility for the financial oversight of the company from a governance standpoint. Fischer stated that the purpose of the audit engagement is to opine on the presentation of the financial statements.

Fischer referred to the Financial Statements document with the Independent Auditor's Report included. Page one of the document is RSM US LLC's independent Auditor's Report in draft form. The only item that remains outstanding as we begin today was to have Management's Letter of Representation, which we have now. Fischer asked Ely and Boserup from a subsequent events standpoint as we are here today, are there any subsequent events that have occurred that would lead you to believe that there is information that the amounts recorded in the financial statements for 2015, particularly the estimates, should be changed or altered. Both Ely and Boserup stated that they didn't know of any events. Fischer asked if there are any kind of material transactions that have occurred, commitments or legal liabilities that should be disclosed that haven't been disclosed. Both Ely and Boserup stated that there haven't been. With that, Fisher stated they are ready to issue their opinion upon acceptance by the committee. Fischer reminded everyone that in paragraph two of the opinion, management is responsible for the preparation and fair presentation of the financial statements and it is the auditor's job to opine on the appropriateness of that presentation. Fischer stated that it is their opinion that the statements you are looking at do present fairly in all material respects in relation to the company.

Fischer pointed out the paragraph on page two called "Emphasis of Matter." They are pointing out that this year there were some new accounting pronouncements relating to the presentation and accounting for GASB 68, regarding defined benefit pension plans. One of the differences in comparing last year's report with this year's, is that a single year's presentation that was chosen by management rather than a comparative year, primarily from a cost benefit area. In order to present comparative numbers, it would have required more work on the part of the company. It was our counsel to the company that wasn't very cost effective or a benefit to the company.

Fischer noted that there are two supplementary disclosures to this report. Those are required by the pension standards that are laid out in Note 10 of the report.

Fischer asked everyone to turn their attention to the second document -- the Report to the Administration and Finance Committee. Fischer went through some of the highlights of the audit process. One of the things that this report talks about is the company did record the pension obligation to make the disclosures required under the Governmental Accounting Standard Board No. 68. Those disclosures are very expansive and some might say that IRMA is running a pension plan, because you have five pages of disclosures in this report. All of them are required by the standards. Fischer stated that one thing to think about in a futuristic standpoint for the committee is to this point the company, in allocating things out to the members, has basically been recording in the income statement the cash that has been contributed, so it has largely been on a cash basis. That gets allocated out through your members' equity statements in that fashion. This new accounting standard draws a distinction between an accrual basis estimate of what that obligation is as the employees are working being different from the cash that is contributed. There are lot of things that are based on estimates. Fischer stated that the committee should work with management to make sure that you

are comfortable with the methods that are being used to allocate that, because at any point in time, the only thing that you really know is that the estimate is not going to be 100% on the mark. It's going to evolve and change going forward. The way the accounting standard does that is that as actual results differ from the estimate, it is going to park an asset on the asset side of your report and you will see that in a deferred charge for \$669,000 on your balance sheet. What it does then in order to make it so your income statement is kind of smooth, it will allocate that over a five year period and then spread it into the income statement. In your methodology you would allocate those future changes to the members on a go forward basis. Fischer stated that you are really used to doing more retrospective -- rolling claims into the years that they happen. Fischer stated that this is something that you will want to look at.

Boserup commented that she had distributed a Members' Reserve sheet. There is a GASB 68 adjustment column on the sheet. Boserup explained that what they ended up doing since this is past pension obligations, we don't want to hit current the 2015 members with the entire amount. So, we went back to 1979 through 2014, adding up every member's contribution and then dividing each entity by the whole to find out what percentage they are of the 35 years of contributions. That is how the amounts were allocated out for the GASB 68 adjustment. Boserup stated that this is probably how we will be doing this in the future.

Frances asked about those members who are withdrawn who have no reserve with IRMA. Boserup stated that as past members were allocated a portion of this and it actually increases their reserve balance. As long as they have years open, there is activity in those years and we are hoping that losses will drop off, therefore increasing the members' balances and it will bring it back up to a positive amount. If all the years are closed and they still have a negative amount, we are supposed to go and try and collect the balance from them.

Fischer stated that one of the other areas of audit emphasis lies in the area of the investment portfolio. Fischer stated that they did traditional testing on this and everything came in very close to what they are priced at in your financial record. From a qualitative standpoint, one of the things that Fischer worked with the company to do was to look at the disclosures that are in the financial statements. The real purpose of those disclosures is to help a reader to identify areas of risk in terms of how that portfolio is allocated. Fischer stated that one of the things that he observed as he looked at it was in the area of the fixed income investments. The company has a fixed income allocation and everything in the portfolio is being handled according to the company's investment policy. One of the things observed is that the fixed income securities for this company are through an investment bond mutual fund as opposed to holding actual fixed income securities. This is a little bit different from other property and casualty insurance companies and the other risk pools that he usually sees. We made some changes to the disclosures to make it clear to the reader that they are not actually fixed income securities, but funds that invest in fixed income securities. The other thing about securities going forward, there is a new accounting standard that is going to be effective for the company in the 2016 year. That disclosure essentially asks the company to provide greater levels of disclosure for about the way that the company values its securities. Given that the company has a couple of investments in some alternative investments, primarily like the loan fund and some of the hedge funds, those types of securities are going to take a little bit of work. Fischer suggested that the Board and

management work with Marquette and look at that early rather than wait until the audit next year.

Fischer stated that the only audit adjustments that were made to the trial balance as we began the audit were related to the implementation of this new pension standard. That was a difficult area and a first time through. There are no uncorrected misstatements. We had no disagreements with management. We had access to everything that we wanted. We had full cooperation in terms of the process that we went through.

Fischer reported that in terms of controls, when we do a financial statement audit, we do not opine on the control structure. What we do is we understand the control structure and test certain aspects of it where it can impact the detail testing that we do to come to the end goal of saying that the numbers that are recorded are appropriate. Along the way, they do find things that they want to bring to your attention. We have a separate letter that is in your packet, which is Exhibit A. This represents our control letter to management. There are two things in this letter that we consider to be significant deficiencies in the controls structure. These are actually the same things that were identified last year. The first one deals with information technology logical access controls -- having access to do things in the IT system. Essentially, there are people who have access to do things that may not be part of their normal, day-to-day job responsibilities, but they have access to get at things that would allow them to control transactions and make changes. The other one deals with information technology - use of passwords. Boserup stated that we have made progress with the passwords. Passwords are used for getting into our network and also Riskmaster. We have adopted pass phrases for our network access and they are required to be changed every 90 days. We still have the Riskmaster issue, which we plan to address this summer. This affects all of our employees and all of our members.

Fischer stated that the other items listed in Exhibit A relate to the pension. This is an area that previously we didn't have an actuarial liability recognized in the financial statements. One of the things that IRMA needs to have a control for is to make sure that the data that you send to the actuarial firm that does the analysis for IMRF is appropriate and then on the backside when you get the report back you have some test to make sure that what was sent them actually got reflected in the way they are computing your obligation. Boserup stated that basically RSM U S LLP wants us to balance the number that is in the year-end statement that we get from IMRF.

Fischer stated that there were a couple of advisory suggestions for you down at the bottom of Exhibit A. Unallocated Loss Adjustment Expense -- IRMA has a methodology allocating those. Over the last couple of years we have seen that methodology does involve some volatility, and we suggest that you might look at using some three or five year averages of the claims paid in order to smooth some of that out in your allocation. The last comment is one that we already talked about relating to the investments and the upcoming standards update.

Fischer stated that he would submit his report for the committee's approval.

McCammon asked where the reference to the large general liability claim was in the audit report. Boserup stated that it was actually in the Statement of Actuarial Opinion from Milliman. After a brief discussion, it was suggested that this also be noted in

Management's Discussion and Analysis portion of the CAFR and to use the same wording that is in the Actuarial Opinion.

A motion was made by Noller and seconded by Krumstok to accept the 2015 Annual Financial Report. A voice vote was called and the motion carried.

VI. SEGREGATION OF DUTIES

Boserup stated that this was for information and was basically the same as last year.

VII. 1ST QUARTER INVESTMENT PERFORMANCE REPORT (GODING)

Goding stated that he wanted to go over the report and then he has an educational piece on real estate to review and then he has a manager report on real estate.

Goding noted that on page one of the report is an announcement of Marquette Associates 2016 Investment Symposium scheduled for Friday, September 30, 2016 and invited everyone to attend.

Goding reported that the economy continues to expand but at a slower and slower pace. Unemployment is at 5%. Inflation is running very low. In looking at the fixed income markets, everything is positive. U.S. equities rebounded in March, following poor performance during the first two months of the year, as recessionary fears subsided and crude oil prices advanced.

Goding reviewed IRMA's Total Fund Composite, noting that the current total composite as of March 31, 2016 is \$185,522,587. Goding stated that the historic allocation is listed on page 4 of Exhibit 1. Goding noted that for the quarter we had about \$14 million in positive cash flow and about \$3.8 million in investment earnings. Over the last three years IRMA has had about \$11.8 million in positive cash flow and \$27.9 million in investment earnings.

Goding reviewed the various managers and their performance throughout the quarter. Goding noted that Entrust just announced after the first of the year that they are merging with a company called Permal Group. Goding stated that he was going to put them on alert status just because they are merging with another firm. The Entrust side will be the dominant player there and the people at Entrust will be running the fund going forward. Goding commented that they think that this is probably going to be a good situation. However, Marquette will put them on a higher level of scrutiny while they are going through this merger.

Goding stated that page 48 of Exhibit I shows the Total Fund Composite fee schedule. The total estimated investment management fees are \$828,380.

Exhibit II shows the total fund composite as of April 30, 2016 with a market value of \$184.4 million.

Goding stated that he had brought an education piece on the Real Estate Overview as well as a manager search. Given the length of this meeting, Goding suggested that this be reviewed at the fall meeting to be able to review the items thoroughly. The committee agreed with this.

VIII. PURCHASE & SALES POLICY REVISION

Boserup stated that there aren't any changes to the Purchase & Sales Policy. The wrong copy was handed out at the last meeting and we wanted to make sure everyone had the most recent copy.

IX. SUB-COMMITTEE ON DISCOUNTING LOSS FUND - UPDATE

Ely stated that this item is just keeping the committee up to date on what the discussion has been. There isn't any action requested at this time.

X. POTENTIAL INTEREST INCOME CREDIT FOR 2016

Boserup stated that the calculations are listed in the memo. We will be discussing this as part of the Sub-Committee on Discounting Loss Fund. One question is whether we should be distributing the entire amount. A suggestion is also do we really need to wait until December or can we issue it in September. Why do we need to wait? It might help with members' budgeting if they know how much interest income they are going to get.

XI. ADDITIONS TO AGENDA

There were no additions to the agenda.

XII. EXECUTIVE SESSION

A motion was made by Sagona and seconded by Helm to move into Executive session for the purpose of discussing matters of: review pending litigation and personnel pursuant to 5 ILCS 120/2(c) (11) and (1) respectively. A roll call vote was called and the motion carried.

XIII. CONFIRMATION OF NEXT MEETING

Frances confirmed that the next meeting of the Administration & Finance Committee is scheduled for Thursday, September 22, 2016 at 9:30 a.m. at the IRMA office.

XIV. ADJOURNMENT

A motion was made by Sagona and seconded by Helm to adjourn the meeting. A voice vote was called and the motion carried.

Submitted by:

Approved by:

Rita Boserup
Director of Financial Services & Administration

Jessica Frances
Chair, Administration & Finance Committee