

Minutes
The Arkansas Local Police and Fire Retirement System (LOPFI)
Audit Committee Meeting

The Audit Committee of the Arkansas Local Police and Fire Retirement System met on Tuesday, May 30, 2017, in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: John Neal, Retired Fire Employee Trustee, Chairman (teleconference)
Bev Lambert, Public Trustee
Catherine Cook, Employer Trustee (teleconference)

Staff Present: David Clark, Executive Director
Denise Collins, Chief Financial Officer
Jen Sines, Accountant II
Lesley Weaver, Recording Secretary to the Committee

Chairman Neal called the meeting to order at 9:30 a.m. and recognized a quorum and notification of news media.

Andy Richards, BKD CPAs & Advisors, auditor for the Board, presented the independent auditor's report for year ended December 31, 2016. Mr. Richards is overall very pleased with the audit results and the cooperation received from staff. Mr. Richards indicated that BKD issued an un-modified opinion over the System's financial statements, which is a clean opinion. Mr. Richards reviewed the audit report:

Statement of Fiduciary Net Position: Mr. Richards advised that this is a year-end snapshot of the assets and liabilities (the overall financial condition of the System). The Net Position restricted for pensions was \$1.6 billion in 2015, and increased to \$1.7 billion in 2016. The Property and equipment, net of accumulated depreciation increased from \$730 thousand in 2015 to \$2.4 million in 2016 from the implementation of GASB 72. For that reason, an adjustment was made in 2016 to reclassify the LOPFI building to property and equipment since the building is not simply an investment, rather the system occupies one floor. GASB 72 permits only one classification i.e. as property; not an investment.

Statement of Changes in Fiduciary Net Position: Mr. Richards stated that the Net Increase in Net Position Restricted for Pensions increased from \$36 million in 2015 to \$124 million in 2016. Net Investment Income was \$2.2 million in 2015 compared to \$98.8 million in 2016, which puts the System's total additions at \$229 million in 2016 versus \$125 million in 2015. Deferred Retirement Option Plan (DROP) distributions increased from \$4.9 million in 2015 to \$11.2 million in 2016. Chairman Neal acknowledged that the increase in the rate of retirements is expected to continue as LOPFI matures.

Mr. Richards also discussed the management letter that was addressed to the Board of Trustees, describing the Material Weakness section. An audit adjustment of approximately \$25 million was recorded to correct a difference between the financial statement balance of trust

money market funds and the amounts reported in the trust statements. BKD recommended that the reconciliation process for investments be enhanced to ensure the adjustments to the general ledger are balancing to the investment statements at the end of the month. Mr. Clark advised the Committee that BKD recorded LOPFI's response to this comment in their letter and LOPFI concurred with having a more robust reconciliation process. LOPFI has implemented the suggestions made by BKD effective with the January 2017 financial statements.

Mr. Richards advised that staff did a great job providing information and assistance with the audit. The Committee also shared their comments regarding staff performing well. Mr. Clark said staff appreciates the positive feedback.

Ms. Cook made a motion, seconded by Mr. Lambert to accept the 2016 LOPFI audit and recommend this action to the LOPFI Board of Trustees. The motion passed unanimously.

With no other business to discuss, the Committee adjourned at 10:00 a.m.

Respectfully submitted,

Approved 06/08/17

Lesley Weaver
Recording Secretary to the Committee