

MEETING AGENDA

Meeting: Audit & Risk Committee
Date: October 17, 2018
Time: 8:30 AM
Location: Trust Authority Building, 3745 Community Park Loop, Anchorage
Teleconference: (844) 740-1264 / Meeting Number: 805 579 170 # / Attendee Number: #
<http://thetrust.webex.com>
Trustees: Laraine Derr (Chair), Verné Boerner, Chris Cooke, Paula Easley, Mary Jane Michael, Jerome Selby, Carlton Smith

Wednesday, October 17, 2018

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8:30a	<u>Call Meeting to Order (Laraine Derr, Chair)</u> Roll Call Announcements Approve Agenda Ethics Disclosure Approval of Minutes – 08/02/18	5
8:35	Annual Audit Presentation / Update BDO, Inc	hand-out
9:00	Adjourn	

Future Meeting Dates
Full Board of Trustee / Program & Planning /
Resource Management / Audit & Risk / Finance
2018 / 2019 / 2020

(Updated – September 10, 2018)

- Program & Planning Committee October 17, 2018 (Wed)
- Resource Mgt Committee October 17, 2018 (Wed)
- Audit & Risk Committee October 17, 2018 (Wed)
- Finance Committee October 17, 2018 (Wed)
- Full Board of Trustee November 15, 2018 (Thu) – Anchorage

- Program & Planning Committee January 3, 2019 (Thu)
- Resource Mgt Committee January 3, 2019 (Thu)
- Audit & Risk Committee January 3, 2019 (Thu)
- Finance Committee January 3, 2019 (Thu)
- Full Board of Trustee January 30-31, 2019 (Wed, Thu) – JUNEAU

- Program & Planning Committee April 17, 2019 (Wed)
- Resource Mgt Committee April 17, 2019 (Wed)
- Audit & Risk Committee April 17, 2019 (Wed)
- Finance Committee April 17, 2019 (Wed)
- Full Board of Trustee May 8, 2019 (Wed) – TBD

- Program & Planning Committee July 30-31, 2019 (Tue, Wed)
- Resource Mgt Committee August 1, 2019 (Thu)
- Audit & Risk Committee August 1, 2019 (Thu)
- Finance Committee August 1, 2019 (Thu)
- Full Board of Trustee September 4-5, 2019 (Wed, Thu) – Anchorage

- Program & Planning Committee October 16, 2019 (Wed)
- Resource Mgt Committee October 16, 2019 (Wed)
- Audit & Risk Committee October 16, 2019 (Wed)
- Finance Committee October 16, 2019 (Wed)
- Full Board of Trustee November 14, 2019 (Thu) – Anchorage

Future Meeting Dates

Statutory Advisory Boards - 2018

(Updated – October 9, 2018)

Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse

- Executive Committee – monthly via teleconference (First Wednesday of the Month)
- October 9-10, 2018 - Kodiak
- March 4-8, 2019 – Juneau <tentative>

Governor’s Council on Disabilities and Special Education

- November 15, 2018 – Anchorage – Supported Decision Making Agreements Summit

Alaska Commission on Aging

- December 12 by video/teleconference <tentative>
- February 11-13, 2019 (face-to-face) or February 13 by video/teleconference <tentative>
- May 1, 2019 by video/teleconference <tentative>

ALASKA MENTAL HEALTH TRUST AUTHORITY
AUDIT & RISK COMMITTEE MEETING

August 2, 2018
2:15 p.m.

Taken at:
Alaska Mental Health Authority
3745 Community Park Loop, Suite 120
Anchorage, Alaska 99508

OFFICIAL MINUTES

Trustees present:
Laraine Derr, Chair
Carlton Smith
Mary Jane Michael
Chris Cooke
Paula Easley
Jerome Selby
Verne' Boerner

Trust staff present:
Mike Abbott
Miri Smith-Coolidge
Kelda Barstad
Andy Stemp
Luke Lind
Michael Baldwin
Carrie Predeger
Katie Baldwin-Johnson
Jimael Johnson
Valette Keller
Eric Boyer
Travis Welch
Autumn Vea

TLO staff present:
Wyn Menefee
Jusdi Doucet
Sarah Morrison

Also participating:
Bikky Shrestha

PROCEEDINGS

CHAIR DERR calls the Audit and Risk Committee of April 19, 2018, to order. She states that all trustees are present. She asks for any announcements. There being no announcements, she asks for a motion to approve the agenda.

TRUSTEE MICHAEL makes a motion to approve the agenda.

TRUSTEE Boerner seconds.

There being no objection, the motion is approved.

CHAIR DERR asks for any ethics disclosures. There being none, she moves to the approval of the minutes of April 19, 2018.

TRUSTEE MICHAEL makes a motion to approve the minutes of April 19, 2018.

TRUSTEE SMITH seconds.

There being no objection, the motion is approved.

CHAIR DERR moves to the introduction of the new audit plan, and recognizes Mr. Stemp.

MR. STEMPE states that the organization is audited by BDO, and, for a number of years, have been served by Eric Campbell, the BDO partner of the account. He reports that, as of June 30th, Mr. Campbell has retired from his practice. He continues that, from an auditing standpoint, this is being brought to the attention of the Audit Committee. He states that it is his privilege to introduce the new partner in charge of the account. He also notes, on the record, his appreciation for Mr. Campbell's service both to this organization, as well as to a number of our partners' organizations over many years. He was a big supporter of the Trust and the efforts of the Trust and wishes him the best in his retirement. He states that the new partner on the account is Mr. Bikky Shrestha, who has been with BDO, and the predecessor Mikunda, Cottrell and Company, for 14 years. His current success in becoming a new partner at the firm, as well as his efforts on the Trust account over a number of years has been watched. He turns the meeting over to Mr. Shrestha.

MR. SHRESTHA states that he recently became a partner at BDO, and this is his second month here with the Trust. He has been living in Alaska and thought that he was going to be here for three years. This is where he plans to stay for a long time. He continues that he has been involved with the audit for the last five, six years and is very involved with all the issues that have gone through the Trust. He states that he was asked to present to the board on a few items that will affect the financial statements, part of it this year and part of it in the future. He continues that he would like to go through the audit planning document.

MR. STEMPE states that the Audit & Risk Committee is a new committee for the Trust, and one of the major functions of the committee is to be engaged in the planning and the initial dialogue around the audit. He continues that the real goal is for committee interaction at this stage and to

have engagement with the auditor in advance of them providing the report. He adds that the key is to give input and provide comments and directions.

MR. SHRESTHA states that first on the audit planning document is a description of the plan for the audit, the responsibility in how the audit is done and what areas are focused on. The responsibility of the committee is in overseeing the financial statement process. The responsibility as auditor is to form and express an opinion on the financial statements that are prepared by management with the committee's oversight. He explains that since the Trust is part of the State Government, the auditors also are in accordance with auditing standards. He states that they focus on high-risk material statements based on prior audit results and any preliminary analytical review done with the financial statements with the trial balances from management. He continues that this year there is an accounting guidance that takes a real material effect on the financial statements. He adds, they always focus on progress, internal control and financial reporting. He notes that, even though they do the overall audit of the Trust, the schedules of investment managed by Alaska Permanent Fund Corporation is audited by someone else. Those reports are received from KPMG and provide an update on those schedules, and are then incorporated in the financial statements. He continues that there are also significant accounting and reporting matters, accounting and financial reporting, post-employment benefits that are affected for this fiscal year. He states that is all he has for the audit planning.

MR. STEMP asks if the trustees have any questions at this time.

TRUSTEE SELBY comments that the request is a standard request for an audit firm when in the office working with staff. He states that sometimes the auditor will pick up that there is some underlying issue. He requests that those be brought to the attention of the board chairman in the process of the audit. He adds that if there is an issue, then the board will be able to deal with it in an appropriate manner.

TRUSTEE SMITH states that he is familiar with the audit, but only in the context of an operating company, holding company, subsidiaries for-profit. He asks if the new audit charter for the committee has been seen. He also asks for a suggestion on how many times this committee should meet during the year.

MR. SHRESTHA suggests having one meeting before the audit to have the presentation of what is going on and the planning phase. He continues that after that it is the presentation of the financial stuff when everything else is done.

TRUSTEE SMITH asks if there are any general observations about the audit committee functions for an organization that is structured like the Trust.

MR. SHRESTHA replies that for an organization this size and the amount of public scrutiny, it is a really important function, and the committee should always be questioning the management about internal controls to make sure financial reporting is done properly, and compliance is followed for laws and regulations. Those should be the main focus. He states that last year was the first year that all of the Trust information went through the State of Alaska Iris System and there are still some challenges as to getting required information to present financials to the

board timely and accurately. He adds that it is not a bad idea to have this committee meet at least once every six months to see the status of that process. He then moves to the GASB update and states that the two standards he will talk about are GASB 75, accounting and financial reporting for post-employment benefits other than pensions for fiscal year 2018; and GASB 87 for the leases. He continues that the leases will be applicable for 2020 fiscal year-end, June 30, 2020. He adds that the Trust participates in the Alaska Public Employment Retirement System, PERS, which is a cross-sharing multiple employer plan. He explains the unreported pension liability was not reported for 2015 and has been on the books since then. As of June 30, 2017, this liability was approximately \$8 million. He explains GASB 68 in detail, and then the effects from GASB 75 in conjunction with GASB 74, 45, 57, and notes that GASB 75 is the one that applies to the Trust. He continues explaining that the liability is for the defined benefit, OPEB, and is measured at the present value of projected benefits due to active and inactive employees. He explains the liability calculation and how it affects this.

CHAIR DERR asks if that will be a big change in this year's audit.

MR. SHRESTHA replies that it is just the healthcare portion of the liability, and he does not know what that exact amount will be. He continues explaining this and the calculation.

MR. ABBOTT asks how that is calculated for a subdivision like the Trust. He explains that it is part of the overall Alaska Retirement System with the assets that are managed by the ARM board. He asks how the Trust's liability will be determined.

MR. SHRESTHA replies that the situation for the Trust is a bit different than most of the other entities within the State of Alaska. He explains that the only information provided on the allocation is the amount for the State of Alaska. The Department of Administration goes through and does an allocation on how much the liability for the Trust is. He explains that whatever the percentage of the total state pension contribution is the calculation of the liability. He continues his presentation on the liability, the allocations, and how all is calculated explaining in detail. He states that the liability is \$9 million, and then there will be positive expenses. For the first year implementation, the actual full amount of liability comes in and is a change in the net position for the year. He states that expected in the financial statements, looking at it this year, is there will be new notes in the financial statement regarding the OPEB liability about the sources of change and then the discount range sensitivity. He explains fully.

CHAIR DERR asks a question in regard to the post-employment benefit. She states that a program manager retired four years ago and is receiving retirement money. She asks if that has to be reported as a liability. She adds that the CEO from last year went to work for the university, and if he retires under the university, will the portion of his total working life that he worked for the Trust be reported as a Trust liability.

MR. SHRESTHA replies that it is a cost-sharing plan for the whole state, and he does not know exactly how that allocation works.

A brief discussion ensues.

MR. SHRESTHA moves on to leases which is a new issue that is going to be affecting all the entities. It will also be affecting for-profit organizations and nonprofit organizations. He states that the accounting change for leases has been a big issue with accountants, the standard-setting people. He continues that international accounting has always been different than how it was accounted for in the U.S. He adds that this whole change in leases is coming from trying to convert the international standards with the U.S. standards to make it more uniform. He explains that this was ten years in the making, and is finally going to come into play. He talks about the change in the operating leases and how that will go on the balance sheet. He states that this will affect the Trust as a lessor with the mineral leases, land leases, and does not show a receivable for the accounts that are due for ten years, and that is going to be shown in the balance sheet. He continues that the liability is measured as a present value of the payments expected to be made during the lease terms. He goes on with the presentation, explaining as he goes through the leases and how everything will work.

CHAIR DERR asks if this will be a lot of work for the Land office to go through. She states that it seems that with all the leases there are, this will be a monumental amount of work.

MR. SHRESTHA replies, yes, it will.

MR. STEMPEL replies that is part of the reason why this issue is being brought forward. There will be a significant change to the balance sheet because the combined discounted net present value of all the individual leases that are longer than 12 months will need to be presented. He continues that they will be adjusting for the future actuarially expected costs of the prorated share of the employee healthcare benefits after retirement. He adds that there will be significant swings both for bringing the assets on and then also for bringing the health-care liability on. He states that the business will presumably remain the same, but there will be more administration, more bookkeeping and a lot more effort to prepare things.

CHAIR DERR asks if Mr. Stempel will be working to make it easier for everyone.

MR. STEMPEL replies that everyone is going to work on this as soon as they can.

CHAIR DERR asks if there are any questions for Mr. Shrestha.

TRUSTEE SELBY states that his view is that common sense puts you in two different directions; hold on to your wallet and wait for the bad news.

CHAIR DERR thanks Mr. Shrestha for the presentation and states appreciation for it. She asks Mr. Stempel if he has anything else.

MR. STEMPEL states that is all he has for the Audit & Risk Committee at this time.

MR. SHRESTHA thanks all for their time and for listening.

CHAIR DERR asks for anything else to come before the Audit Committee. There being none, she asks for a motion to adjourn.

TRUSTEE COOKE makes a motion to adjourn.

TRUSTEE BOERNER seconds.

There being no objection, the motion is approved.

(Audit & Risk Committee adjourned at 3:03 p.m.)