



Denver Public Schools
Professional Compensation System for Teachers

ProComp

ProComp Trust Board of Directors

Meeting Minutes

January 27, 2016 5:30 – 6:30 pm

Emily Griffith Conference Room 935

1860 Lincoln St, Denver CO 80203

ATTENDED: Mark Ferrandino, Tom Buescher, Erik Johnson, Cecilia Miller, David Hart

VIA CONFERENCE CALL: Don Gilmore, Lawrence Garcia (came on call during audit conversation)

STAFF IN ATTENDANCE: Chris Kampe

OTHERS: Mark Elmshouser (CliftonLarsonAllen), Mary Brauer, Ryan Cunningham (Arnerich Messina) via conference call

Called to order – 5:35 pm

Introductory Items:

- Welcome New Board Member: Erik Johnson replacing Kate Kotaska
 1. E. Johnson – Introduces himself as new member to the Board
- Approval of October 21, 2015 Meeting Minutes
 1. 1st - Hart 2nd- Buescher
 2. Voice Vote: All - Approved

Action Item:

- **FY 14/15 Audit Acceptance** (Mark Elmshouser of CliftonLarsonAllen)
 1. Mark Elmshouser – References second page in packet “Significant Audit Findings”. No new policies were adopted or applied for FY14/15. Part of financial statements do include estimates including property tax receivable and payroll accrual. Next page – Relatively clean process. Worked through a few issues but came to resolution. Misstatements chosen not to post but are shown on schedule in the back.
 2. Hart – How immaterial?
 3. Elmshouser - \$39k. Reclassification entry in due to / from were changed to accounts payable and accrued payroll. This is a year-end entry, do not need change in procedure. No disagreements with management. Management letter is signed and attached. They are not aware of any other opinions from other auditors or accountants (other than routine work with District auditors.) Last page includes required supplemental information that is also in the opinion. Jumping to bound

statement – Our job as auditors is to express an opinion. We look at processes as we develop or tests. This is not an opinion to express opinion on internal controls. They offer a clean opinion on the financial statements in accordance with generally accepted accounting principles. Statement of net position – “Full accrual basis of accounting” – in case of ProComp it’s not significantly different from fund statements. Salaries / Benefits Payable is accrual of specific ProComp incentives earned but not paid at end of June. Second page is related operating statement. Net investment earnings including unrealized gain/loss. Governmental Basis of Accounting – Very similar but property tax revenue is recorded only if collected within 60 days of the end of the year. Longer term property taxes are not recognized like it is on other statements. Notes to the Financial Statements – Primary accounting policy and other detail. Internal Control System Report – This is where they would have reported any significant findings however they did not find any. Also did not find any compliance issues.

4. Hart – Was there a clean opinion?
5. Elmshouser – Yes.
6. Hart – Who drafted the notes?
7. Elmshouser – We have generally done that.
8. Hart – Are there any material differences from what would have accompanied the financial statements in the past to your knowledge?
9. Elmshouser – No.
10. Hart – Was this the first or second audit for CLA?
11. Elmshouser – For CLA, I think this is our 3rd year.
12. Ferrandino – At least the second.
13. Hart – Please give a summary of what an audit is and what is reasonable practice for an entity such as ours.
14. Elmshouser – To ensure financial statements are reported in a consistent manner to other entities. We primarily make sure the financial statements are appropriately stated. It ensures that someone can use and rely on this information for status and operating results. It is consistently presented year to year. We are coming in and looking at information including investments, salary information, and payments that are made.
15. Hart – Can you speak to how you come to be here? Legal standards for audits. Do we have choice to not have it audited?
16. Ferrandino – No, by law we must have an audit.
17. Hart – We do not have discretion. Must have an audit. Conduct an RFP process on regular basis.

Vote for Audit Acceptance:

1st Hart 2nd Buescher

Voice Vote: All - Approved

Elmshouser – One thing to highlight – Future fund balance usage. Encourage you to continue looking at future projection and respond to decreasing balance. Liability at the end of 2014 never cleared and just sat there. Make sure to monitor and clear that through the cash process.

Hart – I would prefer to say a planned spend down. From your review of the financials would you in fact deem it a loss or a budgeted expenditure?

Elmshouser – No I agree, a budgeted spend. I’m just drawing attention to it.

Elmshouser – Leaves at 6:01 pm.

Information / Discussion Item:

• **Quarterly Financial Update** – Arnerich & Messina (via conference call)

1. Cunningham – Tier II up, III down, and IV was slightly down. Combined portfolio value was 22.5M which is consistent with the flows out of the trust to meet distribution requirements. There were two mutual funds replaced – Artisan Value fund replaced by Becker Value because Artisan was underperforming. This represented about 5% of Tier IV. Vanguard total international benchmark replaced by JO Fund because international fund activity would be better served by an active manager. Finally the Wetherlow fund was redeemed. This was done to maintain liquidity requirements in the Trust since it required a 45 day advance notice. We are replacing this with a mutual fund – Westwood Income Opportunity Fund. We will use proceeds from Wetherlow expected in next 5 days. With S&P 500 down, redemption of Wetherlow is paid based on a 12/31 price so this has sheltered it from more recent declines which is a beneficial result. We will be averaging in over 4 to 6 week period. We are going to continue to manage in a very proactive manner. Supplement Vanguard index fund that we already have. Want to revisit target asset allocation of each of the 3 tiers to make sure they're still optimal. Will do that over next quarter. Next quarterly meeting we will present our recommendations and findings.
2. Hart – We have no questions and agree with having that conversation at subsequent meeting.
3. Cunningham – Directive we received at last meeting was to come back with expected value/return going forward based on 3 target allocations. Expecting approximately 1.8% return on Tier II. Tier III is expecting 4.0% with a little more volatility. Tier IV – 6.3% more aggressive with more volatility. Takeaway from this is to show in writing what we expect from each tier based on how they're currently structured. Next meeting we may propose minor adjustments to this.
4. Hart – When you bring recommendations, can you bring them in writing as well as vocalize.
5. Cunningham – Yes.
6. Cunningham – leaves call at 6:14 pm.

Action Item:

• **2016 Election of Officers** – Chairperson, Vice Chairperson, and Secretary

- a. Buescher – I nominate Hart for Chair
- b. Hart – any others want to be Chair.
- c. Voice Vote – all in favor for Hart to be chair - Approved
- d. Buescher – nominated Gilmore for Vice Chairman
- e. Gilmore – Yes I will continue as Vice Chair
- f. Voice Vote – All in favor for Gilmore to be Vice Chair - Approved
- g. Hart – nominates Buescher for Secretary
- h. Voice Vote: All approve Buescher for Secretary – All Approve except Buescher, who abstains

Information / Discussion Item:

• **FY 15/16 Forecast and Fund Balance Update**

1. Kampe – Explains document
2. Buescher – Explain gain / loss figure
3. Kampe – The gain/loss figure is calculated as 3% of beginning fund balance.

4. E. Johnson – we should continue using 3% as a conservative projection.
5. Hart – How do things change from our expected fund balance decrease
6. Kampe – follows trend of reducing amount down to trough in a few years
7. E. Johnson – we have been discussing with the Transition Team that budgeted payouts are non-negotiable and they are building payout system that in aggregate will fall in line with budget.
8. Hart – How does this play 2 or 3 years down the road.
9. E. Johnson – Low point will be in 2-3 M range for fund balance. Keep in mind that as we enter into renegotiation of ProComp structure it plays in with this as to what we are able to pay out and number of teachers, etc.
10. Buescher – From day to day operational standpoint, what is the risk of those expenditures going above budget. Are there any factors that could tip the balance one way or another?
11. E. Johnson – As we go to voters for a mill levy, there may be additional teachers hired as a part of that, which will negatively affect this. Do we adjust cut points to stay in the realm? May have to drop some schools off hard to serve list to remain in budget. Henry with the Transition Team has acknowledged that he is okay with that. Other option is to reduce the index percentage to cover the same number of teachers at a lower rate. As we negotiate we will make sure there is still leverage with DCTA to make those cut points to meet the budget.

Action Item:

- **Approval of Solicitation of Investment Advisory Services**

1. Hart – Mary, Chris and I have met a handful of times to make previously discussed adjustments. We believe we have verbatim made these changes. We think we have gotten more sentiment than language and have made an honest attempt to incorporate those. What you have now remains a draft and we are asking the board for your endorsement as a formal action to release this solicitation of investment advisory services. We are asking an entity to compete with Arnerich. We did not bar Arnerich from competing. We are open to all serious responses.
2. Brauer – This has not been put out to bid since Arnerich was selected so it shows fiduciary responsibility to see what's out there. We struggled with Arnerich to reach contract so we're asking all proposals to use that as a minimum standard.
3. Hart – There are exhibits including the policy that we have adopted, the report we received in the past, and the current contract. We don't want to recreate the wheel but would love to improve our pricing if possible.
4. Buescher – Remove article C in legal compliance and propose vote: 1st
5. 1st - Buescher 2nd - E. Johnson
 - Voice Vote: All – Passes.
6. Hart – We will see that the solicitation is released.

Future Agenda Items:

- Approval of ProComp FY16/17 Budget
- Next ProComp Trust Board meeting (tentative dates): 2/25/16 (E. Johnson – this should be tentative that Transition Team comes to deliver budget) and 4/14/16 (CiCi cannot make this on the 14th)

For next meeting

- Make sure we have FY17 budget
- Update status on investment advisory service solicitation

Adjourned – 6:38 pm