RHODE ISLAND INTERLOCAL
The Trust
RISK MANAGEMENT TRUST

INVESTMENT AND AUDIT COMMITTEE MEETING
OF
DECEMBER 12, 2006

MINUTES

The Investment and Audit Committee of the Board of Trustees of the Rhode Island Interlocal Risk Management Trust, Inc. (The Trust) convened a meeting at 12:00 noon on Tuesday, December 12, 2006 at The Trust Offices, 501 Wampanoag Trail, Suite 301, East Providence, Rhode Island.

In attendance was Chair Alan Lord and Committee members John Mainville, Ron Tarro, and Bob Dooley. Committee members absent were: Scott Avedisian, Ralph Mollis, and Joe Balducci.

Also in attendance were Glenn Saslow, Partner, from Saslow, Lufkin & Buggy, LLP.; Michael Lynch and Phil Gorgone from Punter Southall & Co.; Thomas Dwyer, Trust President and Executive Director; and Ron Slovak, Chief Financial and Administrative Services Officer from The Trust.

1. ADOPTION OF MINUTES

On a motion made by Mr. Mainville and seconded by Mr. Dooley, the minutes of the Committee's meeting of Sept 14, 2006 were approved and accepted unanimously.

2. REVIEW OF RESULTS OF 2006 AUDIT OF THE FINANCIAL STATEMENT OF RHODE ISLAND INTERLOCAL RISK MANAGEMENT TRUST, INC.

Mr. Saslow distributed an untitled report, which he described as the Fiscal 2006 Audit Draft Results and Required Communications – Report to the Investment and Audit Committee. He stressed that at this point the audit remains a draft, pending finalization of certain minor open issues, such as the signed representation letters and any confirmations letters not yet received. Prior to the meeting, the Committee had received the draft Financial Statements from Mr. Slovak as part of its Agenda packet.

Mr. Saslow then reviewed the scope of work and outlined the audit approach. He highlighted certain areas of emphasis and reviewed the required communications that are an integral part of the final audit report.

Mr. Saslow identified one significant adjustment to the year-end results in connection with reserves for deductibles recoverable, primarily in connection with Multiple Loss Occurrence #47 (liability and property claims arising from the October 2005 rainstorms). This $300,000 adjustment, Mr. Dwyer said, effectively increased net loss reserves. He explained that that adjustment was necessary to correct for a limitation in the claims accounting system which did not allow for this loss involving two lines of coverage and various Member deductible structures to be properly recorded in the automated system. Mr. Saslow indicated the auditors were apprised on the circumstances surrounding the adjustments and were in agreement with this appropriateness of the adjustment.

Mr. Saslow noted that for the Fiscal 2006 audit no second actuarial review was performed on the Trust's actuarial report prepared by Practical Actuarial Solutions, Inc. He explained that a second actuarial review was not required. Mr. Slovak added that work of Practical Actuarial Solutions is subject to a peer review process, similar to that which accounting firms follow.

Significant discussion followed in connection with the accounting treatment for The Trust's investment in the NLC-Mutual Insurance Company (NLC-MIC). The amount recorded as of June 30, 2006 was $3,955,109. Mr. Saslow and management reported that extensive discussion, research and review had occurred among them about whether the treatment of this asset was proper given recent developments with NLC-MIC's business and loss trends. Mr. Dwyer elaborated on management's December 5, 2006 memo on this matter submitted to the Committee prior to the meeting. Questions ensued from the Committee members, with Mr. Saslow commenting that he believed management was recording and treating the NLC-MIC investment in accord with appropriate accounting guidance. Management advised the Committee that it will continue to monitor NLC-Mutual's overall condition on an ongoing basis and keep the Investment and Audit Committee updated as appropriate. In response to a question from Mr. Tarro, Mr. Saslow noted that The Trust's Financial Statements contain a disclosure (Footnote 4) detailing various conditions associated with the NLC-MIC asset.

Mr. Saslow advised that their independent auditors' opinion was an unqualified or a "clean" opinion since no material conditions were found which would adversely impact the fair presentation of The Trust's financial position. He discussed the auditor's review of losses and loss adjustment expenses and commented that the ultimate loss ranges from Practical Actuarial Solutions had been tested extensively.

Mr. Saslow also reviewed certain accounting issues on the horizon about which he believed the Committee should be generally aware, and their potential impact (or lack thereof) on The Trust.

Mr. Lord asked if there were any aged receivables in the Member's Receivable balance. Mr. Slovak commented that there were no receivables that were considered uncollectible.

Mr. Saslow then reported that no Management Letter is being issued in connection with the Fiscal 2006 audit. He and management, though, updated the Committee on the status of two Management Letter comments from the Fiscal 2005 audit.

First, with respect to the 2005 comment that encouraged management to review the level of authority given to Claims Representatives to issue checks without supervisory review, Mr. Slovak reported that lower limits were now in place at $3,000. Discussion followed relative to random reviews for checks under $3,000. Mr. Lord asked that the Committee be advised at its next meeting of the procedures being put into place for such random reviews.

Second, with respect to last year's Management Letter comment relative to Finance Staffing and Succession Planning, Mr. Saslow reported that management decided after further review not to recommend to the Board that The Trust hire another accountant or finance professional. He did indicate that The Trust was working on documenting various procedures performed by the Finance Office. He also acknowledged that with the former Chief Financial and Administrative Services Officers leaving The Trust's employ in December 2005 the primary focus of the new CFO shifted of necessity to understanding and maintaining on-ongoing operations. Mr. Lord indicated that the Committee would like to receive an update on management's progress in developing a procedures manual at a future Investment and Audit Committee meeting.

As the discussion drew to a close, Mr. Saslow was asked by Mr. Mainville if it would be appropriate for the auditor to meet privately without management present. Mr. Saslow commented that there was no need for such a session in his opinion, unless the Committee wished one.

Committee members also pointed out one or two correcting changes needed in the wording of the certain parts of the Footnotes to the Financial Statements.

At this point Mr. Dwyer reported to the Committee that Mr. Saslow had been extremely helpful in researching accounting rules in connection with the questions surrounding the recording of NLC-MIC investment.

On a motion made by Mr. Mainville and seconded by Mr. Tarro, the Committee voted to accept the report as corrected for certain wording changes, and to forward the revised report to the Board of Trustees for approval; it was so voted unanimously.

3. REVIEW OF INVESTMENT PORTFOLIO PERFORMANCE

Prior to the meeting, the Committee had received the Quarterly Investment Report for the period ended September 30, 2006 as prepared by The Trust's investment advisor, Punter Southall & Co, LLC. Mike Lynch began by reviewing the Report's Executive Summary and advised that The Trust portfolio was in compliance with all the Trust's guidelines with respect to quality of investments, durations, and the overall allocation between various funds and fund managers.

Phil Gorgone then reviewed Fixed Income Portfolio results. Significant discussion centered on Columbia's returns. The circumstances surrounding Columbia failure to charge custodial fees for seven months from August of 2005 to February of 2006 and the resulting impact of Columbia's capture of these fees during the Fiscal Quarter ending Sept 30, 2006 on current performance was outlined. The impact of the $17,500 in fees for the August 2005 to February 2006 on the current quarter's performance amounted to 45 basis points, and was the primary reason for the lower than policy index performance.

Discussion followed with respect to the Columbia performance versus the index and the Universe Median. It was noted that the universe presented in this quarter's report was more representative than in the past, but is still limited in that it is comprised of 11 managers. Even though more representative, Punter Southall representatives explained, it is still not perfectly compatible as all the universe managers have some BBB rated security exposures in their portfolios, a quality level that is prohibited in The Trust's Columbia portfolio.

Mr. Lynch then reviewed the Equity Pool Performance which he reported rebounded from a weak prior quarter. He noted that value stocks outperformed growth stocks for the quarter. He indicated that although equity funds rebounded, the policy index (S&P 500) outperformed virtually all equity indices such as Large Cap, Small Cap, Growth, International or Emerging Markets.

Mr. Lynch then reviewed various charts relative to the performance of The Trust's fixed income composite portfolio and of individual funds.

Lastly, Mr. Lynch distributed two supplementary charts; one showed Portfolio Allocation though November 2006 and the other provided Interim Portfolio Results for FY 2007, up through November.

Mr. Lynch noted the sale of Baron Small Cap fund and the addition of the Schroder U.S. Opportunity funds. Mr. Lynch reviewed some of the reasons behind the Baron sale and the process in selecting the Schroder fund. Mr. Lynch noted that Punter Southall had executed the Baron sale across all their clients. The Committee had, as part of the meeting package, received various background materials on the Schroder U.S. Opportunity Fund.

4. REVIEW OF PORTFOLIO TRENDS

Mr. Slovak reviewed two charts – (1) Year to Date Net Investment Income and Realized Gains, and (2) Year to Date Unrealized Gains and Losses. Both charts were included in the package distributed to the Committee prior to the meeting.

The Year to Date Net Investment Income and Realized Gain chart showed net investment income at $400K which was $64K higher than budget and due primarily to favorable short term rates. Realized Gains were negligible at $1K YTD for Fiscal 2007.

The Year to Date Unrealized Gains and Losses chart showed $1,055M in YTD gains. Bonds accounted for $575K of the gains, while Equity Fund accounted for $185K and the NLC-MIC investment accounted for $295K. Mr. Slovak reiterated that, due to the unpredictability of market movement, unrealized gains or losses are an unbudgeted item and provide only a snapshot at specific points in time; they should, therefore, not be used to predict future results, he stressed.

No Committee action was taken on this item which was informational in nature.

5. REVIEW OF INVESTMENT CONCENTRATION ANALYSIS

Mr. Slovak reviewed the results of the investment concentration data analysis provided to the Committee prior to the meeting as part of its Agenda package. This analysis, he explained, was prompted by a question which arose at the October Joint Board meeting about whether the investment portfolios of The Trust and NLC-Mutual could have corporate securities within their individual portfolios that, if combined, would represent a significant percentage and excess concentration of invested funds in one particular asset.

The analysis performed by Trust staff with limited assistance from Punter Southall indicated there were only four instruments with combined concentrations representing more than 3% of the combined portfolios, and none of these were over 5%. In addition, Mr. Gorgone reported that he observed in some cases certain individual securities within a combined total appeared to themselves be further collateralized, which in turn provides added protection within the combined total. Mr. Gorgone based this observation on the description of the various securities.

Mr. Slovak pointed out, too, that he employed a conservative methodology in combining securities contained in both The Trust's and NLC-MIC's portfolio by grouping together all assets that had similar descriptions, even though they might not really have been the same. The asset descriptions, he explained, were not uniform or always consistent. Therefore, the combined market value used to derive weighted percentage as reported were more likely to be overstated than understated, he said.

Mr. Lynch and Mr. Gorgone of Punter Southall indicated they would look further into the details of the combined securities and discuss any additional findings with The Trust staff. Management advised that it intended to report the results of this analysis and review to the full Board.

The Committee indicated that it concurred that excess concentrations were not present in the combined portfolios.

6. ADJOURNMENT

There being no further business, the Meeting stood adjourned about 2:00 P. M.

Respectfully submitted,

Ronald Slovak

RONALD F. SLOVAK
Chief Financial and Administrative Services Officer