

August 13, 2024  
Minutes #621

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Chairman Molan called the meeting to order at 8:32 a.m.

**Present:** Trustees: Chairman Molan, Richard Bunker, Donald Pinard, and Mathew Ciechon  
  
MECRS Staff: Melanie Murray, Kimberly Barrett and Suzanne Wilson

**In Attendance:** Attorney John Rich from McLane Middleton, Professional Association  
Mark LaPrade and Samantha Edie, both from Berry Dunn

**Excused:** Sharon Wickens and Michael Carpenter

**Absent:** Mayor Jay Ruais

**Linked Remotely:** Kevin Leonard of NEPC

**Approval of the Minutes of the Previous Board Meeting:**

Chairman Molan entertained a motion to approve the previous board meeting minutes of July 9, 2024.

Trustee Bunker moved to approve the minutes of July 9, 2024, seconded by Trustee Pinard, and passed by all the trustees present.

**Approval of the Immediate Meeting Agenda:**

Chairman Molan entertained a motion to approve the immediate meeting agenda.

Trustee Pinard moved to approve the immediate meeting agenda, seconded by Trustee Ciechon, and passed by all the trustees present.

**New Business:**

Representatives from Berry Dunn were in attendance to deliver the results of the MECRS 2023 Audit – Mr. LaPrade Principal/CPA introduced Samantha Edie, CPA, manager of the MECRS audit.

Ms. Edie began by directing the Board's attention to page 3 of the presentation booklet, Key Financial Information. She summarized the key financial indicators, reporting that the Fiduciary Net Position increased from 2022 to 2023 to \$295 million. The largest impact was almost \$34 million of Net Investment Income in 2023, while 2022 had a Net Loss of \$41 million, due to

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market performance. Contributions also increased by about 8% from 2022 and the employer contribution rate increased from 32.02% to 33.24% in July 2023. Regarding Benefit Payments, Ms. Edie stated that there were 66 new retirees in 2023, which resulted in a 5% increase in total benefits paid. Other deductions also increased, primarily due to an increase in refunds.

Referring to the last two ratios listed in the chart, Fiduciary Net Position as a percent of Total Pension Liability and Total OPEB Liability, Ms. Edie reported an increase in both, which is an additional positive indicator, adding that these ratios are at a point in time, not including the smoothing of actuarial assumptions.

Moving on to the next slide, Ms. Edie explained that the audit is performed in accordance with U.S. generally accepted auditing standards and Government Auditing Standards. The audit is designed to provide reasonable, not absolute, assurance and requires an understanding of internal controls, but does not necessarily test all the controls. The audit opinion does not cover the Required Supplementary Information or other information and Ms. Edie referred to the list of those schedules included in her presentation. She noted that Berry Dunn was able to provide an Unmodified Opinion over the basic financial statements, which is the highest level of assurance that they can provide.

Working through the presentation, Ms. Edie highlighted the footnotes of the audit, relative to the MECRS Annual Report. She reported that Note 3, Investments, summarizes the net appreciation versus the net depreciation by investment type. Note 7 highlights the deposit and investment risks. Notes 8 and 9, GASB 67 and GASB 74 respectively, cover the net pension and net OPEB liability. Note 10, Ms. Edie continued, summarizes the actuarial methods and assumptions, including the sensitivity of net pension and OPEB liability to a 1% change in the discount rate. The footnote details the impact of the liability if the rate were to fluctuate. Ms. Edie then turned to Mr. LaPrade to continue with the next segment of the audit presentation.

Mr. LaPrade directed the Board to page 7 of the presentation booklet covering Required Auditor Communications. Starting with separation of responsibilities, he highlighted that the Staff does a great job preparing the Annual Report, allowing them to focus on their audit. He explained that internal controls are management's responsibility. He noted that the audit team is not a component of management's internal controls and that the audit does not relieve management or those charged with governance of their responsibilities.

Mr. LaPrade noted that it is the responsibility of the audit team to express an opinion on the Retirement System's financial statements. The audit is designed to obtain reasonable assurance that the financials are free from material misstatement. Management override of controls, valuation of investments, and contributions to the Retirement System are identified as the significant risks of material misstatement, making them the main focus of the audit.

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The next slide Mr. LaPrade stated references Accounting Policies, Management's Judgments & Estimates and Audit Adjustments. Under Accounting Policies, he reported there were no significant new accounting policies adopted, no transactions which lacked authoritative guidance and all significant transactions were reported in the proper period.

Moving on to the next section, Management's Judgements and Estimates, Mr. LaPrade reported that the audit evaluates key estimates such as fair value of investments and actuarially calculated contributions, to ensure that all are considered to be fair and reasonable.

Referring to the next section, Audit Adjustments, Mr. LaPrade reported there were no significant audit adjustments. Consistent with prior years, Mr. LaPrade reported an unrecorded adjustment to true-up the fair value of investments subsequently reported by investment managers. He informed the Board of a minor adjustment to understated investments by \$88,000 as of December 31, 2023. He noted that investments were understated by \$641,000 as of December 31, 2022. The net impact, he stated, is an understatement of income of \$553,000 on the Statement of Changes in Fiduciary Net Position, which is immaterial overall, given the fund size.

In reviewing the Required Auditor Communications section, Mr. LaPrade reported no disagreements or difficulties in performing the audit. Berry Dunn obtained a signed letter from management attesting to certain representations made during the audit. Mr. LaPrade stated that Berry Dunn is not aware of management having consultations with other accountants and that Berry Dunn communicated with management throughout the year on a variety of matters. He noted that those discussions were in the ordinary course of business and not a condition of their retention.

Ms. Edie continued on page 11, explaining she was pleased to report that the audit did not identify any material weaknesses or significant deficiencies in internal controls as a result of the audit procedures.

Ms. Edie then summarized the Yellow Book Report, reiterating that they do not audit internal controls, but they do review them, and they did not identify any material weaknesses or deficiencies. They do perform tests of compliance and found no instances of noncompliance, resulting in a very clean audit.

In reference to the Plan, Mr. LaPrade asked the Board, as well as staff members, if they had any concerns regarding fraud or noncompliance that they would like to express, for which the response was, "None".

Ms. Edie stated that she will send the Executive Director an email of the final documents needed to complete the audit. Ms. Edie then asked about any outstanding litigation of which Berry Dunn should be aware, to which the response was, "None".

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The Board thanked Mr. LaPrade and Ms. Edie for their presentation and concise report and they left the meeting.

Chairman Molan expressed his gratitude to the Staff for their work and a successful audit report.

#### **Report of the Executive Director:**

Direct Deposit Fraud – Ms. Murray stated that nearly two years ago, the System had an issue with a retiree's direct deposit information being fraudulently changed. Ms. Murray reminded the Board that the System implemented a policy, whereby retirees are called to confirm the new information, prior to making changes to any direct deposit of pension checks. She informed the Board that the System recently received another fraudulent attempt, which the Executive Assistant was able to thwart by connecting with the Retiree, who confirmed it was not a legitimate change request.

High Yield Manager/Rebalance –Ms. Murray reported that the contract review by counsel was completed and a side letter regarding previously discussed concerns was agreed to by the manager. Contract documents were completed and funding was processed for August 1, 2024 after all proceeds from the redemptions were received at the tail end of July.

Public Funds Summit 2024 – Ms. Murray then reported that she and the Chairman attended the Public Funds Summit in Rhode Island. She explained that the sessions were set up in a panel style, with most having a moderator and a few panel members. Each panel encouraged participation and questions from the audience. Ms. Murray reported that some of the sessions were more engaging than others. She stated that she was pleased to see that the MECRS Actuary, Gabriel, Roeder, Smith and Co. as well as the System's Investment Consultant, NEPC, were both represented. While some of the topics were high level, she stated that the exposure to the discussions was a great experience overall.

Ms. Murray went on to explain that there were many trustees in attendance from all over the country, including the Cayman Islands. Some of the states and plans have minimum requirements for annual fiduciary education. There were some interesting practices by other plans, for example she stated, one requires each retiree to respond to an annual mailing, verifying they are still alive and eligible to collect their pension. If the retiree does not respond in a timely manner, their pension is stopped until they do. There was a similar requirement for disability retirees to verify the continued disability status annually, in order to continue their pension.

NEPC Conference in September 2024 – In closing her report, Ms. Murray stated that she and Chairman Molan will be attending the NEPC conference in Boston on September 9<sup>th</sup> and 10<sup>th</sup>, necessitating the MECRS Board of Trustees meeting to be held on an alternate date. Ms. Murray also mentioned that if any other members are interested in attending the conference, to please let her know.

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Ms. Murray stated that September 17, 2024 had been tentatively set as an alternate meeting date. She asked the Board to confirm their availability on that date, for which there were no conflicts noted.

**Report of the Monthly Cash Balance:**

Ms. Murray reported a cash balance of just under \$6 million as of June 30, 2024. She reported many deposits inclusive of the rebalance for the funding of high-yield manger as well as a few capital calls, which resulted in a balance of just over \$20 million, ending the month of July 2024.

**Report of the Benefits Committee:**

The Benefits Committee met as scheduled on Wednesday, July 17, 2024 at 9:00 a.m. to discuss the proposed legislation for Plan amendments.

Committee Members Ciechon, Molan, Pinard, and Carpenter, as well as Trustee Wickens reviewed the proposed draft legislation to effect the changes recommended by the Board. After some discussion and clarification changes to the language, Member Pinard moved that the updated draft legislation be recommended to the Board. The motion was seconded by Member Molan and the motion passed unanimously.

Committee Chairman Ciechon moved to accept the updated proposed draft legislation as recommended by the Benefits Committee, seconded by Trustee Bunker and passed by all those trustees present.

**Previous Business:**

Review of Proposed Language for Plan Changes – Ms. Murray referred to the updated GRS Study included in the Board's packet as of year ending 2023. She noted that the impact for the funding is minimal in the beginning and she referenced page 6 of the study, showing the change in the projected employer contribution rate over many years, noting more significant savings in the longer term.

Chairman Molan stated the proposed changes will provide the Plan with long-term financial stability. The next step, he stated, would be to meet with Mayor Ruais regarding the proposed legislation and to seek a sponsorship for the legislative change.

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Attorney Rich reminded the Board of the Bylaw requirement contained in paragraph 14.06 that the proposed amendments must be posted thirty (30) days before their adoption in order to afford interested persons an opportunity to submit data and make their views known either orally or in writing. He also noted that the re-scheduled September Board Meeting would allow for the 30-day posting requirement to be met before adoption at the September Board Meeting.

Ms. Murray stated that she will post the proposed changes immediately.

**Consent Agenda:**

Chairman Molan entertained a motion to accept the Consent Agenda items.

Trustee Pinard moved to accept the Consent Agenda, seconded by Trustee Bunker, and passed by all the trustees present.

**Informational Item:**

NEPC Monthly Performance Report Ending June 30, 2024 – Chairman Molan asked the trustees if there were any questions or concerns regarding the NEPC report, to which there were none.

Chairman Molan referred to his recent attendance at the Public Funds Summit in Rhode Island and that he found it to be interesting and worthwhile, and he urged other trustees to consider attending in the future.

**Motion to Adjourn:**

With no other business to come before the Board, Chairman Molan entertained a motion to adjourn the meeting.

Trustee Bunker moved to adjourn the meeting at 9:13 a.m., seconded by Trustee Pinard and passed by all the trustees present.

Respectfully Submitted,

Melanie Murray  
Executive Director