

Minutes of Audit Committee Meeting  
December 14, 2010  
NHRS Hearings Conference Room

These minutes were approved at the Audit Committee meeting of March 8, 2011.

The meeting was convened at approximately 9:10 a.m. on December 14, 2010, at the NHRS office, 54 Regional Drive, Concord, NH. Committee members participating at the outset were Chair Catherine Provencher, Mr. Sam Giarrusso, Mr. Brian Morrissey, and Mr. Dean Crombie. NHRS Board Members also attending were Dr. Lisa Shapiro and Mr. Danny O'Brien. NHRS staff members in attendance were Mr. Dick Ingram, Executive Director; Mr. John Browne, Internal Auditor; Mr. Timothy Crutchfield, Chief Legal Counsel; Mr. Larry Johansen, Director of Investments; and Mr. William Spad, Regulatory Compliance Officer.

Upon a request from the Chair, a motion was made by Mr. Morrissey to accept the minutes of the November 9, 2010 meeting. Mr. Giarrusso seconded the motion, and it carried unanimously.

Next, Chair Provencher referred the members to the draft CAFR that had been distributed, and the updated letter of the Chair of the Board. Following a brief discussion, a motion was made by Mr. Giarrusso and seconded by Mr. Morrissey for the Audit Committee to approve and accept the Comprehensive Annual Financial Report for fiscal year 2010 and the resulting findings per RSA 100-A:15, VI(a), and to recommend to the full Board their acceptance and release of the audited report. The motion carried unanimously.

The Code of Ethics Annual Report Card was addressed next. The most current report version, updated for responses received the prior day, was distributed to the Committee. Attorney Crutchfield explained that while this survey is not required by statute, it has been a good governance practice of the System. The Chair asked whether it was a requirement for the two active providers not responding to comply with the survey. While it is not, the Director of Investments said he would reach out to these providers for a response. The Chair also asked who had reviewed responses, and Atty. Crutchfield commented that he had performed the review and there were no survey responses of concern. There being no further discussion, Mr. Crombie made a motion to recommend the Report Card to the full Board for approval. Mr. Giarrusso seconded the motion, and it carried unanimously.

The committee then reviewed the proposed amendments to the NHRS administrative rules, which would be submitted to the Joint Legislative Committee on Administrative Rules (JLCAR). These amendments were in response to the VCP Compliance Statement received from the IRS in September. Ice Miller had provided the draft language for the changes. Atty. Crutchfield explained the process to be followed, whereby the rules would be reviewed by the Audit Committee and recommended for approval to the full Board, before submission to JLCAR. He expected the whole process would take approximately four to six months. Based on questions from the Chair, Atty. Crutchfield felt these changes were not major changes, but rather putting in writing what has been the practice of NHRS as required by the IRS. In soliciting other questions, the Chair recognized Dr. Shapiro, the Board Chair, who had questions relative to the use of the wording for the Automatic Cost of Living Adjustments, which is not applicable to

NHRS, and the inclusion of the assumed rate of return within the administrative rules. The question was raised that should these be further clarified, and whether the proposed language more appropriately belonged elsewhere within the plan documents. Based on these comments, the Chair requested that staff review the matter further with outside counsel and present them to the Committee again next month for further review.

The Committee then examined a memo prepared by the Executive Director as a follow up to questions at the last Board Meeting summarizing the projected cash flows for the various 401(h) sub-trusts and related fiduciary issues. The Executive Director reviewed the analysis, pointing out that the shortfall in funding impacted two sub-trusts; Teacher, and Group II (Fire and Police). The analysis projected forward the sub-trust balances as found in the Fiscal 2010 CAFR. The Teacher sub-trust is expected to become 'pay as you go' this month, while the Group II sub-trust would become 'pay as you go' in mid-Fiscal 2013. To address this shortfall, he outlined two options. The first would be to establish rates that have employers paying an extra amount over the actuarially calculated requirement immediately. The second option is to run a deficit in those two sub-trusts, and restore that deficit with future rates that would be calculated to capture both the current costs and any prior shortfall. A question was raised by the Chair as to cause of these shortfalls. The two primary causes identified were the national financial meltdown of 2008 and 2009 affecting investment earnings, and the spike in Teacher retirements in 2008. After extensive discussion, it was decided that the Committee would not make a recommendation to the full Board, but the Chair would provide the Board with a synopsis of their discussion.

There being no further business, the Committee decided the next meeting will be held on January 11th at 9 AM, prior to the Board meeting.

A motion to adjourn was made by Mr. Giarrusso, and seconded by Mr. Crombie. The motion carried unanimously.