

PERAC AUDIT REPORT



Andover Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

April 19, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Andover Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2004 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

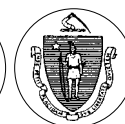
We commend the Andover Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Tivnan and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2006	2005	2004
Net Assets Available For Benefits:			
Cash	\$2,701,182	\$388,303	\$2,639,518
Fixed Income Securities	0	0	27,721,586
Equities	0	0	43,309,212
Pooled Domestic Equity Funds	41,758,104	41,905,566	0
Pooled International Equity Funds	14,847,472	9,078,638	0
Pooled Domestic Fixed Income Funds	21,853,362	24,367,259	0
Pooled Alternative Investment Funds	4,514,464	0	0
Pooled Real Estate Funds	10,716,571	8,675,016	4,736,189
Interest Due and Accrued	11,178	202	397,151
Accounts Receivable	6,402	212,201	3,277
Accounts Payable	(60,456)	(39,392)	(52,155)
Total	<u>\$96,348,279</u>	<u>\$84,587,793</u>	<u>\$78,754,778</u>
Fund Balances:			
Annuity Savings Fund	\$26,745,220	\$25,548,060	\$23,496,612
Annuity Reserve Fund	7,077,092	6,457,377	6,429,459
Pension Fund	2,865,064	4,179,827	5,006,215
Military Service Fund	1,475	10,875	10,810
Expense Fund	0	0	0
Pension Reserve Fund	59,659,428	48,391,654	43,811,681
Total	<u>\$96,348,279</u>	<u>\$84,587,793</u>	<u>\$78,754,778</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2004)	\$21,990,930	\$6,047,280	\$5,924,972	\$0	\$0	\$39,554,435	\$73,517,618
Receipts	2,824,263	181,089	3,896,108	10,810	323,504	4,257,214	11,492,988
Inter Fund Transfers	(954,573)	958,221	(3,680)	0	0	32	0
	<u>(364,008)</u>	<u>(757,131)</u>	<u>(4,811,185)</u>	<u>0</u>	<u>(323,504)</u>	<u>0</u>	<u>(6,255,828)</u>
Disbursements							
Ending Balance (2004)	23,496,612	6,429,459	5,006,215	10,810	0	43,811,681	78,754,778
Receipts	2,949,968	192,038	4,369,942	65	383,627	4,579,973	12,475,614
Inter Fund Transfers	(722,842)	724,458	(1,615)	0	0	0	0
	<u>(175,678)</u>	<u>(888,578)</u>	<u>(5,194,715)</u>	<u>0</u>	<u>(383,627)</u>	<u>0</u>	<u>(6,642,598)</u>
Disbursements							
Ending Balance (2005)	25,548,060	6,457,377	4,179,827	10,875	0	48,391,654	84,587,793
Receipts	3,149,717	194,630	4,361,102	9	533,791	11,256,987	19,496,236
Inter Fund Transfers	(1,321,748)	1,310,962	0	0	0	10,786	0
	<u>(630,808)</u>	<u>(885,877)</u>	<u>(5,675,865)</u>	<u>(9,409)</u>	<u>(533,791)</u>	<u>0</u>	<u>(7,735,749)</u>
Disbursements							
Ending Balance (2006)	<u>\$26,745,220</u>	<u>\$7,077,092</u>	<u>\$2,865,064</u>	<u>\$1,475</u>	<u>\$0</u>	<u>\$59,659,428</u>	<u>\$96,348,279</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$2,657,366	\$2,460,823	\$2,445,637
Transfers from Other Systems	261,078	265,242	149,189
Member Make Up Payments and Re-deposits	83,309	84,895	101,199
Investment Income Credited to Member Accounts	<u>147,964</u>	<u>139,008</u>	<u>128,238</u>
Sub Total	<u>3,149,717</u>	<u>2,949,968</u>	<u>2,824,263</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>194,630</u>	<u>192,038</u>	<u>181,089</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	129,787	107,142	97,998
Received from Commonwealth for COLA and Survivor Benefits	130,629	308,970	206,372
Pension Fund Appropriation	<u>4,100,686</u>	<u>3,953,830</u>	<u>3,591,737</u>
Sub Total	<u>4,361,102</u>	<u>4,369,942</u>	<u>3,896,108</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	10,810
Investment Income Credited to the Military Service Fund	<u>9</u>	<u>65</u>	<u>0</u>
Sub Total	<u>9</u>	<u>65</u>	<u>10,810</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>533,791</u>	<u>383,627</u>	<u>323,504</u>
Sub Total	<u>533,791</u>	<u>383,627</u>	<u>323,504</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,027	2,361	2,594
Miscellaneous Income	0	9,000	0
Excess Investment Income	<u>11,252,960</u>	<u>4,568,612</u>	<u>4,254,620</u>
Sub Total	<u>11,256,987</u>	<u>4,579,973</u>	<u>4,257,214</u>
Total Receipts	<u>\$19,496,236</u>	<u>\$12,475,614</u>	<u>\$11,492,988</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$435,638	\$160,478	\$232,845
Transfers to Other Systems	<u>195,171</u>	<u>15,199</u>	<u>131,163</u>
Sub Total	<u>630,808</u>	<u>175,678</u>	<u>364,008</u>
Annuity Reserve Fund:			
Annuities Paid	865,607	796,803	721,353
Option B Refunds	<u>20,270</u>	<u>91,775</u>	<u>35,778</u>
Sub Total	<u>885,877</u>	<u>888,578</u>	<u>757,131</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,075,576	3,824,774	3,608,586
Survivorship Payments	316,974	288,147	255,274
Ordinary Disability Payments	94,349	87,184	96,429
Accidental Disability Payments	944,411	850,198	707,546
Accidental Death Payments	116,483	64,036	62,913
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	128,072	80,375	80,437
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,675,865</u>	<u>5,194,715</u>	<u>4,811,185</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>9,409</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	71,455	67,268	63,937
Legal Expenses	2,794	7,594	4,287
Medical Expenses	0	0	0
Travel Expenses	2,988	2,605	678
Administrative Expenses	1,813	2,323	2,330
Furniture and Equipment	0	0	0
Management Fees	378,589	234,332	205,716
Custodial Fees	9,940	14,386	20,062
Consultant Fees	40,000	40,000	11,500
Service Contracts	21,500	10,575	10,168
Fiduciary Insurance	<u>4,712</u>	<u>4,543</u>	<u>4,825</u>
Sub Total	<u>533,791</u>	<u>383,627</u>	<u>323,504</u>
Total Disbursements	<u>\$7,735,749</u>	<u>\$6,642,598</u>	<u>\$6,255,828</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$67,780	\$35,272	\$26,551
Fixed Income	0	561,774	1,431,032
Equities	24,930	127,013	736,854
Pooled or Mutual Funds	1,850,234	879,222	216,954
Commission Recapture	0	0	0
Total Investment Income	<u>1,942,944</u>	<u>1,603,281</u>	<u>2,411,391</u>
Plus:			
Realized Gains	1,559,554	4,019,719	1,809,144
Unrealized Gains	12,693,764	7,537,729	5,414,001
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>11,178</u>	<u>202</u>	<u>397,151</u>
Sub Total	<u>14,264,496</u>	<u>11,557,649</u>	<u>7,620,296</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(79,223)
Realized Loss	(669,153)	(2,429,080)	(3,629,572)
Unrealized Loss	(3,408,732)	(5,051,350)	(1,027,264)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(202)</u>	<u>(397,151)</u>	<u>(408,177)</u>
Sub Total	<u>(4,078,086)</u>	<u>(7,877,581)</u>	<u>(5,144,236)</u>
Net Investment Income	<u>12,129,353</u>	<u>5,283,350</u>	<u>4,887,450</u>
Income Required:			
Annuity Savings Fund	147,964	139,008	128,238
Annuity Reserve Fund	194,630	192,038	181,089
Military Service Fund	9	65	0
Expense Fund	<u>533,791</u>	<u>383,627</u>	<u>323,504</u>
Total Income Required	<u>876,393</u>	<u>714,738</u>	<u>632,831</u>
Net Investment Income	<u>12,129,353</u>	<u>5,283,350</u>	<u>4,887,450</u>
Less: Total Income Required	<u>876,393</u>	<u>714,738</u>	<u>632,831</u>
Excess Income To The Pension Reserve Fund	<u>\$11,252,960</u>	<u>\$4,568,612</u>	<u>\$4,254,620</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$2,701,182	2.8%	100%
Pooled Domestic Equity Funds	41,758,104	43.3%	60%
Pooled International Equity Funds	14,847,472	15.4%	
Pooled Domestic Fixed Income Funds	21,853,362	22.7%	
Pooled Alternative Investment Funds	4,514,464	4.7%	7.5%
Pooled Real Estate Funds	<u>10,716,571</u>	<u>11.1%</u>	10%
Grand Total	<u>\$96,391,155</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Andover Retirement System was 14.34%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Andover Retirement System averaged 5.98%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Andover Retirement System was 10.06%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Andover Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 10, 1994

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.04(6) American Depository Receipts denominated in U. S. currency and listed on the New York Stock Exchange, provided that the total of all such investments shall be considered part of the board's equity asset allocation and shall not exceed 5% of the total market value of the portfolio.

March 20, 2001

1.01(2) It is the Board's position that its fiduciary duty requires that the Board participate in all class action lawsuits in which there exists reasonable cause to believe that the Board's assets have been diminished or, otherwise negatively affected, as a result of misconduct or fraud. In addition, the Board, in its sole discretion, may decide to participate in such actions as Lead Plaintiff under circumstances which would justify that role as an appropriate discharge of the Board's fiduciary responsibility.

Therefore, it shall be Board policy to direct any and all money managers having custody of or investment authority over any Board assets to enter into any and all class actions as described *automatically and without specific instructions* from the Board.

The decision to participate as Lead Plaintiff, however, shall be exclusively that of the Board.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Andover Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$648.48 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$648.48 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Andover Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 31, 1997

The Board voted to approve Veterans' Service Guidelines for purchases of veterans' service under Chapter 71 of the Acts of 1996.

March 12, 2001

Option

The spouse of any married employee retiring under G.L. c. 32 must sign the acknowledgement of his or her retiring spouse's option choice in the presence of an Andover Retirement Contributory System staff or Board member.

August 21, 2001

Fees for Copies of Public Records

1. Except where fees for copies and research of public records are prescribed by state statute or local by-laws, the Retirement Office shall charge no more than the following fees for copies of public records:

- a. For photocopies of a public record of standard reproducible size (8 1/2" x 11"): \$.20 per page.
- b. For requests which take more than 20 minutes to complete: A prorated fee of \$10.00 per hour for search time, with a minimum charge of \$5.00 (in addition to per page copy costs).
- c. For computer printout copies of a public record: \$.50 per page.
- d. For copies of public records not accessible using standard means: Actual cost of labor and materials.

2. The Retirement Office shall provide, if requested, a written good faith estimate of the copying and search time fees prior to complying with the request when the total costs are estimated to exceed ten dollars.

3. The Retirement Office will not assess a fee for the inspection of public records, unless compliance with such request for inspection takes more than 20 minutes, in which case 1b shall apply.

Document Availability

1. Requests for copies will be handled expeditiously; however, in those instances when staff time is not available, individuals will be advised when copies will be available.

2. Copies must be made by Retirement staff.

3. Documents may be viewed within the Retirement Office, with staff approval as to time and location, and will be responded to in an expeditious manner.

4. Members of committees requesting copies of public records will be charged a fee unless a letter is presented from the committee chairman (or designee) requesting the document for the use of the entire committee.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 24, 2006

Premiums for Retiree Health Insurance

The monthly premiums for a retiree and/or survivor's health insurance will be deducted from his/her gross monthly retirement check automatically *unless* their monthly check does not cover the full premium for their health insurance, in which case, the person will be billed monthly.

August 27, 2003

The Board adopted Supplemental Travel Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4), consistent with 840 CMR 2.00 et seq. (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Rodney P. Smith

Appointed Member: John C. Doherty Term Expires: 06/30/2009

Elected Member: James A. Cuticchia, Term Expires: 12/04/2008
Chairperson

Elected Member: Elena M. Kothman Term Expires: 11/05/2007

Appointed Member: Frank G. Castle Term Expires: 02/28/2009

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary Liability and
Ex-officio Member:)	\$1,000,000 Fidelity Bond (MACRS
Elected Member:)	policy) through St. Paul Travelers,
Appointed Member:)	National Union Fire, and Arch
Staff Employee:)	Insurance Co.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc. as of January 1, 2004.

The actuarial liability for active members was	\$58,527,951
The actuarial liability for inactive members was	439,695
The actuarial liability for retired members was	<u>45,264,252</u>
The total actuarial liability was	104,231,898
System assets as of that date were (actuarial value)	<u>81,431,072</u>
The unfunded actuarial liability was	<u>\$22,800,826</u>
The ratio of system's assets to total actuarial liability was	78.1%
As of that date the total covered employee payroll was	\$29,155,715

The normal cost for employees on that date was	8.46% of payroll
The normal cost for the employer was	6.26% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.50% per annum
Rate of Salary Increase:	6.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$81,431,072	\$104,231,898	\$22,800,826	78.1%	\$29,155,715	78.2%
1/1/2001	\$69,751,700	\$86,928,000	\$17,176,300	80.2%	\$24,595,800	69.8%
1/1/1999	\$59,349,800	\$76,915,300	\$17,565,500	77.2%	\$21,631,400	81.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	12	20	16	19	10	11	1	4	11	19
Ordinary Disability	1	0	0	0	0	0	0	0	1	0
Accidental Disability	0	1	1	1	2	4	0	2	5	0
Total Retirements	13	21	17	20	12	15	1	6	17	19
Total Retirees, Beneficiaries and Survivors	294	303	311	329	317	330	335	342	356	366
Total Active Members	630	674	685	748	765	821	761	748	764	771
Pension Payments										
Superannuation	\$1,937,469	\$2,203,843	\$2,552,069	\$2,769,177	\$3,010,390	\$3,207,086	\$3,313,541	\$3,608,586	\$3,824,774	\$4,075,576
Survivor/Beneficiary Payments	172,741	185,006	210,960	205,101	281,052	265,685	216,712	255,274	288,147	316,974
Ordinary Disability	115,445	105,323	96,953	111,241	126,904	104,786	97,502	96,429	87,184	94,349
Accidental Disability	387,160	388,745	408,244	428,093	461,274	522,458	698,228	707,546	850,198	944,411
Other	79,010	80,026	80,422	118,118	140,080	138,411	159,244	143,349	144,411	244,555
Total Payments for Year	<u>\$2,691,825</u>	<u>\$2,962,943</u>	<u>\$3,348,648</u>	<u>\$3,631,730</u>	<u>\$4,019,700</u>	<u>\$4,238,426</u>	<u>\$4,485,227</u>	<u>\$4,811,185</u>	<u>\$5,194,715</u>	<u>\$5,675,865</u>

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