

# PERAC AUDIT REPORT



Andover  
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2008



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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April 23, 2010

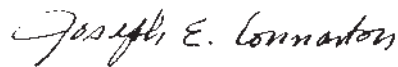
The Public Employee Retirement Administration Commission has completed an examination of the Andover Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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 Ryan and James Sweeney who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	As of December 31,	
	2008	2007
<b>Net Assets Available For Benefits:</b>		
Cash	\$628,772	\$503,236
PRIT Core Fund	66,273,447	95,199,051
Accounts Receivable	2,623,632	2,345,853
Accounts Payable	(118)	(13,992)
<b>Total</b>	<u>\$69,525,733</u>	<u>\$98,034,148</u>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$29,733,340	\$27,889,053
Annuity Reserve Fund	8,021,051	7,559,767
Pension Fund	(563,655)	1,409,942
Military Service Fund	8,156	1,484
Expense Fund	0	0
Pension Reserve Fund	32,326,840	61,173,902
<b>Total</b>	<u>\$69,525,733</u>	<u>\$98,034,148</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 (2007)	\$26,745,220	\$7,077,092	\$2,865,064	\$1,475	\$0	\$59,659,428	\$96,348,279
Receipts	3,067,652	214,529	4,663,892	9	603,169	1,517,190	10,066,441
Interfund Transfers	(1,228,221)	1,230,938	0	0	0	(2,716)	0
Disbursements	(695,598)	(962,792)	(6,119,015)	0	(603,169)	0	(8,380,573)
Ending Balance (2007)	27,889,053	7,559,767	1,409,942	1,484	0	61,173,902	98,034,148
Receipts	3,505,794	234,390	4,737,942	6,672	564,637	(28,850,204)	(19,800,770)
Interfund Transfers	(1,312,924)	1,309,782	0	0	0	3,142	0
Disbursements	(348,583)	(1,082,887)	(6,711,538)	0	(564,637)	0	(8,707,645)
Ending Balance (2008)	\$29,733,340	\$8,021,051	(\$563,655)	\$8,156	\$0	\$32,326,840	\$69,525,733

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
<b>Annuity Savings Fund:</b>		
Members Deductions	\$3,054,804	\$2,774,371
Transfers from Other Systems	268,690	71,210
Member Make Up Payments and Re-deposits	20,372	54,303
Member Payments from Rollovers	250	11,962
Investment Income Credited to Member Accounts	<u>161,678</u>	<u>155,806</u>
Sub Total	<u>3,505,794</u>	<u>3,067,652</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>234,390</u>	<u>214,529</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	161,254	123,082
	74,811	156,758
Pension Fund Appropriation	4,501,877	4,384,052
Sub Total	<u>4,737,942</u>	<u>4,663,892</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	6,664	0
Investment Income Credited to the Military Service Fund	<u>9</u>	<u>9</u>
Sub Total	<u>6,672</u>	<u>9</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>564,637</u>	<u>603,169</u>
Sub Total	<u>564,637</u>	<u>603,169</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	0	0
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,885	2,509
Miscellaneous Income	19,370	3,574
Excess Investment Income (Loss)	<u>(28,872,459)</u>	<u>1,511,107</u>
Sub Total	<u>(28,850,204)</u>	<u>1,517,190</u>
<b>Net Total Receipts</b>	<u>(\$19,800,770)</u>	<u>\$10,066,441</u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$140,653	\$289,732
Transfers to Other Systems	<u>207,930</u>	<u>405,866</u>
Sub Total	<u>348,583</u>	<u>695,598</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	1,068,743	962,792
Option B Refunds	<u>14,144</u>	<u>0</u>
Sub Total	<u>1,082,887</u>	<u>962,792</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	5,070,574	4,520,162
Survivorship Payments	350,258	349,498
Ordinary Disability Payments	96,279	95,315
Accidental Disability Payments	910,975	901,831
Accidental Death Payments	138,008	136,575
Section 101 Benefits	0	0
3 (8) (c) Reimbursements to Other Systems	145,443	115,633
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>6,711,538</u>	<u>6,119,015</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	6,000	6,000
Salaries	78,231	72,118
Legal Expenses	2,809	5,313
Medical Expenses	0	0
Travel Expenses	2,452	2,217
Administrative Expenses	31,655	2,829
Professional Services	17,387	27,900
Furniture and Equipment	4,249	1,133
Management Fees	415,527	432,415
Custodial Fees	0	10,032
Consultant Fees	1,000	38,050
Fiduciary Insurance	5,327	5,163
Sub Total	<u>564,637</u>	<u>603,169</u>
<b>Total Disbursements</b>	<b><u>\$8,707,645</u></b>	<b><u>\$8,380,573</u></b>

## INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007
<b>Investment Income Received From:</b>		
Cash	\$8,332	\$268,443
Short Term Investments	0	0
Fixed Income	0	1,083,267
Equities	0	50,406
Pooled or Mutual Funds	2,868,273	825,333
Commission Recapture	<u>0</u>	<u>0</u>
<b>Total Investment Income</b>	<u>2,876,605</u>	<u>2,227,449</u>
<b>Plus:</b>		
Realized Gains	1,072,206	1,770,232
Unrealized Gains	4,660,504	10,485,213
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>5,732,710</u>	<u>12,255,445</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(5,931,481)	(1,891,566)
Unrealized Loss	(30,589,579)	(10,095,531)
Interest Due and Accrued - Prior Year	0	(11,178)
Sub Total	<u>(36,521,060)</u>	<u>(11,998,275)</u>
<b>Net Investment Income (Loss)</b>	<u>(27,911,745)</u>	<u>2,484,620</u>
<b>Income Required:</b>		
Annuity Savings Fund	161,678	155,806
Annuity Reserve Fund	234,390	214,529
Military Service Fund	9	9
Expense Fund	<u>564,637</u>	<u>603,169</u>
<b>Total Income Required</b>	<u>960,714</u>	<u>973,513</u>
Net Investment Income (Loss)	<u>(27,911,745)</u>	<u>2,484,620</u>
Less: Total Income Required	<u>960,714</u>	<u>973,513</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>(\$28,872,459)</u>	<u>\$1,511,107</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2008	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$628,772	0.9%
PRIT Core Fund	<u>66,273,447</u>	<u>99.1%</u>
<b>Grand Total</b>	<b><u>\$66,902,219</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2008, the rate of return for the investments of the Andover Retirement System was -29.32%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Andover Retirement System averaged -0.73%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Andover Retirement System was 7.84%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Andover Retirement System voted to invest all of the system's assets with the PRIT fund. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

# 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 no later than the end of month they attain 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 \$708.60 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 \$312 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 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.

Cash is considered to be funds on deposit with banks and is available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value or real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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 the Public Employee Retirement Administration Commission:

#### Membership:

01/05/2000 - The Board voted to give members who are eligible to purchase active duty military service a choice of when to begin their military buyback, just as regular municipal makeups are handled. PERAC's guidelines require the member to apply for permission to do the makeup within the 180-day window, but nothing in the law requires the member to begin payment at that time.

10/30/1996 - Retirement Board voted to accept Veterans buyback – Chapter 71 of the Acts of 1996, with the following stipulations: the buyback must be completed (paid in full) within 5 years, the minimum payment per week will be \$10, and no interest will be charged.

09/29/1995 - Retirement Board voted to place emergency fire/police signal operators to Group 2 (dispatchers).

06/28/1991 - Retirement Board voted that effective 09/01/1991 any employee working 20 hours or more per week in a permanent position (except seasonal and substitutes) will have mandatory retirement deductions taken from day one of their employment; any employee working less than 20 hours per week would have mandatory OBRA (or social security) deductions taken.

10/29/1970 - Retirement Board voted to grant membership to crossing guards.

#### Creditable Service:

10/31/1972 - Retirement Board voted to grant a full year of creditable service for each year of service performed by an employee working in a permanent part time position of 20 hours or more per week.

07/01/1937 - The Retirement Board does not accept liability for substitute service of any nature.

#### Regular Compensation:

07/18/2006 - Retirement Board voted not to take retirement deductions from the following payments (effective dates are noted, if applicable):

Andover Independent Employees Association (AIEA)

Effective immediately

Tuition Reimbursement

Education Incentive (one time payments – not regular and recurring)

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Effective 07/01/2007:

15% longevity increase for 26-week period

American Federation of State, County, and Municipal Employees (AFSCME):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 8-week period

Andover Public Safety Emergency Signal Operators/Communicators (Dispatchers):

Effective for contract covering the periods July 1, 2004 through June 30, 2007:

15% longevity increase for 16-week period for members w/ 30 or more years service

15% longevity increase for 8-week period for member w/ less than 30 years service

Town of Andover Department Heads (Dept Heads):

Effective 07/01/2007:

15% longevity increase for 52-week period

International Association of Firefighters, Local 1658, AFL-CIO (Firefighter):

Effective 07/01/2007:

15% longevity increase for 52-week period

Andover Police Patrolmen's Union (APPO):

Effective 07/01/2007:

15% longevity increase for 52-week period

Andover Police Superior Officers Association (Superior Officers):

Effective 07/01/2007:

15% longevity increase for 52-week period

09/30/1997 - Retirement Board voted to take retirement deductions from the minute taker's salary (as long as it is not paid as overtime and the work is regular and recurring).

04/30/1996 - Retirement Board voted to take retirement deductions from employees doing fire alarm service.

06/29/1995 - Retirement Board voted not to take retirement deductions on sick days sold back at end of year.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Miscellaneous:

12/17/2007 - Any documents held in the retirement office that are scheduled for destruction which contain confidential information (ie, SSN, date of birth, etc) will be shredded before discarding or recycling.

02/22/2006 - 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.

02/23/2001 - The spouse of any married employee retiring under Mass General Laws chapter 32 must sign the acknowledgment of his or her retiring spouse's option choice in the presence of an Andover Contributory Retirement System staff or Board member.

8/27/2003 The Andover Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). 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: Robert J. O'Sullivan, Esq. Term Expires: 6/30/2011

Elected Member: James A. Cuticchia Term Expires: 12/4/2011

Elected Member: Elena M. Kothman Term Expires: 11/5/2010

Appointed Member: Anthony K. Stankiewicz, Esq. Term Expires: 6/30/2011

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 a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by 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 Members:	)	policy) through Travelers,
Appointed Members:	)	AIG, and Arch Insurance Co.
Staff Employee:	)	

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2007.

The actuarial liability for active members was	\$74,856,475
The actuarial liability for inactive members was	878,793
The actuarial liability for retired members was	<u>61,164,042</u>
The total actuarial liability was	136,899,310
System assets as of that date were	<u>99,952,824</u>
The unfunded actuarial liability was	<u>\$36,946,486</u>
The ratio of system's assets to total actuarial liability was	73.0%
As of that date the total covered employee payroll was	\$30,468,282

The normal cost for employees on that date was	8.60% of payroll
The normal cost for the employer was	2.80% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	4.75% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

(Dollars in Thousands)

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 )
1/1/2007	\$99,953	\$136,899	\$36,946	73.0%	\$30,468	121.3%
1/1/2004	\$81,431	\$104,232	\$22,801	78.1%	\$27,551	82.8%
1/1/2001	\$69,752	\$86,928	\$17,176	80.2%	\$24,596	69.8%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Retirement in Past Years</b>										
Superannuation	16	19	10	11	1	4	11	19	18	14
Ordinary Disability	0	0	0	0	0	0	1	0	0	0
Accidental Disability	1	1	2	4	0	2	5	0	0	0
<b>Total Retirements</b>	17	20	12	15	1	6	17	19	18	14
Total Retirees, Beneficiaries and Survivors	311	329	317	330	335	342	356	366	371	376
Total Active Members	685	748	765	821	761	748	764	771	756	747
<b>Pension Payments</b>										
Superannuation	\$2,552,069	\$2,769,177	\$3,010,390	\$3,207,086	\$3,313,541	\$3,608,586	\$3,824,774	\$4,075,576	\$4,520,162	\$5,070,574
Survivor/Beneficiary Payments	210,960	205,101	281,052	265,685	216,712	255,274	288,147	316,974	349,498	350,258
Ordinary Disability	96,953	111,241	126,904	104,786	97,502	96,429	87,184	94,349	95,315	96,279
Accidental Disability	408,244	428,093	461,274	522,458	698,228	707,546	850,198	944,411	901,831	910,975
Other	80,422	118,118	140,080	138,411	159,244	143,349	144,411	244,555	252,209	283,451
<b>Total Payments for Year</b>	<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>	<u>\$6,119,015</u>	<u>\$6,711,538</u>

PERAC

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