

# PERAC AUDIT REPORT



Blue Hills Regional School  
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

February 16, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Blue Hills Regional School Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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, with the exception of those noted in the findings presented in this report.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiners Martin J. Feeney and John J. Shea 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



## EXPLANATION OF FINDINGS AND RECOMMENDATIONS

### **I) Membership:**

A review of payroll and membership records showed several problems within the Retirement System. On the sample payroll reviewed, over one hundred employees were not members of the Retirement System:

a) Twelve School employees are not enrolled as members of the Retirement System. The School has not forwarded information to the Board about these employees. Some of the positions are funded through grants or are appointed annually. The School apparently believes they are not entitled to participate in the Retirement System. This violates G.L. c. 32, § 3(2)(g) which requires department heads to "...furnish to the board within thirty days after employing any new personnel or after the receipt of a written request therefore, a statement giving the name, address, title, rate of regular compensation, duties, date of birth and length and class of service of each employee in his department, and shall notify the board within thirty days of any change in the title, address, rate of compensation, duties or service of any employee in his department."

There appears to be an inconsistent application of membership criteria to determine eligibility for membership in the Blue Hills Retirement System. This item was cited as a finding in the prior audit.

b) Eight School employees did not have any type of retirement deductions withheld from their pay. PERAC Auditors were informed that these employees were retired Chapter 32 employees receiving Post-Retirement earnings. Blue Hills Regional did not have the required PERAC form, "Calculation Worksheet for Post-Retirement Earning in the Public Sector" on file. Nor could the school provide previous employment records or current retirement benefits for all of these employees.

c) Eighty-eight employees pay into an OBRA retirement plan. Twelve of these are cited under (I- a) above. It does appear that the other seventy-six would not be eligible for membership in the Blue Hills Retirement System.

### **Recommendation:**

Eligibility for membership in a retirement system is governed by G.L. c. 32, § 1 defines employees of the Blue Hills Regional Vocational School System as "any person, whether employed for a stated term or otherwise, who is engaged in duties which require that his time be devoted to the service of the system in each year during the ordinary working hours of regular and permanent employees." G.L. c. 32, § 3(2)(d) states in part that "In all cases involving part-time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service of any employee in any governmental unit ... the board shall have and exercise full jurisdiction to determine such employee's eligibility for membership ...".

The Payroll Department should provide a list of new employees to the Retirement Board Administrator on a monthly basis. The Board Administrator will present the list to the Board at the monthly meeting. The Board must review the status of these employees and enroll those that qualify as members. The Board shall ensure that these employees receive any and all benefits to which they are entitled under the statute. Further, the Board must review a complete School

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

payroll to determine whether there are additional employees eligible for membership who have not been enrolled and take corrective action. The Executive Secretary should proactively perform this same function periodically hereafter.

### **Board Response:**

The Board has accepted its first formal membership policy and has undertaken a review of the current payroll records of the school. The process will include all employees and will consider every employee who meets the formal qualifying criteria.

### **2) Membership – Overtime:**

Seven School employees employed in the Maintenance Department received overtime pay in the sample payroll tested. In each instance, retirement deductions were withheld from those payments. Overtime is not considered normal compensation and is not subject to retirement deductions. In fact, overtime payments paid to employees of the Maintenance Department have had retirement deductions taken since October 15, 2007.

### **Recommendation:**

Overtime is not regular compensation and therefore not subject to retirement deductions. Blue Hills Regional School should determine the total amount incorrectly withheld and the Retirement Board must refund all improperly withheld funds.

### **Board Response:**

The Board conducted a thorough review and has refunded 100% of all incorrect withholdings.

### **3. Board Meetings:**

Minutes of meetings held between 1/1/07 and 5/25/10 were reviewed for this audit. The auditor found that the Board did not meet “at least once in each month” as required by G.L. c. 32, § 20(5). The Board did not hold meetings in February 2007 or June 2008.

A review of meeting attendance by Board members revealed that one member missed 36% of the meetings in 2007, 42% of the meetings in 2009, and 80% of the meetings held to date in 2010.

Both items were cited as findings in the prior audit.

### **Recommendation:**

The Board must comply with G.L. c. 32, § 20(5) (a) and meet at least once in each month. Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board’s responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In instances where a significant level of absenteeism occurs, it is the Board’s responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

***Board Response:***

The Board takes this matter very seriously and has addressed the importance of attending with all of its members who have agreed to serve.

**FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
<b>Net Assets Available For Benefits:</b>			
Cash	\$3,650	\$208,175	\$17,267
PRIT Cash Fund	75,024	100,057	40,297
PRIT Core Fund	<u>5,601,431</u>	<u>4,747,803</u>	<u>6,959,610</u>
<b>Total</b>	<b><u>\$5,680,106</u></b>	<b><u>\$5,056,035</u></b>	<b><u>\$7,017,173</u></b>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$1,575,029	\$1,492,557	\$1,482,790
Annuity Reserve Fund	720,610	740,021	717,689
Pension Fund	178,483	102,190	0
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>3,205,983</u>	<u>2,721,267</u>	<u>4,816,694</u>
<b>Total</b>	<b><u>\$5,680,106</u></b>	<b><u>\$5,056,035</u></b>	<b><u>\$7,017,173</u></b>

## 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)	\$1,446,130	\$702,649	\$0	\$0	\$0	\$4,666,681	\$6,815,460
Receipts	164,750	22,837		0	54,126	700,274	1,015,392
Interfund Transfers	(97,932)	97,932	550,261	0	0	(550,261)	0
Disbursements	(30,158)	(105,728)	73,405(623,666)	0	(54,126)	0	(813,678)
Ending Balance (2007)	1,482,790	717,689	0	0	0	4,816,694	7,017,173
Receipts	184,839	22,819	750,837	0	52,149	(2,095,427)	(1,084,783)
Interfund Transfers	(113,043)	113,043	0	0	0	0	0
Disbursements	(62,029)	(113,530)	(648,648)	0	(52,149)	0	(876,356)
Ending Balance (2008)	1,492,557	740,021	102,190	0	0	2,721,267	5,056,035
Receipts	178,541	22,337	429,329	0	50,713	757,863	1,438,784
Interfund Transfers	(79,754)	79,754	273,147	0	0	(273,147)	0
Disbursements	(16,316)	(121,502)	(626,182)	0	(50,713)	0	(814,713)
Ending Balance (2009)	<u>\$1,575,029</u>	<u>\$720,610</u>	<u>\$178,483</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,205,983</u>	<u>\$5,680,106</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Members Deductions	\$171,486	\$166,419	\$156,489
Transfers from Other Systems	0	10,257	0
Member Make Up Payments and Re-deposits	0	0	0
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>7,056</u>	<u>8,163</u>	<u>8,261</u>
Sub Total	<u>178,541</u>	<u>184,839</u>	<u>164,750</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>22,337</u>	<u>22,819</u>	<u>22,837</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	28,721	34,243	61,491
	33,861	21,615	11,914
Pension Fund Appropriation	366,747	694,979	0
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>429,329</u>	<u>750,837</u>	<u>73,405</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>50,713</u>	<u>52,149</u>	<u>54,126</u>
Sub Total	<u>50,713</u>	<u>52,149</u>	<u>54,126</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	0	346	298
Excess Investment Income (Loss)	<u>757,863</u>	<u>(2,095,774)</u>	<u>699,977</u>
Sub Total	<u>757,863</u>	<u>(2,095,427)</u>	<u>700,274</u>
<b>Total Receipts, (Net)</b>	<u>\$1,438,784</u>	<u>(\$1,084,783)</u>	<u>\$1,015,392</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$0	\$41,275	\$15,376
Transfers to Other Systems	<u>16,316</u>	<u>20,754</u>	<u>14,782</u>
Sub Total	<u>16,316</u>	<u>62,029</u>	<u>30,158</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	121,502	113,530	105,728
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>121,502</u>	<u>113,530</u>	<u>105,728</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	577,813	543,563	512,947
Survivorship Payments	48,369	43,720	42,462
3 (8) (c) Reimbursements to Other Systems	0	61,364	68,257
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>626,182</u>	<u>648,648</u>	<u>623,666</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	0	0	0
Salaries	15,622	15,140	14,746
Legal Expenses	0	0	0
Travel Expenses	0	0	0
Administrative Expenses	3,907	7,604	2,852
Professional Services	2,100	0	0
Education and Training	0	0	0
Furniture and Equipment	0	0	0
Management Fees	29,085	29,404	36,528
Custodial Fees	0	0	0
Service Contracts	0	0	0
Fiduciary Insurance	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>50,713</u>	<u>52,149</u>	<u>54,126</u>
<b>Total Disbursements</b>	<b><u>\$814,713</u></b>	<b><u>\$876,356</u></b>	<b><u>\$813,678</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Investment Income Received From:</b>			
Cash	\$259	\$0	\$0
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	149,437	210,099	231,341
Commission Recapture	30	0	0
<b>Total Investment Income</b>	<u>149,725</u>	<u>210,099</u>	<u>231,341</u>
<b>Plus:</b>			
Realized Gains	111,595	77,981	550,146
Unrealized Gains	1,315,680	336,908	551,793
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>1,427,275</u>	<u>414,889</u>	<u>1,101,938</u>
<b>Less:</b>			
Realized Loss	(354,936)	(426,248)	0
Unrealized Loss	(384,095)	(2,211,383)	(548,079)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(739,031)</u>	<u>(2,637,631)</u>	<u>(548,079)</u>
<b>Net Investment Income (Loss)</b>	<u>837,969</u>	<u>(2,012,643)</u>	<u>785,200</u>
<b>Income Required:</b>			
Annuity Savings Fund	7,056	8,163	8,261
Annuity Reserve Fund	22,337	22,819	22,837
Military Service Fund	0	0	0
Expense Fund	50,713	52,149	54,126
<b>Total Income Required</b>	<u>80,106</u>	<u>83,131</u>	<u>85,223</u>
Net Investment Income (Loss)	<u>837,969</u>	<u>(2,012,643)</u>	<u>785,200</u>
Less: Total Income Required	80,106	83,131	85,223
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$757,863</u>	<u>(\$2,095,774)</u>	<u>\$699,977</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$3,650	0.06%	100.0%
PRIT Cash Fund	75,024	1.32%	100.0%
PRIT Core Fund	<u>5,601,431</u>	<u>98.62%</u>	100.0%
<b>Grand Total</b>	<u>\$5,680,106</u>	<u>100.00%</u>	

For the year ending December 31, 2009, the rate of return for the investments of the Blue Hills Regional School Retirement System was 17.46%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Blue Hills Regional School Retirement System averaged 4.28%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Blue Hills Regional School Retirement System was 8.63%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Blue Hills Regional School Retirement System effectively rescinded their supplementary investment regulations upon fully investing with the PRIT fund.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

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

### ADMINISTRATION

There are 105 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.

Qualifying members are assigned to a single class of membership in the Retirement System:

#### **Group I:**

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

## 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

There is no mandatory retirement age for employees in Group I.

### 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
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group I

## 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 I employees who retire at or after age 65.1% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

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 3% additional interest on their contributions if they voluntarily terminate their service.

## 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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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 \$729.84 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. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

## 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 \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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.

### 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 of 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 Blue Hills Regional School Retirement System has not submitted any current Supplementary Membership Regulations for approval by the Public Employee Retirement Administration Commission.

July 17, 2002

The Blue Hills Regional School 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 or at <http://www.mass.gov/perac/03travelreg/bluehilltravelreg.html>)

## 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 District School Treasurer 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: Charles Gisondi, Chairman

Appointed Member: Scott Ahern Term Expires: 12/31/10

Elected Member: Patricia Brooks Term Expires: 12/31/10

Elected Member: Virginia Frew Term Expires: 12/31/11

Appointed Member: John Wieliczki Term Expires: 12/31/12

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:	)	Coverage provided to a limit of \$10,000,000
Ex-officio Member:	)	under a master MACRS sponsored policy issued
Elected Members:	)	through Travelers Casualty and Surety Company of
Appointed Members:	)	America. Separate fidelity coverage pertaining to
Staff Employee:	)	ERISA/Crime to a limit of \$1,000,000 issued through
		Travelers Casualty and Surety, deductible \$10,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration System as of January 1, 2008.

The actuarial liability for active members was	\$4,355,689
The actuarial liability for non-vested terminated members was	38,334
The actuarial liability for retired members was	<u>5,046,965</u>
The total actuarial liability was	\$9,440,988
System assets as of that date were	<u>7,362,202</u>
The unfunded actuarial liability was	<u>\$2,078,786</u>
The ratio of system's assets to total actuarial liability was	78.0%
As of that date the total covered employee payroll was	\$1,824,128

The normal cost for employees on that date was	8.30% of payroll
The normal cost for the employer was	4.10% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Service based

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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 )
1/1/2008	\$7,362,202	\$9,440,988	\$2,078,786	78.0%	\$1,824,128	114.0%
1/1/2006	\$6,053,996	\$9,077,868	\$3,023,872	66.7%	\$1,648,885	183.4%
1/1/2004	\$5,200,263	\$8,358,268	\$3,158,005	62.2%	\$1,535,743	205.6%
1/1/2002	\$4,782,125	\$6,567,359	\$1,785,234	72.8%	\$1,581,565	112.9%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	3	0	3	3	4	1	2	2	2	1
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
<b>Total Retirements</b>	3	0	3	3	4	1	2	2	2	1
Total Retirees, Beneficiaries and Survivors	41	41	42	44	47	48	48	50	51	52
Total Active Members	53	55	56	53	46	46	46	46	46	42
<b>Pension Payments</b>										
Superannuation	\$260,247	\$277,724	\$297,073	\$352,267	\$450,236	\$459,504	\$503,561	\$512,947	\$543,563	\$577,813
Survivor/Beneficiary Payments	20,953	21,581	26,015	24,753	25,169	33,169	35,132	42,462	43,720	48,369
Ordinary Disability	3,590	1,134	0	0	0	0	0	0	0	0
Accidental Disability	3,053	3,145	0	0	0	0	0	0	0	0
Other	<u>11,865</u>	<u>17,794</u>	<u>102,355</u>	<u>14,289</u>	<u>57,710</u>	<u>42,882</u>	<u>42,882</u>	<u>68,257</u>	<u>61,364</u>	<u>0</u>
<b>Total Payments for Year</b>	<u>\$299,708</u>	<u>\$321,378</u>	<u>\$425,443</u>	<u>\$391,309</u>	<u>\$533,115</u>	<u>\$535,555</u>	<u>\$581,575</u>	<u>\$623,666</u>	<u>\$648,648</u>	<u>\$626,182</u>

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