

PERAC AUDIT REPORT



Chicopee
Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2010



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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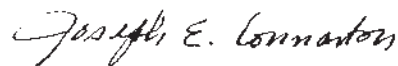
September 8, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Chicopee Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2010. 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 that noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson and Kimberly Clairemont 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 FINDING AND RECOMMENDATION

Regular Compensation

Retirement deductions are not being taken from the Housing Authority's on-call pay. This pay qualifies as regular compensation based on 840 CMR 15.03 (3) (a) and (b) which state, respectively, that regular compensation is wages for "services performed" (being on-call is a service to the employer) and that wages include "pre-determined, non-discretionary, guaranteed payments." A weekly \$50 payment fits this definition, even when it is rotated among several employees.

Recommendation: The Board should instruct the Housing Authority to begin contributions from the on-call pay. The rate of deduction must be the same as the members' other compensation plus the additional 2%, if applicable.

Board Response:

This situation has been addressed with the Housing Authority and the proper retirement deductions plus the additional 2%, if applicable, are now being taken from the on-call pay.

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,	
	2010	2009
Net Assets Available For Benefits:		
Cash	\$289,088	\$438,521
Short Term Investments	5,500,000	0
Pooled Domestic Equity Funds	63,033,535	51,706,579
Pooled International Equity Funds	27,287,166	23,812,271
Pooled Domestic Fixed Income Funds	25,997,302	23,319,455
Pooled International Fixed Income Funds	7,009,507	6,803,549
Pooled Alternative Investment Funds	15,269,094	14,740,882
Pooled Real Estate Funds	10,380,714	10,024,983
Hedge Funds	10,970,522	10,425,189
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Accounts Receivable	133,618	675,137
Accounts Payable	(68,864)	(85,436)
Total	<u>\$165,801,682</u>	<u>\$141,861,130</u>
Fund Balances:		
Annuity Savings Fund	\$47,509,827	\$45,025,217
Annuity Reserve Fund	11,209,691	11,162,330
Pension Fund	2,886,018	3,479,652
Military Service Fund	89,834	89,565
Expense Fund	0	0
Pension Reserve Fund	104,106,312	82,104,365
Total	<u>\$165,801,682</u>	<u>\$141,861,130</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 (2009)	42,735,202	10,593,922	3,354,878	89,120	0	51,782,499	108,555,620
Receipts	4,770,318	322,533	14,156,426	446	756,242	30,321,700	50,327,664
Interfund Transfers	(2,084,610)	2,084,444	0	0	0	166	(0)
Disbursements	(395,693)	(1,838,569)	(14,031,651)	0	(756,242)	0	(17,022,154)
Ending Balance (2009)	45,025,217	11,162,330	3,479,652	89,565	0	82,104,365	141,861,130
Receipts	4,671,961	332,927	13,926,034	269	873,266	22,001,027	41,805,483
Interfund Transfers	(1,672,103)	1,671,182	0	0	0	921	0
Disbursements	(515,248)	(1,956,749)	(14,519,668)	0	(873,266)	0	(17,864,931)
Ending Balance (2010)	<u>\$47,509,827</u>	<u>\$11,209,691</u>	<u>\$2,886,018</u>	<u>\$89,834</u>	<u>\$0</u>	<u>\$104,106,312</u>	<u>\$165,801,682</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2010	2009
Annuity Savings Fund:		
Members Deductions	\$4,375,095	\$4,472,240
Transfers from Other Systems	125,616	44,878
Member Make Up Payments and Re-deposits	17,199	33,925
Member Payments from Rollovers	11,080	13,486
Investment Income Credited to Member Accounts	<u>142,970</u>	<u>205,789</u>
Sub Total	<u>4,671,961</u>	<u>4,770,318</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>332,927</u>	<u>322,533</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	95,782	94,505
	448,048	502,643
Pension Fund Appropriation	13,382,203	13,538,277
Settlement of Workers' Compensation Claims	<u>0</u>	<u>21,000</u>
Sub Total	<u>13,926,034</u>	<u>14,156,426</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>269</u>	<u>446</u>
Sub Total	<u>269</u>	<u>446</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>873,266</u>	<u>756,242</u>
Sub Total	<u>873,266</u>	<u>756,242</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	115,884	88,158
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,698	2,383
Miscellaneous Income	29,613	5,889
Excess Investment Income	<u>21,852,833</u>	<u>30,225,270</u>
Sub Total	<u>22,001,027</u>	<u>30,321,700</u>
Total Receipts	<u>\$41,805,483</u>	<u>\$50,327,664</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009
Annuity Savings Fund:		
Refunds to Members	\$479,826	\$288,061
Transfers to Other Systems	<u>35,422</u>	<u>107,632</u>
Sub Total	<u>515,248</u>	<u>395,693</u>
Annuity Reserve Fund:		
Annuities Paid	1,914,987	1,804,921
Option B Refunds	<u>41,762</u>	<u>33,648</u>
Sub Total	<u>1,956,749</u>	<u>1,838,569</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	9,879,155	9,536,409
Survivorship Payments	833,277	797,576
Ordinary Disability Payments	102,541	135,893
Accidental Disability Payments	2,458,154	2,404,366
Accidental Death Payments	789,302	824,641
Section 101 Benefits	117,133	113,787
3 (8) (c) Reimbursements to Other Systems	340,106	218,978
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>14,519,668</u>	<u>14,031,651</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	197,376	204,360
Legal Expenses	15,236	7,981
Medical Expenses	65	0
Travel Expenses	1,789	1,685
Administrative Expenses	11,659	14,318
Professional Services	13,450	0
Education and Training	3,374	2,000
Furniture and Equipment	3,247	2,407
Management Fees	572,237	473,564
Custodial Fees	2,954	0
Consultant Fees	0	0
Service Contracts	24,692	23,683
Fiduciary Insurance	<u>12,185</u>	<u>11,244</u>
Sub Total	<u>873,266</u>	<u>756,242</u>
Total Disbursements	<u>\$17,864,931</u>	<u>\$17,022,154</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2010	2009
Investment Income Received From:		
Cash	\$1,586	\$3,343
Short Term Investments	0	0
Fixed Income	0	0
Equities	0	0
Pooled or Mutual Funds	7,983,348	3,984,862
Commission Recapture	0	0
Total Investment Income	<u>7,984,934</u>	<u>3,988,204</u>
Plus:		
Realized Gains	1,817,993	97,278
Unrealized Gains	37,620,023	48,232,453
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>39,438,016</u>	<u>48,329,730</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	0
Realized Loss	(1,035,196)	(4,576,256)
Unrealized Loss	(23,185,490)	(16,229,494)
Interest Due and Accrued - Prior Year	0	(1,905)
Sub Total	<u>(24,220,685)</u>	<u>(20,807,656)</u>
Net Investment Income	<u>23,202,264</u>	<u>31,510,279</u>
Income Required:		
Annuity Savings Fund	142,970	205,789
Annuity Reserve Fund	332,927	322,533
Military Service Fund	269	446
Expense Fund	873,266	756,242
Total Income Required	<u>1,349,432</u>	<u>1,285,010</u>
Net Investment Income	<u>23,202,264</u>	<u>31,510,279</u>
Less: Total Income Required	<u>1,349,432</u>	<u>1,285,010</u>
Excess Income To The Pension Reserve Fund	<u>\$21,852,833</u>	<u>\$30,225,270</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$289,088	0.2%
Short Term	5,500,000	3.3%
Pooled Domestic Equity Funds	63,033,535	38.0%
Pooled International Equity Funds	27,287,166	16.5%
Pooled Domestic Fixed Income Funds	25,997,302	15.7%
Pooled International Fixed Income Funds	7,009,507	4.2%
Pooled Alternative Investment Funds	15,269,094	9.2%
Pooled Real Estate Funds	10,380,714	6.3%
Hedge Funds	10,970,522	6.6%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$165,736,928</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Chicopee Retirement System was 17.20%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Chicopee Retirement System averaged 4.86%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Chicopee Retirement System was 8.67%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Chicopee Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

November 9, 2010

The Chicopee Retirement System is authorized to invest in the SEI Special Situations Fund, a fund of funds structured to capitalize on perceived market dislocations across a wide range of capital markets. Some of the underlying funds may purchase securities on margin or engage in short-selling. Managers of underlying funds may use futures contracts for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds may buy or sell options for hedging purposes or to implement basic portfolio strategies. Managers of underlying funds reserve the right to purchase restricted stock and to deal in collateral loans. Sections 21.01(7) and 21.01(10) do not apply to underlying fund managers' ability to directly invest in either mortgages or real estate. 21.01(9) does not apply to the lending activities of underlying fund managers.

December 17, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Global Private Equity Fund II (2007), L.P.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of PERAC to the contrary, including but not limited to the provisions of 840 CMR 21.01 (2) (3) (4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained herein for the purposes of investing in the SEI Structured Credit Fund, LP.

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the SEI Offshore Opportunities Fund, II Ltd.

July 29, 2008

Notwithstanding the provisions of any statute of the Commonwealth or regulations of the Public Employee Retirement Administration Commission to the contrary, including but not limited to the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Chicopee Retirement Board is hereby granted an exemption from restrictions on investment contained therein for the purposes of investing in the following SEI mutual funds, provided that the underlying investments conform to the terms of the fund prospectuses on file with the United States Securities and Exchange Commission:

SEI Institutional Investments Trust Disciplined Equity Fund
SEI Institutional Investments Trust World Equity Ex-US Fund
SEI Institutional Investments Trust Small/Mid Cap Equity Fund
SEI Institutional Investments Trust Core Fixed Income Fund
SEI Institutional Investments Trust High Yield Bond Fund
SEI Institutional Investments Trust Emerging Market Bond Fund

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Chicopee 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 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. 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.

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. As of July 1, 2010, those who leave service voluntarily with less than 10 years receive 3% interest.

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 Retirement Board has the option to increase this base in increments of \$1,000. 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 accounts are considered to be funds on deposit with banks and are 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 retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the 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 Chicopee Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

April 22, 1999

Membership:

Seasonal employees who work more than 20 hours per week for five months or more on a regular basis shall become members of the Chicopee Contributory Retirement System upon reaching eligibility.

December 4, 1998

Rules and Regulations: Requirements for Membership:

A permanent full time employee of any member unit of the Chicopee Contributory Retirement System shall become a member of the Chicopee Contributory Retirement System on the first day of employment.

A part time permanent employee who normally works more than twenty hours per week shall become a member of the Chicopee Contributory Retirement System on the first day of employment.

Temporary employees shall be ineligible for membership, however, upon becoming permanent, the employee shall have the option of purchasing prior service.

Elected officials shall continue to have the option of joining the Chicopee Contributory Retirement System in accordance with General Laws, Chapter 32, section 3(2)(a)(iv).

July, 25, 2005

Creditable Service:

Full time employees who become part-time shall have their service prorated as it relates to a full time position. If these employees work over twenty hours per week after switching from full-time to part-time, then these employees shall receive one year of creditable service provided they work all the hours required by their position.

December 4, 1998

Full time employees will receive one (1) year of creditable service provided they work the hours required by their position. Part time employees whose positions have always been part time shall be granted full creditable service. Part time employees who become full time shall have their part time service prorated as it relates to a full time position.

Buyback:

For any employee who is not a member of the Chicopee Contributory Retirement System on the first date of employment that employee, upon becoming a member, shall be allowed to buy back their service as a non-member regardless if the employee made contributions to deferred compensation.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

March 11, 2003

Travel:

The Chicopee Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). These regulations available upon written request and at PERAC's web site (<http://www.mass.gov/perac/03travelreg/chicopeetravelreg.html>).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2010.

The actuarial liability for active members was	\$136,259,221
The actuarial liability for inactive members was	815,506
The actuarial liability for retired members was	<u>134,867,278</u>
The total actuarial liability was	\$271,942,005
System assets as of that date were (actuarial value)	<u>156,047,243</u>
The unfunded actuarial liability was	<u>\$115,894,762</u>
The ratio of system's assets to total actuarial liability was	57.4%
As of that date the total covered employee payroll was	\$51,818,425

The normal cost for employees on that date was 8.5% of payroll
 The normal cost for the employer was 5.9% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

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)
1/1/2010	\$156,047,243	\$271,942,005	\$115,894,762	57.4%	\$51,818,425	223.7%
1/1/2008	\$152,421,634	\$247,050,198	\$94,628,564	61.7%	\$46,432,360	203.8%
1/1/2007	\$138,063,455	\$234,411,155	\$96,347,700	58.9%	\$43,926,570	219.3%
1/1/2006	\$127,405,049	\$224,623,915	\$97,218,866	56.7%	\$40,556,796	239.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	21	46	23	17	23	18	18	24	26	26
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	4	0	2	5	2	3	3	6	1	2
Total Retirements	25	47	25	22	25	21	21	30	27	28
Total Retirees, Beneficiaries and Survivors	843	864	852	853	852	833	828	824	810	795
Total Active Members	1,213	1,178	1,182	1,179	1,182	1,197	1,199	1,227	1,226	1,216
Pension Payments										
Superannuation	\$7,033,385	\$7,619,618	\$8,249,290	\$8,731,137	\$8,823,782	\$8,940,825	\$9,122,273	\$9,183,214	\$9,536,409	\$9,879,155
Survivor/Beneficiary Payments	604,518	666,683	643,371	649,085	669,842	710,689	724,731	773,317	797,576	833,277
Ordinary Disability	149,296	160,591	173,296	171,889	158,415	171,839	172,104	165,104	135,893	102,541
Accidental Disability	1,836,300	1,777,609	1,887,790	2,043,662	2,104,734	2,341,093	2,215,457	2,324,625	2,404,366	2,458,154
Other	722,498	785,033	856,079	1,002,493	1,048,757	1,087,922	1,118,556	1,195,947	1,157,407	1,246,541
Total Payments for Year	<u>\$10,345,997</u>	<u>\$11,009,534</u>	<u>\$11,809,826</u>	<u>\$12,598,266</u>	<u>\$12,805,530</u>	<u>\$13,252,368</u>	<u>\$13,353,121</u>	<u>\$13,642,207</u>	<u>\$14,031,651</u>	<u>\$14,519,668</u>

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