

PERAC AUDIT REPORT



Adams

Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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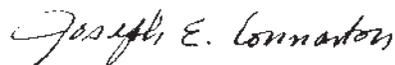
November 2, , 2012

The Public Employee Retirement Administration Commission has completed an examination of the Adams Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. 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.

In closing, I acknowledge the work of examiner Scott Henderson 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. Expenses:

In December 2010 the Board paid a penalty to the IRS of \$205.59. Then in February 2011 there was a second penalty of \$1,376.46. Both of these penalties were caused by errors made in the Treasurer's office. These disbursements are not an appropriate use of retirement funds.

After these payments the Board continued to receive notices from the IRS (including a lien of \$72,000). The Board hired a tax attorney, spending \$2,500 in 2011 and \$6,000 through the first 6 months of 2012.

At the recommendation of the tax attorney all tax related functions were removed from the Treasurer and are now being handled by the Board administrator. The Treasurer's monthly stipend has been stopped.

Recommendation: The Town Treasurer's Office is the custodian of the retirement system's funds pursuant to G.L. c. 32, § 23 (2)(a). Implied in the custodian's duty is to ensure compliance with federal tax laws. The Treasurer's Office was responsible for the errors. The Board must insist on reimbursement from the Town to recover the penalties paid as well as the tax attorney's fees.

Board Response:

As soon as the Board discovered what was going on, immediate steps were taken to correct the errors. The Board's attorney, Michael Sacco, will be drafting a letter addressed to the Town, for reimbursement of all penalties paid and also the entire Tax Attorney's fees.

2. Regular Compensation:

Retirement deductions are not being withheld from the police department's longevity pay. Longevity pay is regular compensation pursuant to 840 CMR 15.03 (3)(b): "... wages shall include payments made ... because of the employee's length of service ..."

Recommendation: The payroll department should be instructed to begin withholding retirement contributions from this pay immediately.

Board Response:

The Payroll Department was notified of this and the deductions will be taken out the next time Longevity is paid in January.

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,		
	2011	2010	2009
Net Assets Available For Benefits:			
Cash	\$1,648,233	\$1,357,339	\$481,453
Short Term Investments	4,036,537	4,335,505	1,912,941
Fixed Income Securities	5,059,123	5,472,784	6,985,764
Equities	14,759,290	14,249,307	13,022,723
Pooled International Equity Funds	1,252,228	1,453,596	1,332,678
Interest Due and Accrued	27,862	38,519	34,939
Accounts Receivable	51,116	0	1,074,334
Total	<u>\$26,834,389</u>	<u>\$26,907,049</u>	<u>\$24,844,832</u>
Fund Balances:			
Annuity Savings Fund	\$6,329,963	\$6,220,996	\$6,092,774
Annuity Reserve Fund	1,918,882	1,957,835	1,824,502
Pension Fund	1,555,071	1,766,643	1,984,455
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	17,030,473	16,961,575	14,943,102
Total	<u>\$26,834,389</u>	<u>\$26,907,049</u>	<u>\$24,844,832</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)	\$5,823,317	\$1,775,588	\$2,147,203	\$0	\$0	\$11,416,540	\$21,162,647
Receipts	604,125	49,855	1,222,671	0	158,562	3,526,562	5,561,776
Interfund Transfers	(250,756)	250,756	0	0	0	0	0
Disbursements	(83,913)	(251,696)	(1,385,419)	0	(158,562)	0	(1,879,590)
Ending Balance (2009)	6,092,774	1,824,502	1,984,455	0	0	14,943,102	24,844,832
Receipts	607,070	50,997	1,235,977	0	220,927	2,018,473	4,133,444
Interfund Transfers	(356,021)	356,021	0	0	0	0	0
Disbursements	(122,827)	(273,685)	(1,453,788)	0	(220,927)	0	(2,071,227)
Ending Balance (2010)	6,220,996	1,957,835	1,766,643	0	0	16,961,575	26,907,049
Receipts	613,533	54,817	1,281,776	0	228,882	68,898	2,247,905
Interfund Transfers	(249,206)	249,206	0	0	0	0	0
Disbursements	(255,360)	(342,976)	(1,493,348)	0	(228,882)	0	(2,320,566)
Ending Balance (2011)	<u>\$6,329,963</u>	<u>\$1,918,882</u>	<u>\$1,555,071</u>	<u>\$0</u>	<u>\$0</u>	<u>\$17,030,473</u>	<u>\$26,834,389</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	\$540,309	\$551,478	\$552,428
Transfers from Other Systems	3,112	37,115	22,333
Member Make Up Payments and Re-deposits	53,582	360	283
Investment Income Credited to Member Accounts	<u>16,530</u>	<u>18,118</u>	<u>29,081</u>
Sub Total	<u>613,533</u>	<u>607,070</u>	<u>604,125</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>54,817</u>	<u>50,997</u>	<u>49,855</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	4,410	6,684	9,809
Pension Fund Appropriation	<u>1,240,270</u>	<u>1,181,956</u>	<u>1,162,924</u>
Sub Total	<u>1,281,776</u>	<u>1,235,977</u>	<u>1,222,671</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>228,882</u>	<u>220,927</u>	<u>158,562</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	32,101	44,282	32,495
Interest Not Refunded	0	256	477
Miscellaneous Income	106	1,011	481
Excess Investment Income	<u>36,690</u>	<u>1,972,925</u>	<u>3,493,108</u>
Sub Total	<u>68,898</u>	<u>2,018,473</u>	<u>3,526,562</u>
Total Receipts	<u>\$2,247,905</u>	<u>\$4,133,444</u>	<u>\$5,561,776</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	\$187,470	\$87,563	\$64,716
Transfers to Other Systems	<u>67,890</u>	<u>35,264</u>	<u>19,196</u>
Sub Total	<u>255,360</u>	<u>122,827</u>	<u>83,913</u>
Annuity Reserve Fund:			
Annuities Paid	285,316	273,685	251,696
Option B Refunds	<u>57,660</u>	<u>0</u>	<u>0</u>
Sub Total	<u>342,976</u>	<u>273,685</u>	<u>251,696</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,136,245	1,104,492	1,087,715
Survivorship Payments	88,079	79,406	79,995
Ordinary Disability Payments	50,796	49,716	45,611
Accidental Disability Payments	144,519	142,771	96,409
Section 101 Benefits	0	13,871	11,552
3 (8) (c) Reimbursements to Other Systems	<u>73,709</u>	<u>63,532</u>	<u>64,136</u>
Sub Total	<u>1,493,348</u>	<u>1,453,788</u>	<u>1,385,419</u>
Expense Fund:			
Board Member Stipend	14,000	15,000	15,000
Salaries	48,327	45,616	42,562
Legal Expenses	12,940	5,382	2,594
Medical Expenses	0	0	15
Travel Expenses	1,034	1,072	1,356
Administrative Expenses	18,144	18,629	15,748
Education and Training	540	540	500
Management Fees	87,572	80,104	51,896
Custodial Fees	25,410	21,379	23,059
Rent Expenses	4,200	4,200	4,100
Service Contracts	14,793	27,298	0
Fiduciary Insurance	<u>1,922</u>	<u>1,708</u>	<u>1,732</u>
Sub Total	<u>228,882</u>	<u>220,927</u>	<u>158,562</u>
Total Disbursements	<u>\$2,320,566</u>	<u>\$2,071,227</u>	<u>\$1,879,590</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	\$2,817	\$5,181	\$8,628
Short Term Investments	5,327	4,375	4,092
Fixed Income	194,637	209,209	317,023
Equities	378,244	301,271	229,302
Pooled or Mutual Funds	<u>17,226</u>	<u>16,418</u>	<u>19,166</u>
Total Investment Income	<u>598,252</u>	<u>536,454</u>	<u>578,211</u>
Plus:			
Realized Gains	248,819	396,560	785,129
Unrealized Gains	1,177,572	1,698,830	3,085,645
Interest Due and Accrued - Current Year	<u>27,862</u>	<u>38,519</u>	<u>34,939</u>
Sub Total	<u>1,454,252</u>	<u>2,133,909</u>	<u>3,905,714</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(7)	0	(748)
Realized Loss	(290,415)	(197,904)	(641,376)
Unrealized Loss	(1,386,644)	(174,553)	(51,174)
Interest Due and Accrued - Prior Year	<u>(38,519)</u>	<u>(34,939)</u>	<u>(60,020)</u>
Sub Total	<u>(1,715,585)</u>	<u>(407,396)</u>	<u>(753,318)</u>
Net Investment Income (Loss)	<u>336,919</u>	<u>2,262,967</u>	<u>3,730,606</u>
Income Required:			
Annuity Savings Fund	16,530	18,118	29,081
Annuity Reserve Fund	54,817	50,997	49,855
Expense Fund	<u>228,882</u>	<u>220,927</u>	<u>158,562</u>
Total Income Required	<u>300,229</u>	<u>290,042</u>	<u>237,498</u>
Net Investment Income	<u>336,919</u>	<u>2,262,967</u>	<u>3,730,606</u>
Less: Total Income Required	<u>300,229</u>	<u>290,042</u>	<u>237,498</u>
Excess Income To The Pension Reserve Fund	<u>\$36,690</u>	<u>\$1,972,925</u>	<u>\$3,493,108</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,648,233	6.2%
Short Term	4,036,537	15.1%
Fixed Income	5,059,123	18.9%
Equities	14,759,290	55.2%
Pooled International Equity Funds	<u>1,252,228</u>	<u>4.7%</u>
Grand Total	<u>\$26,755,411</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Adams Retirement System was 1.24%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Adams Retirement System averaged 2.01%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Adams Retirement System was 8.01%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Adams Retirement System has not submitted any supplementary investment regulations to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Adams 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 at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- 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. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular 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”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

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 \$774.36 per year (or \$312 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. c. 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 \$774.36 per year, per child (or \$312 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

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 (COLA) 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 COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

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 is unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

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” to Option A) 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” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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 Adams Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

October 2, 2002

Definitions of Full and Part Time Service

Full Time Service – Service while an employee having established hours of work consisting of a minimum of 30 hours per week for 36 weeks per year.

Part Time Service – Service while an employee having established hours of work consisting of less than 30 hours per week for 36 weeks per year.

June 6, 2002

Buy Backs

Active Members may buy back regular full time, regular part time, provisional full time, provisional part time, temporary full time, temporary part time, seasonal full time or seasonal part time service.

Inactive Members may buy back regular full time and regular part time service.

Active Members may make lump-sum payments or weekly payroll deductions of not less than twenty dollars (\$20.00) per week. Interest due will be recalculated during the month of January and the member will be notified of the change. At no time shall the length of time allowed for payroll deductions exceed five (5) years. The buyback of service must be completed prior to retirement.

Inactive members must make lump-sum payments.

Creditable Service

The Board will accept liability on a prior member for only full time and part time regular service.

Definitions

Full Time Service – Service while an employee having established hours of work consisting of a minimum of 35 hours per week for 52 weeks per year.

Part Time Service – Service while an employee having established hours of work consisting of less than 30 hours per week for 52 weeks per year.

Regular Service – Service while an employee that is appointed for a fixed period of time with a reasonable expectation of reappointment for continuing periods of time.

Temporary Service – Service while an employee that is appointed for a fixed period of time, not to exceed 8 months to replace employees who might be absent for extended periods.

Seasonal Service – Service while an employee that is appointed for a fixed period of time due to conditions caused by increased workload.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Provisional Service – Service while an employee that is appointed through a noncompetitive process to a position for a period of time to prevent stoppage of public business or hazard or serious inconvenience to the public.

March 12, 2001

Board Pay

To receive compensation under MGL Chapter 32 Section 20 Paragraph 6, board members must attend the monthly board meetings. Failure to attend meeting, will be grounds for forfeiture of monthly stipend for that month.

Board members may receive compensation when their absences are excused by a vote of the Board for the following reasons:

- a. work conflict,
- b. illness of board member or immediate family,
- c. vacation.

In order for the Board to grant an excused absence, the Board's Administrative Assistant or Chairman must be notified of the absence prior to the scheduled time of the meeting. The Board may grant an excused absence if notification is not received under extenuating circumstances.

Generally, board members will be granted only one (1) excused absence per calendar quarter, but may request more. The Board may, at its sole discretion, grant additional excused absences. The Board may refuse to grant an excused absence if the Board determines that the board member has a history of non-attendance or flagrant abuse of excused absences.

This supplemental rule provides rules on receipt of the retirement board stipend and is consistent with the provisions of G.L. c. 32.

August 31, 1987

Membership

Full time permanent employees who work at least 35 hours per week and are under age 65 shall join the retirement system as of their date of employment.

Employees who work at least 20 but less than 35 hours per week must join within 6 months of their date of employment but may join at an earlier date at the discretion of the board.

Appointed officials who receive compensation of at least \$5,000 per year may join within 90 days of each appointment

Elected officials who receive compensation may join within 90 days of each election.

Temporary employees, employees who are normally scheduled to work less than 20 hours per week, and appointed officials who receive compensation of less than \$5,000 per year are not eligible for membership.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

The board shall have full jurisdiction to determine the eligibility of employees for membership in all cases involving part time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service.

An employee, appointed official, or elected official who is presently a member of the system who would no longer be eligible for initial membership may at the member's option, continue membership. Service will be credited in accordance with the rules established under the section entitled "creditable service".

Creditable Service

Members who work at least 7 continuous months per year shall be credited with one year of service for each year worked.

Members who work less than 7 continuous months shall be credited on a prorated basis. For every 150 hours or portion thereof worked in a calendar year, a member shall receive credit for one month of service to a maximum of 12 months.

Members who are elected officials shall be credited with one year of service for any time served within the calendar year.

Members who are appointed/salaried employees shall be credited with service in accordance with their salary schedule.

Members shall be credited with one month of service to a maximum of 60 months for each month that a reserve or permanent intermittent police officer was on his/her respective list and was eligible for assignment to duty subsequent to his/her appointment.

Members who were full time employees who became part time or members who were part time employees and became full time shall have their part time service credited in the same manner as employees who work less than 7 continuous months.

Approved unpaid leaves of absence of not more than 30 days per calendar year shall not affect creditable service. Unapproved unpaid leaves of absence or approved unpaid leaves of absence in excess of 30 days per calendar year shall decrease creditable service for a like period.

Buy Backs

Every member except as noted below shall have the option to buy back periods of service worked prior to his/her acceptance as a member of the Retirement System.

Service shall be credited in accordance with the rules established under the section entitled "Creditable Service".

When buying back time, members must buy back entire blocks of previous service.

Members seeking to buy back time must submit, in writing, dates and places of previous employment. The Retirement Board will request all pertinent information from the appropriate agencies.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Changes in Employee Status

Member agencies must notify the retirement board within 90 days of any changes in employee status including workers' compensation, position held, and hours in work week.

Injuries

All major injuries incurred due to employment must be reported in writing to the Adams Retirement board within 90 days of the accident.

Regular Compensation

Shall include: annual rate of compensation as shown in an approved salary schedule; educational incentives; longevity; shift differentials.

Shall not include: unused vacation, sick leave or severance pay; amounts paid for hours worked beyond the normal work schedule; premiums for working holidays except as authorized by law; early retirement incentives; bonuses.

Disability Retirement Re-application

If the retirement board denies an application for accidental or ordinary disability, a similar application shall not be accepted within 1 year from the date of denial unless there is: new evidence; a new incident; or aggravation of a pre-existing condition.

Advance Payments

Upon acceptance by the retirement board of the provisions of c. 32, § 99, members who have filed applications for retirement may receive advance payments not to exceed 75% of their estimated allowance during such a period as is necessary for the processing of such application. Determination of such payments shall be made by the board of retirement.

Post Retirement Earnings

An accidental or ordinary disability retiree may not earn a sum that, when added to his/her retirement allowance, exceeds what the position from which he/she retired is presently paying plus \$5,000.

On or before April 15 of each year, every person retired for disability shall file with the board a statement of earnings for the previous year subscribed to by him/her under penalties of perjury. Failure to comply shall result in the withholding of allowance payments.

Annual Verification

Each retiree is required to annually file a certification of identification, signed under the penalties of perjury, with the retirement system. Failure to comply may result in the withholding of allowance payments.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Benefits to Dependents Who Have Attained Age 18

Benefits will cease regardless of age upon the marriage of the dependent or the death of the dependent.

Dependent's benefits cease at the age of 18 as stated in G.L. c. 32, § 12B unless the dependent is physically or mentally incapacitated from earning on the date of death of the member or if the dependent is a full time student.

Benefits are to be paid through date of graduation from college or through last day of schooling if the dependent does not complete college, provided that all such dependent benefits must cease at or before age 22, regardless of date of graduation or last day of schooling.

Benefits are to be paid through 18th birthday and resumed if dependent enters accredited educational institution with reimbursement made for summer months.

The parent/guardian will be contacted to provide the board with certification of attendance from the school and the parent/guardian will be informed regarding dependent's student status. Certification can only be made by the Registrar of the college or university or the chief administrative officer of the secondary school.

Public Records

The financial and medical records of the Adams Retirement System are not public records.

Refunds of Accumulated Deductions

A member is eligible for a refund of his/her accumulated deductions under the following conditions:

1. The member permanently leaves the service and does not intend to take a position in the Commonwealth of Massachusetts subject to the provisions of ss. 1-28 of c. 32 of the general laws.
2. The member is an elected official whose term has expired and he/she is not eligible for a retirement allowance.
3. If a member's retirement allowance amounts to less than \$600 a year, he/she may receive a refund of his/her accumulated total deductions. If a member's retirement allowance is less than \$360 a year, he/she must receive a refund instead of an allowance.
4. The member is a veteran who entered the employ of any governmental unit prior to 7/1/39 and is retiring under ss. 56-60A of G.L. c. 32.

A member who entered service after 1/1/84 is eligible for a refund of interest credited to his/her total deductions according to the following schedule:

1. The member has less than 60 months (5 years) of creditable service and he/she VOLUNTARILY terminated, he/she will receive no interest credited to total deductions.
2. The member has 60 months (5 years) but less than 120 months (10 years) of creditable service, and he/she VOLUNTARILY terminated, he/she will receive 50% of the interest credited to total deductions.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. The member has 120 months (10 years) or more of creditable service, or, if he/she was INVOLUNTARILY terminated, he/she will receive 100% of the interest credited to total deductions.

No refund will be given to a member who takes another position in the Commonwealth of Massachusetts subject to the provisions of ss. 1-28 of chapter 32. Said accumulated total deductions will be transferred to the appropriate retirement system.

A member may not apply for or receive a refund if the member is currently subject to workers' compensation

Travel Regulations

August 28, 2003

The Adams Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac/Adams>.

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 Commission as of January 1, 2010.

The actuarial liability for active members was	\$18,257,496
The actuarial liability for vested terminated members was	286,684
The actuarial liability for non-vested terminated members was	174,347
The actuarial liability for retired members was	<u>14,952,609</u>
The total actuarial liability was	\$33,671,136
System assets as of that date were	<u>27,329,315</u>
The unfunded actuarial liability was	<u>\$6,341,821</u>
The ratio of system's assets to total actuarial liability was	81.2%
As of that date the total covered employee payroll was	\$6,064,310

The normal cost for employees on that date was 8.3% of payroll

The normal cost for the employer was 6.3% of payroll

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

Investment Return: 7.50% 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	\$27,329,315	\$33,671,136	\$6,341,821	81.2%	\$6,064,310	104.6%
1/1/2008	\$27,491,805	\$30,421,846	\$2,930,041	90.4%	\$5,990,887	48.9%
1/1/2006	\$23,708,446	\$26,135,189	\$2,426,743	90.7%	\$5,789,937	41.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	8	3	4	1	5	8	4	5	5	7
Ordinary Disability	0	0	0	0	0	1	0	0	0	0
Accidental Disability	0	0	0	0	0	0	1	0	1	0
Total Retirements	8	3	4	1	5	9	5	5	6	7
Total Retirees, Beneficiaries and Survivors	145	150	149	144	138	143	146	137	134	145
Total Active Members	257	220	228	225	227	223	217	203	217	213
Pension Payments										
Superannuation	\$776,392	\$954,882	\$984,381	\$939,906	\$915,750	\$1,005,407	\$1,049,569	\$1,087,715	\$1,104,492	\$1,136,245
Survivor/Beneficiary Payments	77,069	86,791	119,680	75,260	81,426	77,194	88,904	79,995	79,406	88,079
Ordinary Disability	42,358	44,153	36,314	36,448	47,123	44,092	47,556	45,611	49,716	50,796
Accidental Disability	95,648	83,411	84,851	75,665	71,786	68,986	85,790	96,409	142,771	144,519
Other	60,995	47,115	72,397	50,749	64,664	103,312	85,760	75,689	77,403	73,709
Total Payments for Year	<u>\$1,052,462</u>	<u>\$1,216,352</u>	<u>\$1,297,623</u>	<u>\$1,178,028</u>	<u>\$1,180,749</u>	<u>\$1,298,991</u>	<u>\$1,357,579</u>	<u>\$1,385,419</u>	<u>\$1,453,788</u>	<u>\$1,493,348</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Adams Retirement Board leases approximately 254 square feet of space for its office located at 8 Park Street (Town Hall), Adams, MA. They signed a 3-year lease which will expire December 31, 2014. The landlord is the Town of Adams.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2011:

<u>For the year ending:</u>	<u>Annual Rent</u>
2012	\$4,200.00
2013	\$4,200.00
2014	\$4,200.00
Total future minimum lease payments required	<u>\$12,600.00</u>

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