

PERAC AUDIT REPORT



Concord
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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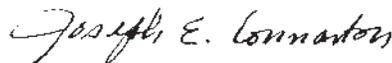
July 20, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Concord 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 examiners James Ryan and Susan Kerr 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. Member Retirement Deductions

The auditor reviewed payroll registers from the town, public school, and regional school to ensure that retirement deductions were correct based upon the members earnings types and membership date. It was observed that two members received separate checks for overtime pay in which retirement deductions were incorrectly withheld. Furthermore, a public school department employee had been excluded from retirement withholdings since October 2011 due to a payroll software problem. The estimated withholdings which need to be paid back by this member are approximately \$2,400.

Recommendation: Although the Retirement System staff works closely with payroll staff to ensure members' retirement withholdings are accurate, continued oversight is required. We recommend the staff periodically review a complete payroll register from the town, public school, and regional school and investigate any suspected problems. This practice will provide continuing oversight to confirm the accuracy of contributions.

Incorrectly withheld retirement deductions mentioned above must be either refunded to the members or paid into the Concord Retirement System.

Board Response:

Management concurs with the recommendation of the examiners' and will take the necessary steps to confirm the accuracy of contributions.

2. Board Member Attendance

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 42% of meetings in 2009. Another member missed 33% of the meetings in 2011. The result was an attendance rate for two Board members that is well below the 75 percent minimum attendance participation considered reasonable. Such a level of absenteeism is considered to be excessive.

Recommendation: 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.

Board Response:

There are no current problems with Board member attendance. The Board members will pay closer attention to attendance. The Board will maintain flexibility in scheduling meetings to achieve maximum attendance.

3. Annuity Reserve Fund Interest

The Annuity Reserve Fund Interest must be corrected to reflect the timely recognition of member retirements in the actual month of retirement. Clerical errors occurred in manually calculating the Annuity Reserve Interest from 2010 to 2011. Annuities and Option B refunds paid in December were not reflected in the manual calculation in the year in which they were paid. The prior audit

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

identified a similar issue on the Annuity Reserve Interest calculation and had recommended an adjusting entry to correct the issue.

Recommendation: Pursuant to G.L. c.32, § 22 (2) (a), member's balances should be transferred from the Annuity Savings Fund to the Annuity Reserve Fund when retirement allowances become effective. Based on the auditor's recalculation of the Concord Retirement System's Annuity Reserve Fund Interest for the years noted above, the System must record an adjusting journal entry to increase the Annuity Reserve Fund by \$8,921.93. The offsetting general ledger account is the Pension Reserve Fund. In the future we recommend including all Annuity Reserve Fund related general ledger activity recorded in the calendar year to be part of that years interest calculation.

Board Response:

The Board appreciates clarification on the correct procedure in calculating the Annuity Reserve interest and will proceed accordingly.

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	\$2,212,059	\$1,269,539	\$1,773,098
Fixed Income Securities	29,708,761	26,727,171	26,067,135
Pooled Domestic Equity Funds	21,673,113	22,995,311	20,145,519
Pooled International Equity Funds	4,640,051	4,922,816	4,185,880
Pooled Alternative Investment Funds	1,976,715	1,673,146	1,158,911
Pooled Real Estate Funds	2,413,056	2,178,740	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	31,845,826	31,999,738	28,550,861
Interest Due and Accrued	304,000	307,305	325,965
Accounts Receivable	501	649	15,192
Accounts Payable	<u>(69,264)</u>	<u>0</u>	<u>0</u>
Total	<u>\$94,704,818</u>	<u>\$92,074,415</u>	<u>\$82,222,560</u>
Fund Balances:			
Annuity Savings Fund	\$24,482,322	\$23,008,872	\$21,934,316
Annuity Reserve Fund	4,700,242	4,432,237	4,267,262
Pension Fund	2,221,360	3,345,790	1,519,206
Military Service Fund	4,466	6,220	6,202
Expense Fund	0	0	0
Pension Reserve Fund	<u>63,296,428</u>	<u>61,281,296</u>	<u>54,495,574</u>
Total	<u>\$94,704,818</u>	<u>\$92,074,415</u>	<u>\$82,222,560</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)	\$20,563,965	\$4,236,481	\$2,504,194	\$6,171	\$0	\$43,206,946	\$70,517,757
Receipts	2,436,587	117,740	3,270,942	31	503,230	11,278,249	17,606,779
Interfund Transfers	(667,295)	656,915	0	0	0	10,380	(0)
Disbursements	(398,942)	(743,875)	(4,255,929)	0	(503,230)	0	(5,901,975)
Ending Balance (2009)	21,934,316	4,267,262	1,519,207	6,202	0	54,495,574	82,222,561
Receipts	2,580,416	132,506	3,469,499	19	551,652	9,382,861	16,116,952
Interfund Transfers	(1,152,991)	895,559	2,854,571	0	0	(2,597,139)	0
Disbursements	(352,870)	(863,089)	(4,497,486)	0	(551,652)	0	(6,265,098)
Ending Balance (2010)	23,008,872	4,432,237	3,345,790	6,220	0	61,281,296	92,074,415
Receipts	2,892,404	136,044	3,604,673	12	609,220	2,048,763	9,291,117
Interfund Transfers	(954,660)	990,058	0	(1,767)	0	(33,630)	0
Disbursements	(464,294)	(858,097)	(4,729,104)	0	(609,220)	0	(6,660,714)
Ending Balance (2011)	<u>\$24,482,322</u>	<u>\$4,700,242</u>	<u>\$2,221,359</u>	<u>\$4,466</u>	<u>\$0</u>	<u>\$63,296,428</u>	<u>\$94,704,818</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	\$2,361,770	\$2,277,403	\$2,237,206
Transfers from Other Systems	374,049	201,078	95,602
Member Make Up Payments and Re-deposits	75,395	32,321	2,170
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>81,190</u>	<u>69,615</u>	<u>101,610</u>
Sub Total	<u>2,892,404</u>	<u>2,580,416</u>	<u>2,436,587</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>136,044</u>	<u>132,506</u>	<u>117,740</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	145,746	131,053	144,784
Pension Fund Appropriation	106,095	111,864	114,526
Settlement of Workers' Compensation Claims	3,352,832	3,226,582	3,011,632
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,604,673</u>	<u>3,469,499</u>	<u>3,270,942</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>19</u>	<u>31</u>
Sub Total	<u>12</u>	<u>19</u>	<u>31</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>609,220</u>	<u>551,652</u>	<u>503,230</u>
Sub Total	<u>609,220</u>	<u>551,652</u>	<u>503,230</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	4,630	1,339	3,582
Miscellaneous Income	0	379	1,020
Excess Investment Income	<u>2,044,133</u>	<u>9,381,142</u>	<u>11,273,647</u>
Sub Total	<u>2,048,763</u>	<u>9,382,861</u>	<u>11,278,249</u>
Total Receipts	<u>\$9,291,117</u>	<u>\$16,116,952</u>	<u>\$17,606,779</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	\$380,106	\$219,899	\$151,017
Transfers to Other Systems	84,187	132,972	247,925
Sub Total	<u>464,294</u>	<u>352,870</u>	<u>398,942</u>
Annuity Reserve Fund:			
Annuities Paid	822,369	770,420	711,657
Option B Refunds	35,727	92,669	32,217
Sub Total	<u>858,097</u>	<u>863,089</u>	<u>743,875</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,489,184	3,392,296	3,149,067
Survivorship Payments	104,336	97,211	99,492
Ordinary Disability Payments	98,350	96,173	94,011
Accidental Disability Payments	527,488	558,794	559,567
Accidental Death Payments	161,622	120,321	118,521
Section 101 Benefits	21,825	22,615	21,105
3 (8) (c) Reimbursements to Other Systems	220,202	210,076	214,165
State Reimbursable COLA's Paid	106,096	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	<u>4,729,104</u>	<u>4,497,486</u>	<u>4,255,929</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	72,202	66,402	64,344
Legal Expenses	5,908	1,511	4,307
Medical Expenses	0	0	0
Travel Expenses	2,182	1,184	2,398
Administrative Expenses	74,531	60,326	54,894
Professional Services	7,475	15,300	13,450
Education and Training	1,620	2,383	1,500
Management Fees	425,579	383,100	353,507
Rent Expenses	0	2,683	5,609
Service Contracts	15,986	15,225	0
Fiduciary Insurance	3,737	3,538	3,220
Depreciation	0	0	0
Sub Total	<u>609,220</u>	<u>551,652</u>	<u>503,230</u>
Total Disbursements	<u>\$6,660,714</u>	<u>\$6,265,098</u>	<u>\$5,901,975</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	\$4,588	\$4,155	\$17,173
Short Term Investments	0	0	0
Fixed Income	1,306,826	1,364,423	1,401,843
Equities	0	0	0
Pooled or Mutual Funds	1,471,711	1,182,715	995,136
Commission Recapture	0	0	0
Total Investment Income	<u>2,783,124</u>	<u>2,551,292</u>	<u>2,414,152</u>
Plus:			
Realized Gains	2,179,607	1,163,534	690,249
Unrealized Gains	11,102,628	17,123,892	18,431,257
Interest Due and Accrued - Current Year	304,000	307,305	325,965
Sub Total	<u>13,586,234</u>	<u>18,594,731</u>	<u>19,447,470</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(28,871)	(29,609)	(29,476)
Realized Loss	(108,679)	(100,890)	(1,847,703)
Unrealized Loss	(13,053,903)	(10,554,626)	(7,665,321)
Interest Due and Accrued - Prior Year	(307,305)	(325,965)	(322,865)
Sub Total	<u>(13,498,758)</u>	<u>(11,011,089)</u>	<u>(9,865,365)</u>
Net Investment Income	<u>2,870,600</u>	<u>10,134,934</u>	<u>11,996,257</u>
Income Required:			
Annuity Savings Fund	81,190	69,615	101,610
Annuity Reserve Fund	136,044	132,506	117,740
Military Service Fund	12	19	31
Expense Fund	609,220	551,652	503,230
Total Income Required	<u>826,467</u>	<u>753,791</u>	<u>722,611</u>
Net Investment Income	<u>2,870,600</u>	<u>10,134,934</u>	<u>11,996,257</u>
Less: Total Income Required	<u>826,467</u>	<u>753,791</u>	<u>722,611</u>
Excess Income To The Pension Reserve Fund	<u>\$2,044,133</u>	<u>\$9,381,142</u>	<u>\$11,273,647</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,212,059	2.3%
Fixed Income	29,708,761	31.4%
Pooled Domestic Equity Funds	21,673,113	22.9%
Pooled International Equity Funds	4,640,051	4.9%
Pooled Alternative Investment Funds	1,976,715	2.1%
Pooled Real Estate Funds	2,413,056	2.6%
PRIT Core Fund	<u>31,845,826</u>	<u>33.7%</u>
Grand Total	<u>\$94,469,582</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Concord Retirement System was 3.20%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Concord Retirement System averaged 2.34%. 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 Concord Retirement System was 8.44%.

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

October 24, 1996

20.03(1)

Equity investments shall not exceed 55% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.

January 25, 1996

20.03(1)

Equity investments shall not exceed 50% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.

January 25, 1996

20.04(1)

United States based corporations and equities of foreign corporations.

January 25, 1996

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Concord 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 \$751.80 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. 32, S. 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 \$751.80 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 relies upon their investment managers 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 Concord Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Creditable Service

August 8, 1995

One year of creditable service will be allowed for permanent part time employees who work 25 hours per week for 180 school days or 52 weeks a year as long as part time employment remains essentially the same.

Upon a reduction in hours to less than 25 hours per week employees will receive credit for hours worked prorated on the basis of full time employment.

Part time service credit is prorated on the basis of full time employment (37.5, 50, 40 or 42 hours).

Cafeteria workers working 6½ hours per day/180 school days will be allowed one year of creditable service.

Membership

August 8, 1995

Membership in the retirement system is mandatory for part time and full time employees working 25 hours per week or more who are permanent employees.

June 26, 2000

\$30,000 Cap The Town of Concord's method for calculating the 2% supplemental assessment for employees earning more than \$30,000 annualized is derived by dividing the annual salary by 52.2 weeks (26.1 biweekly) periods. The Town of Concord uses the amount over \$574.71 weekly (biweekly \$1,149.42) to compute the 2% assessment. The employee receives the weekly pay, 1/52.2 of annual salary throughout the year. There is no adjustment at the end of the year. According to the Compensation and Classification Bylaws of the Town, the annual rate set by the Town Meeting for employees is controlling. Accrued payroll is recorded as a budget expense on a per day basis for the town's fiscal period July 1- June 30. The Concord Retirement Board hereby accepts the Town of Concord's method for the 2% assessment calculation.

The Concord 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/Concord>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

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

Ex-officio Member: Gail Henry

Appointed Member: Anthony T. Logalbo Term Expires: 5/31/2012

Elected Member: Peter J. Fulton, Chairman Term Expires: 10/29/2013

Elected Member: Brian Whitney Term Expires: 5/29/2014

Appointed Member: Arnold Roth Term Expires: 12/30/2012

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. 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 a layered program with Travelers
Appointed Members:)	National Union Fire, and Arch.
Staff Employees:)	Separate fidelity coverage pertaining to
		ERISA/Crime to a limit of \$1,000,000 issued
		through Travelers Casualty and Surety Company

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2010.

The actuarial liability for active members was	\$60,432,578
The actuarial liability for inactive members was	1,481,086
The actuarial liability for retired members was	44,140,405
The total actuarial liability was	\$106,054,069
System assets as of that date were	<u>90,444,816</u>
The unfunded actuarial liability was	<u>\$15,609,253</u>
The ratio of system's assets to total actuarial liability was	85.3%
As of that date the total covered employee payroll was	\$24,096,576

The normal cost for employees on that date was 8.9% of payroll

The normal cost for the employer was 4.3% of payroll

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

Investment Return: 7.75% per annum

Rate of Salary Increase: 4.50% per annum

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	\$90,444,816	\$106,054,069	\$15,609,253	85.3%	\$24,096,576	64.8%
1/1/2008	\$90,963,000	\$94,681,000	\$3,718,000	96.1%	\$21,295,000	17.5%
1/1/2006	\$75,974,000	\$83,989,000	\$8,015,000	90.5%	\$18,925,000	42.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	4	15	4	12	10	7	8	11	11	19
Ordinary Disability	1	1	0	0	1	1	1	0	0	0
Accidental Disability			0	0	1	1		0	0	0
Total Retirements	5	16	4	12	12	9	9	11	11	19
Total Retirees, Beneficiaries and Survivors	264	266	248	244	251	254	260	255	255	263
Total Active Members	445	457	451	459	452	499	479	475	471	499
Pension Payments										
Superannuation	\$2,409,674	\$2,495,610	\$2,615,304	\$2,611,698	\$2,779,842	\$2,921,855	\$2,987,075	\$3,149,067	\$3,392,296	\$3,489,185
Survivor/Beneficiary Payments	59,202	79,670	63,552	85,286	79,440	78,886	146,412	99,492	97,211	104,336
Ordinary Disability	79,758	109,341	77,861	117,905	123,189	125,581	112,938	94,011	96,173	98,350
Accidental Disability	382,528	494,793	427,794	411,624	448,854	448,854	580,222	560,013	558,794	527,488
Other	306,105	171,610	283,392	305,696	315,888	315,888	278,323	353,345	353,011	509,745
Total Payments for Year	<u>\$3,237,267</u>	<u>\$3,351,024</u>	<u>\$3,467,903</u>	<u>\$3,532,209</u>	<u>\$3,747,213</u>	<u>\$3,891,064</u>	<u>\$4,104,970</u>	<u>\$4,255,929</u>	<u>\$4,497,486</u>	<u>\$4,729,104</u>

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