

PERAC AUDIT REPORT



Fitchburg
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	21
Note 5 - Actuarial Valuation and Assumptions.....	22
Note 6 - Membership Exhibit.....	23

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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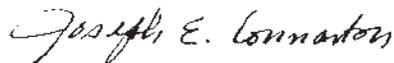
June 21, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Fitchburg Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 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 those noted in the findings 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 FINDINGS AND RECOMMENDATIONS

I. Appropriations

A review of the appropriations due the Fitchburg Retirement System determined that the Fitchburg Housing Authority (FHA) was not remitting its share on a timely basis. Two of the four quarterly payments for Fiscal Year 2009, which were due by June 30, 2009, were instead received by the Retirement Board in August 2009 and November 2009. For Fiscal Year 2010 payments were due by June 30, 2010, but one payment was received in November 2010, and the final quarterly payment had not been made by the end of the audit period. While no payments for Fiscal Year 2011 had been made by the end of the audit period, we were informed at the conclusion of the audit fieldwork that payments had been received.

Recommendation: The Board must collect the full amount of the assigned appropriations from the FHA on a timely basis. Appropriations shall be paid from any available funds in the treasury of the governmental unit obligated by law to support the system. It should be noted that the actual cost of late payments is that of investment income foregone by the System. Failure to satisfy its obligations to the System can result in legal action for recovery by contract as noted in G.L. c. 32, § 22 (7) (c) (iv). A formal plan should be established with officials of the FHA for meeting their obligations within the required time frame of the funding schedule.

Board Response:

The PERAC audit findings were communicated with the Fitchburg Housing Authority (FHA), which has accelerated payments to the System. They will be current with their payments by mid-June. As our original billing for FY12, if payment is not made by July 1, 2011, FHA or any other governmental until, will be charged the appropriate interest from July 1, 2011 until paid.

2. Regular Compensation

Retirement deductions are not being taken from the Fitchburg Housing Authority's weekly "on call" pay. This is 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." This compensation, as described in the contract, fits the definition. In this specific case, the weekly payment amount made for the "on-call" service is based on the equivalent of four hours paid at time and a half. While the calculation to determine the "on-call" compensation is based on an overtime rate, it does not disqualify the pay type from being regular compensation because it is used solely to establish compensation for this particular service. However, if as a result of this "on-call" service, actual time is required and an additional payment is made at an overtime rate, such compensation is correctly excluded from the retirement contributions.

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

Board Response:

The FHA has begun withholding retirement deductions on Pager Pay.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

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	2008
Net Assets Available For Benefits:			
Cash	\$1,738,709	\$1,373,593	\$1,420,233
Pooled Real Estate Funds	2,427,528	3,199,107	4,047,294
PRIT Core Fund	75,846,540	69,552,266	61,779,594
Interest Due and Accrued	0	0	0
Prepaid Expenses	0	0	0
Accounts Receivable	238,085	192,236	128,074
Premises and Equipment, Net	0	0	0
Accounts Payable	(8,964)	(3,877)	(534)
Total	<u>\$80,241,898</u>	<u>\$74,313,326</u>	<u>\$67,374,661</u>
Fund Balances:			
Annuity Savings Fund	\$27,388,589	\$27,241,029	\$26,824,043
Annuity Reserve Fund	11,999,592	11,124,421	10,640,596
Pension Fund	850,649	1,447,729	2,018,188
Military Service Fund	8,374	7,496	7,458
Expense Fund	0	0	0
Pension Reserve Fund	39,994,695	34,492,652	27,884,376
Total	<u>\$80,241,898</u>	<u>\$74,313,326</u>	<u>\$67,374,661</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 (2008)	\$26,942,046	\$9,165,854	\$1,182,447	\$7,414	\$0	\$56,509,323	\$93,807,083
Receipts	2,961,237	303,455	7,461,490	44	486,435	(25,981,369)	(14,768,707)
Interfund Transfers	(2,536,419)	2,535,812	2,644,186	0	0	(2,643,578)	0
Disbursements	(542,821)	(1,364,525)	(9,269,934)	0	(486,435)	0	(11,663,715)
Ending Balance (2008)	26,824,043	10,640,596	2,018,188	7,458	0	27,884,376	67,374,661
Receipts	2,571,931	323,252	7,702,764	37	497,122	8,129,566	19,224,671
Interfund Transfers	(1,609,455)	1,615,345	1,515,399	0	0	(1,521,290)	0
Disbursements	(545,490)	(1,454,773)	(9,788,622)	0	(497,122)	0	(12,286,006)
Ending Balance (2009)	27,241,029	11,124,421	1,447,729	7,496	0	34,492,652	74,313,326
Receipts	2,678,473	340,280	7,976,522	878	458,736	7,289,485	18,744,374
Interfund Transfers	(2,140,360)	2,139,726	1,788,077	0	0	(1,787,443)	0
Disbursements	(390,553)	(1,604,835)	(10,361,678)	0	(458,736)	0	(12,815,802)
Ending Balance (2010)	<u>\$27,388,589</u>	<u>\$11,999,592</u>	<u>\$850,649</u>	<u>\$8,374</u>	<u>\$0</u>	<u>\$39,994,695</u>	<u>\$80,241,898</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$2,395,912	\$2,389,377	\$2,493,916
Transfers from Other Systems	154,763	11,372	191,870
Member Make Up Payments and Re-deposits	35,663	33,103	72,740
Member Payments from Rollovers	14,158	9,962	58,874
Investment Income Credited to Member Accounts	<u>77,978</u>	<u>128,116</u>	<u>143,837</u>
Sub Total	<u>2,678,473</u>	<u>2,571,931</u>	<u>2,961,237</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>340,280</u>	<u>323,252</u>	<u>303,455</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	115,111	98,521	114,626
Pension Fund Appropriation	322,282	348,700	389,702
Settlement of Workers' Compensation Claims	7,531,729	7,250,042	6,957,162
	<u>7,400</u>	<u>5,500</u>	<u>0</u>
Sub Total	<u>7,976,522</u>	<u>7,702,764</u>	<u>7,461,490</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	856	0	0
Investment Income Credited to the Military Service Fund	<u>22</u>	<u>37</u>	<u>44</u>
Sub Total	<u>878</u>	<u>37</u>	<u>44</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>458,736</u>	<u>497,122</u>	<u>486,435</u>
Sub Total	<u>458,736</u>	<u>497,122</u>	<u>486,435</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	7,989	18,490	18,688
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,654	3,635	2,103
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>7,277,842</u>	<u>8,107,441</u>	<u>(26,002,160)</u>
Sub Total	<u>7,289,485</u>	<u>8,129,566</u>	<u>(25,981,369)</u>
Total Receipts, Net	<u>\$18,744,374</u>	<u>\$19,224,671</u>	<u>(\$14,768,707)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$155,280	\$291,120	\$242,672
Transfers to Other Systems	<u>235,273</u>	<u>254,370</u>	<u>300,148</u>
Sub Total	<u>390,553</u>	<u>545,490</u>	<u>542,821</u>
Annuity Reserve Fund:			
Annuities Paid	1,597,487	1,454,773	1,351,852
Option B Refunds	<u>7,348</u>	<u>0</u>	<u>12,673</u>
Sub Total	<u>1,604,835</u>	<u>1,454,773</u>	<u>1,364,525</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,581,865	6,120,201	5,737,269
Survivorship Payments	326,263	327,552	303,198
Ordinary Disability Payments	115,683	116,963	119,809
Accidental Disability Payments	1,172,820	1,133,892	1,069,119
Accidental Death Payments	298,476	299,363	304,549
Section 101 Benefits	116,217	115,850	116,167
3 (8) (c) Reimbursements to Other Systems	287,251	288,064	269,854
State Reimbursable COLA's Paid	1,463,104	1,386,737	1,349,970
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>10,361,678</u>	<u>9,788,622</u>	<u>9,269,934</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	74,673	70,260	65,936
Legal Expenses	5,933	3,803	3,064
Medical Expenses	0	0	0
Travel Expenses	184	862	1,471
Administrative Expenses	19,452	38,177	25,187
Professional Services	15,500	6,000	0
Education and Training	270	750	0
Furniture and Equipment	0	0	0
Management Fees	319,812	354,966	368,858
Service Contracts	0	0	0
Fiduciary Insurance	<u>7,913</u>	<u>7,304</u>	<u>6,919</u>
Sub Total	<u>458,736</u>	<u>497,122</u>	<u>486,435</u>
Total Disbursements	<u>\$12,815,802</u>	<u>\$12,286,006</u>	<u>\$11,663,715</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$2,979	\$3,834	\$26,065
Short Term Investments	0	0	0
Fixed Income	1,205	417	0
Equities	0	0	0
Pooled or Mutual Funds	1,973,861	1,849,855	231,848
Commission Recapture	0	0	0
Total Investment Income	<u>1,978,045</u>	<u>1,854,106</u>	<u>257,913</u>
Plus:			
Realized Gains	1,849,997	1,349,301	0
Unrealized Gains	13,434,053	16,060,674	4,847,236
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>15,284,051</u>	<u>17,409,975</u>	<u>4,847,236</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(59,116)	(4,466,429)	0
Unrealized Loss	(9,048,120)	(5,741,685)	(30,173,537)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(9,107,237)</u>	<u>(10,208,113)</u>	<u>(30,173,537)</u>
Net Investment Income (Loss)	<u>8,154,859</u>	<u>9,055,968</u>	<u>(25,068,387)</u>
Income Required:			
Annuity Savings Fund	77,978	128,116	143,837
Annuity Reserve Fund	340,280	323,252	303,455
Military Service Fund	22	37	44
Expense Fund	458,736	497,122	486,435
Total Income Required	<u>877,016</u>	<u>948,527</u>	<u>933,773</u>
Net Investment Income (Loss)	<u>8,154,859</u>	<u>9,055,968</u>	<u>(25,068,387)</u>
Less: Total Income Required	877,016	948,527	933,773
Excess Income (Loss) To The Pension Reserve Fund	<u>\$7,277,842</u>	<u>\$8,107,441</u>	<u>(\$26,002,160)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2010	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,738,709	2.2%
Pooled Real Estate Funds	2,427,528	3.0%
PRIT Core Fund	<u>75,846,540</u>	<u>94.8%</u>
Grand Total	<u>\$80,012,777</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Fitchburg Retirement System was 14.73%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Fitchburg Retirement System averaged 1.92%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fitchburg Retirement System was 7.41%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Fitchburg Retirement System voted on August 28, 2007 to invest all of the system's assets (with the exception of the funds invested with TA Realty Associates) with the PRIT fund as of October 1, 2007. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Fitchburg 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, will receive 3% interest on their contributions if they voluntarily terminate their service.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$729.84 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

NOTES TO FINANCIAL STATEMENTS (Continued)

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash 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 the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss 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 Fitchburg Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

January 10, 1996

All employees of the City of Fitchburg who work a minimum of 20 hours per week for at least 35 weeks per year shall be members of the system and contribute according to existing statutes.

Creditable Service:

December 8, 1995

Buy-Backs: Anyone becoming aware for the first time of his or her eligibility under the 20-hour rule may buy back prior creditable service. Paybacks may be made in a lump-sum payment or through weekly deductions not to be less than \$3.00 per week

Regular Compensation:

February 9, 2000

Cleaning and Clothing Allowances: Since the retirement board recently voted to include these allowances as regular compensation as of January 1, 2000, these allowances will now begin to be paid.

Miscellaneous:

December 8, 1995

Procedure for New Employees: All departments shall notify the Retirement Office of any new employees, giving the name, job title and description, rate of pay, number of hours, and source of funding. No new employees will be put on the payroll if the above procedure has not been met.

Annual Questionnaires: Pensioners and member survivors are required to fill out and sign the annual Questionnaires which must be returned to the Retirement Board within two months of the month they are mailed out

July 19, 2002

The Fitchburg Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 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	\$76,918,503
The actuarial liability for inactive members was	1,016,118
The actuarial liability for retired members was	<u>98,169,953</u>
The total actuarial liability was	176,104,574
System assets as of that date were (actuarial value)	<u>82,820,777</u>
The unfunded actuarial liability was	<u>\$93,283,797</u>
The ratio of system's assets to total actuarial liability was	47.0%
As of that date the total covered employee payroll was	\$26,150,672

The normal cost for employees on that date was	8.80% of payroll
The normal cost for the employer was	3.20% of payroll

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

Investment Return:	7.95% per annum
Rate of Salary Increase:	4.25% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010 (Amounts rounded to thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	\$82,821,000	\$176,105,000	\$93,284,000	47.0%	\$26,151,000	356.7%
1/1/2008	\$92,018,000	\$167,874,000	\$75,856,000	54.8%	\$28,371,000	267.4%
1/1/2006	\$78,944,000	\$151,248,000	\$72,304,000	52.2%	\$28,483,000	253.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	11	15	40	23	4	15	21	27	22	30
Ordinary Disability	0	0	2	0	0	0	1	1	0	0
Accidental Disability	3	1	7	0	3	1	3	6	1	1
Total Retirements	14	16	49	23	7	16	25	34	23	31
Total Retirees, Beneficiaries and Survivors	501	503	553	569	557	547	558	572	535	562
Total Active Members	817	811	694	710	718	723	669	622	554	554
Pension Payments										
Superannuation	\$3,418,321	\$3,529,389	\$4,048,621	\$4,881,381	\$4,958,880	\$5,004,509	\$5,306,357	\$5,737,269	\$6,120,201	\$6,581,865
Survivor/Beneficiary Payments	249,598	226,788	221,464	240,126	272,003	278,642	292,571	303,198	327,552	326,263
Ordinary Disability	111,602	111,602	109,110	111,885	104,450	98,639	113,591	119,809	116,963	115,683
Accidental Disability	545,089	531,884	647,966	739,726	756,344	922,895	887,300	1,069,119	1,133,892	1,172,820
Other	<u>1,402,765</u>	<u>1,495,869</u>	<u>1,610,548</u>	<u>1,847,677</u>	<u>1,845,595</u>	<u>1,925,503</u>	<u>2,015,389</u>	<u>2,040,540</u>	<u>2,090,014</u>	<u>2,165,048</u>
Total Payments for Year	<u>\$5,727,375</u>	<u>\$5,895,532</u>	<u>\$6,637,709</u>	<u>\$7,820,795</u>	<u>\$7,937,272</u>	<u>\$8,230,188</u>	<u>\$8,615,208</u>	<u>\$9,269,934</u>	<u>\$9,788,622</u>	<u>\$10,361,679</u>

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