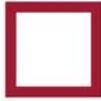


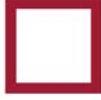
# PERAC AUDIT REPORT



North Adams  
Contributory Retirement System



JAN. 1, 2011 - DEC. 31, 2012





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

April 4, 2014

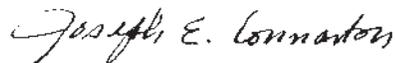
The Public Employee Retirement Administration Commission has completed an examination of the North Adams Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2012. This audit was conducted in accordance with the accounting and management 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.

We commend the North Adams Retirement Board for the exemplary operation of the system.

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





## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2012	2011
<b>Net Assets Available For Benefits:</b>		
Cash	\$163,023	\$48,491
Short Term Investments	3,283,230	1,318,904
Fixed Income Securities (at book value)	11,225,102	13,489,555
Equities	28,700,836	24,687,252
Pooled Alternative Investment Funds	354,943	256,944
Hedge Funds	847,559	782,184
Interest Due and Accrued	76,345	88,134
Accounts Receivable	389,086	104,288
Accounts Payable	<u>(1,017,171)</u>	<u>(15,234)</u>
<b>Total</b>	<b><u>\$44,022,953</u></b>	<b><u>\$40,760,519</u></b>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$9,375,667	\$9,042,688
Annuity Reserve Fund	3,578,566	3,552,424
Pension Fund	0	0
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	<u>31,068,720</u>	<u>28,165,407</u>
<b>Total</b>	<b><u>\$44,022,953</u></b>	<b><u>\$40,760,519</u></b>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$8,924,161	\$3,226,211	\$0	\$0	\$0	\$28,186,689	\$40,337,061
Receipts	949,111	101,038	2,430,890	0	270,411	1,151,076	4,902,527
Interfund Transfers	(738,825)	738,825	1,172,357	0	0	(1,172,357)	0
Disbursements	(91,758)	(513,651)	(3,603,248)	0	(270,411)	0	(4,479,068)
Ending Balance (2011)	9,042,688	3,552,424	0	0	0	28,165,407	40,760,519
Receipts	1,121,944	103,196	2,559,893	0	315,044	4,048,458	8,148,534
Interfund Transfers	(440,275)	440,275	1,145,145	0	0	(1,145,145)	0
Disbursements	(348,691)	(517,328)	(3,705,038)	0	(315,044)	0	(4,886,101)
Ending Balance (2012)	<u>\$9,375,667</u>	<u>\$3,578,566</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$31,068,720</u>	<u>\$44,022,953</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2012	2011
<b>Annuity Savings Fund:</b>		
Members Deductions	\$907,846	\$888,868
Transfers from Other Systems	175,864	0
Member Make Up Payments and Re-deposits	20,078	40,239
Member Payments from Rollovers	2,620	0
Investment Income Credited to Member Accounts	<u>15,536</u>	<u>20,004</u>
Sub Total	<u>1,121,944</u>	<u>949,111</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>103,196</u>	<u>101,038</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	28,838	28,024
Pension Fund Appropriation	97,211	111,951
Recovery of 91A Overearnings	2,428,372	2,290,916
	<u>5,471</u>	<u>0</u>
Sub Total	<u>2,559,893</u>	<u>2,430,890</u>
<b>Expense Fund:</b>		
Investment Income Credited to the Expense Fund	<u>315,044</u>	<u>270,411</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	10,780	10,171
Interest Not Refunded	6	0
Miscellaneous Income	0	427
Excess Investment Income	<u>4,037,672</u>	<u>1,140,477</u>
Sub Total	<u>4,048,458</u>	<u>1,151,076</u>
<b>Total Receipts, Net</b>	<u>\$8,148,534</u>	<u>\$4,902,527</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$297,105	\$65,402
Transfers to Other Systems	<u>51,586</u>	<u>26,357</u>
Sub Total	<u>348,691</u>	<u>91,758</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	517,328	482,882
Option B Refunds	<u>0</u>	<u>30,768</u>
Sub Total	<u>517,328</u>	<u>513,651</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	2,106,140	2,050,275
Survivorship Payments	166,221	148,250
Ordinary Disability Payments	56,437	71,693
Accidental Disability Payments	884,797	928,206
Accidental Death Payments	262,594	288,182
Section 101 Benefits	2,141	6,273
3 (8) (c) Reimbursements to Other Systems	129,498	110,370
State Reimbursable COLA's Paid	<u>97,211</u>	<u>0</u>
Sub Total	<u>3,705,038</u>	<u>3,603,248</u>
<b>Expense Fund:</b>		
Salaries	66,755	48,239
Legal Expenses	736	0
Travel Expenses	4,812	1,862
Administrative Expenses	9,726	8,739
Education and Training	5,006	5,081
Furniture and Equipment	2,782	0
Management Fees	176,944	154,212
Custodial Fees	28,298	30,000
Rent Expenses	4,488	4,584
Service Contracts	12,385	14,679
Fiduciary Insurance	<u>3,111</u>	<u>3,014</u>
Sub Total	<u>315,044</u>	<u>270,411</u>
<b>Total Disbursements</b>	<b><u>\$4,886,101</u></b>	<b><u>\$4,479,068</u></b>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2012	2011
<b>Investment Income Received From:</b>		
Cash	\$215	\$478
Short Term Investments	0	93
Fixed Income	483,807	502,768
Equities	665,292	501,736
Pooled or Mutual Funds	<u>17,997</u>	<u>0</u>
<b>Total Investment Income</b>	<u>1,167,311</u>	<u>1,005,074</u>
<b>Plus:</b>		
Realized Gains	740,986	602,171
Unrealized Gains	3,650,733	3,525,068
Interest Due and Accrued - Current Year	<u>76,345</u>	<u>88,134</u>
Sub Total	<u>4,468,065</u>	<u>4,215,372</u>
<b>Less:</b>		
Paid Accrued Interest on Fixed Income Securities	(50,443)	(56,765)
Realized Loss	(729,227)	(1,748,185)
Unrealized Loss	(296,124)	(1,784,574)
Interest Due and Accrued - Prior Year	<u>(88,134)</u>	<u>(98,991)</u>
Sub Total	<u>(1,163,928)</u>	<u>(3,688,515)</u>
<b>Net Investment Income</b>	<u>4,471,448</u>	<u>1,531,931</u>
<b>Income Required:</b>		
Annuity Savings Fund	15,536	20,004
Annuity Reserve Fund	103,196	101,038
Military Service Fund	0	0
Expense Fund	<u>315,044</u>	<u>270,411</u>
<b>Total Income Required</b>	<u>433,776</u>	<u>391,454</u>
Net Investment Income	<u>4,471,448</u>	<u>1,531,931</u>
Less: Total Income Required	<u>433,776</u>	<u>391,454</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$4,037,672</u>	<u>\$1,140,477</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$163,023	0.4%
Short Term Investments	3,283,230	7.4%
Fixed Income Securities (at book value)	11,225,102	25.2%
Equities	28,700,836	64.4%
Pooled Alternative Investment Funds	354,943	0.8%
Hedge Funds	<u>847,559</u>	<u>1.9%</u>
<b>Grand Total</b>	<b><u>\$44,574,693</u></b>	<b><u>100.0%</u></b>

For the year ending December 31, 2012, the rate of return for the investments of the North Adams Retirement System was 11.18%. For the five-year period ending December 31, 2012, the rate of return for the investments of the North Adams Retirement System averaged 3.95%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the North Adams Retirement System was 9.58%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the 28-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The North Adams Retirement Board has not submitted any supplementary investment regulations for approval 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 North 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

### 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 person who became a member before April 2, 2012 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

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

## 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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

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). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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.

### 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, s.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 those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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. 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 \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### 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 \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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 while in the performance of his duties that results 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 \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

### 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. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death

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%. Only a certain portion 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, Section 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. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base 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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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 has not remarried, 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. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each 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 North Adams Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### Creditable Service

March 28, 2013

Members of the North Adams Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the North Adams Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the North Adams Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the North Adams Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 30 hours per week.
- For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the North Adams Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 30 hours per week.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 30th., including but not limited to cafeteria workers, clerical and secretarial staff teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the North Adams Retirement System as set forth in this regulation.
- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employees' creditable service will be calculated based on a twelve (12) month year.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- Creditable service for 10 month employees shall be based on 30 hours being the equivalent of 1 week, whereas creditable service for 12 month employees shall be based on 30 hours per week.
- Any member purchasing past part-time service rendered shall have said service prorated based on 30 hours per week being considered a full-week of service. Notwithstanding the foregoing, any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time.

#### Board Policies

April 14, 2009

Three (3) Board members' signatures are required on all warrants.

All investments must be reviewed by the full five members of the Board.

The minutes of all Board meetings must be read and approved by the Board.

Account information, financial and medical, of both current and former members are not public records.

It is understood by the Board that the Massachusetts General Laws Chapter 32 supersede any conflicting rules, regulations and by-laws established herein.

#### Buybacks

April 14, 2009

All make-up payments for prior service credit must be approved by the Board.

#### Travel Regulations

October 23, 2003

The North 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/North Adams](http://www.mass.gov/perac/North%20Adams).



## 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, 2013.

The actuarial liability for active members was	\$26,418,152
The actuarial liability for vested terminated members was	567,120
The actuarial liability for non-vested terminated members was	361,949
The actuarial liability for retired members was	<u>38,308,851</u>
The total actuarial liability was	\$65,656,072
System assets as of that date were (actuarial value)	<u>42,504,356</u>
The unfunded actuarial liability was	<u><u>\$23,151,716</u></u>
The ratio of system's assets to total actuarial liability was	64.7%
As of that date the total covered employee payroll was	\$10,089,660

The normal cost for employees on that date was 8.4% of payroll  
 The normal cost for the employer was 5.4% of payroll

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

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies by service and group

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

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 )
1/1/2013	\$42,504,356	\$65,656,072	\$23,151,716	64.7%	\$10,089,660	229.5%
1/1/2011	\$41,029,431	\$60,459,413	\$19,429,982	67.9%	\$10,388,467	187.0%
1/1/2009	\$38,262,875	\$56,836,816	\$18,573,941	67.3%	\$9,877,348	188.0%
1/1/2007	\$35,448,787	\$52,841,995	\$17,393,208	67.1%	\$9,347,575	186.1%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Retirement in Past Years</b>										
Superannuation	16	1	7	6	6	1	8	8	13	9
Ordinary Disability	0	0	0	0	0	1	1	0	0	0
Accidental Disability	1	2	2	4	0	0	1	0	1	0
<b>Total Retirements</b>	17	3	9	10	6	2	10	8	14	9
 Total Retirees, Beneficiaries and Survivors	210	211	205	206	206	205	207	216	220	219
 Total Active Members	345	357	436	380	381	391	353	375	355	340
 <b>Pension Payments</b>										
Superannuation	\$1,452,598	\$1,762,604	\$1,754,574	\$1,727,889	\$1,755,506	\$1,803,173	\$1,855,781	\$1,951,866	\$2,050,275	\$2,106,140
Survivor/Beneficiary Payments	231,134	111,566	147,401	126,519	133,131	137,118	141,186	148,836	148,250	166,221
Ordinary Disability	53,440	55,086	54,514	46,414	49,440	51,076	68,075	68,668	71,693	56,437
Accidental Disability	743,579	786,830	785,390	853,559	844,640	852,907	855,546	857,123	928,206	884,797
Other	<u>60,579</u>	<u>269,204</u>	<u>271,068</u>	<u>273,948</u>	<u>307,241</u>	<u>306,957</u>	<u>358,582</u>	<u>440,830</u>	<u>404,825</u>	<u>491,443</u>
<b>Total Payments for Year</b>	<u>\$2,541,330</u>	<u>\$2,985,290</u>	<u>\$3,012,947</u>	<u>\$3,028,329</u>	<u>\$3,089,958</u>	<u>\$3,151,231</u>	<u>\$3,279,170</u>	<u>\$3,467,323</u>	<u>\$3,603,248</u>	<u>\$3,705,038</u>

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 7 – LEASED PREMISES

The North Adams Retirement Board rents space for its office located at Suite 322, 85 Main Street, North Adams, MA. The initial lease expired January 1, 2004; there is currently no signed lease in effect. The landlord is Scarafoni Realty.

As of December 31, 2012 monthly rent was \$344.00.







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