PERAC AUDIT REPORT

Northbridge

Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

May 21, 2014

The Public Employee Retirement Administration Commission has completed an examination of the Northbridge 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 with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliation:

The Retirement Board staff prepares reconciliations for the two cash accounts, but since they also handle deposits and prepare checks the required separation of duties is not present. Sound internal control procedures dictate that all bank accounts are reconciled by someone other than the employee who receives and disburses funds.

Recommendation: The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control by segregating reconciliation duties. The Treasurer should be instructed to provide appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis for all operating accounts. Any discrepancies with general ledger balances must be promptly identified and resolved. If the Retirement Board does not receive completed reconciliations by the end of the following month, it should formally request the reconciliation in writing from the Treasurer's Office.

Board Response:

The Board Administrator will continue to reconcile the bank statements and supply the Town Treasurer with copies of the warrants and bank deposits. The Treasurer will reconcile the statements independently and give them to the Board Administrator to verify that they agree.

2. Retiree Affidavits

Affidavits were sent out in March 2013. As of January 2014, when the audit field work began, there were still two affidavits that had not been returned after a second request. Both retirees were still receiving monthly payments.

Recommendation: A policy must be established to stop benefit payments to any retiree who does not respond within a reasonable period of time. It is common practice to send a third request informing the retiree that if no response is received within a month the next check will be held in the retirement office.

Board Response:

The Board Administrator will send out the affidavits annually and follow up with those that have not been returned within a month. A letter will go out explaining that they need to be returned as soon as possible or their monthly retirement allowance will be held. If they still are not received in after a short time, a letter will go out certified informing them that their benefit is on hold pending the receipt of their affidavit.

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, 2012	2011
Net Assets Available For Benefits:		
Cash	$21,879	$16,110
PRIT Cash Fund	35,090	62,580
PRIT Core Fund	23,697,410	21,118,797
Accounts Receivable	44,924	81,574
Accounts Payable	(12,921)	(12,125)
Total	$23,786,381	$21,266,935
Fund Balances:		
Annuity Savings Fund	$6,893,639	$6,632,409
Annuity Reserve Fund	1,735,945	1,667,140
Pension Fund	0	125,903
Military Service Fund	0	0
Expense Fund	0	0
Pension Reserve Fund	15,156,798	12,841,484
Total	$23,786,381	$21,266,935

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)	$6,372,139	$1,326,205	$190,989	$0	$0	$13,460,234	$21,349,567
Receipts	919,034	42,377	1,185,372	0	199,553	(249,234)	2,097,101
Interfund Transfers	(611,449)	611,449	369,516	0	0	(369,516)	0
Disbursements	(47,314)	(312,891)	(1,619,974)	0	(199,553)	0	(2,179,733)
Ending Balance (2011)	6,632,409	1,667,140	125,903	0	0	12,841,484	21,266,935
Receipts	763,705	51,226	1,275,641	0	227,571	2,660,216	4,978,359
Interfund Transfers	(328,511)	328,511	344,902	0	0	(344,902)	0
Disbursements	(173,964)	(310,932)	(1,746,446)	0	(227,571)	0	(2,458,913)
Ending Balance (2012)	$6,893,639	$1,735,945	$0	$0	$0	$15,156,798	$23,786,381

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011
Annuity Savings Fund:		
Members Deductions	$716,721	$674,412
Transfers from Other Systems	20,113	222,625
Member Make Up Payments and Re-deposits	19,311	5,624
Member Payments from Rollovers	548	2,553
Investment Income Credited to Member Accounts	7,012	13,820
Sub Total	763,705	919,034
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	51,226	42,377
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	68,090	12,045
Received from Commonwealth for COLA and Survivor Benefits	35,253	39,928
Pension Fund Appropriation	1,172,299	1,133,399
Sub Total	1,275,641	1,185,372
Expense Fund:		
Investment Income Credited to the Expense Fund	227,571	199,553
Pension Reserve Fund:		
Federal Grant Reimbursement	0	176
Interest Not Refunded	0	103
Miscellaneous Income	237	68
Excess Investment Income (Loss)	2,659,979	(249,581)
Sub Total, Net	2,660,216	(249,234)
Total Receipts, Net	$4,978,359	$2,097,101

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2012	2011
Annuity Savings Fund:		
Refunds to Members	$123,852	$42,494
Transfers to Other Systems	50,112	4,820
Sub Total	173,964	47,314
Annuity Reserve Fund:		
Annuities Paid	310,932	265,093
Option B Refunds	0	47,799
Sub Total	310,932	312,891
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	1,233,136	1,107,138
Survivorship Payments	126,093	108,179
Ordinary Disability Payments	28,324	27,904
Accidental Disability Payments	234,997	249,682
Section 101 Benefits	5,186	4,912
3 (8) (c) Reimbursements to Other Systems	84,642	87,156
State Reimbursable COLA's Paid	34,068	35,004
Sub Total	1,746,446	1,619,974
Expense Fund:		
Board Member Stipend	2,500	1,500
Salaries	38,687	50,482
Legal Expenses	4,059	3,782
Travel Expenses	81	3,163
Administrative Expenses	15,051	12,796
Actuarial Services	6,500	0
Accounting Services	26,050	5,500
Education and Training	0	1,350
Furniture and Equipment	0	914
Management Fees	119,590	106,326
Service Contracts	13,335	12,075
Fiduciary Insurance	1,717	1,665
Sub Total	227,571	199,553
Total Disbursements	$2,458,913	$2,179,733

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011
Investment Income Received From:		
Cash	$167	$177
Pooled or Mutual Funds	713,010	647,457
Total Investment Income	713,178	647,633
Plus:		
Realized Gains	577,783	657,147
Unrealized Gains	3,016,718	2,100,628
Sub Total	3,594,501	2,757,775
Less:		
Realized Loss	0	(12,229)
Unrealized Loss	(1,361,890)	(3,387,010)
Sub Total	(1,361,890)	(3,399,239)
Net Investment Income	2,945,788	6,169
Income Required:		
Annuity Savings Fund	7,012	13,820
Annuity Reserve Fund	51,226	42,377
Expense Fund	227,571	199,553
Total Income Required	285,809	255,750
Net Investment Income	2,945,788	6,169
Less: Total Income Required	285,809	255,750
Excess Income (Loss) To The Pension Reserve Fund	$2,659,979	($249,581)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$21,879	0.1%
PRIT Cash Fund	35,090	0.1%
PRIT Core Fund	23,697,410	99.8%
Grand Total	$23,754,379	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Northbridge Retirement System was 13.94%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Northbridge Retirement System averaged 1.53%. 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 Northbridge Retirement System was 9.43%.

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 Northbridge Retirement System voted on October 21, 1987 to invest all of the system's assets with the PRIT fund as of June 30, 1988. As a result of that motion, any supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 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.

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 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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

January 1, 2010
Creditable Service
Credit for "part time or full time employees, either actively contributing, or in the computation to determine make-ups, shall be determined based upon the following, unless the person has retired or left the employ of the Town of Northbridge."

Less than 2 weeks in any year	No Credit
Two weeks to one month	One Month Credit
One Month to Six Months	Month for Month
Seven Months and over	One Year

One year of credit for seven months of service may only be granted if the work is determined by the retirement board to be seasonal in nature.

One year of credit for ten months of service may be granted for School employees whose work schedule is the academic school year.

No credit shall be granted for any employment that is for less than 28 hours per week Purchases of credit is restricted to employment with the Town of Northbridge.

January 8, 2002
Membership
An employee must be considered as a regular employee of the town to be eligible for membership in the retirement system. A regular employee of the town must have a regularly scheduled workweek of 28 hours or more per week with a commensurate salary. All regular employees must join the retirement system. All regular employees, except as noted below, who are scheduled to work less than twenty-six (26) calendar weeks or uninterrupted employment unless for required military service, authorized paid vacation, sick, personal leave or other authorized leaves of absence are not eligible for membership in the Northbridge Retirement System.

Any active or inactive member who becomes a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee shall continue to be a member of the Northbridge Retirement System.

January 2, 2001
Buybacks
Members must make all military buybacks, creditable service buybacks, makeups and redeposit payments upon the approval vote taken by the Retirement Board. All payments must be completed by the members prior to their retirement.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

The Board requires total payments of under $1,000 to be paid within 30 days of the Board's vote. Cash payments for buybacks, makeups and redeposits in excess of $1,000 are to be paid over a period of not more than 90 days.

Members may make payments via payroll deductions. They must contribute their additional annuity in an amount equal to their current weekly amount of contribution. These payroll deductions will be fully taxable. Weekly payroll deductions must exceed the current amount of contribution if the balance due the system from the member will not be paid within a five-year period using the double deduction method. The member seeking this method of buyback must complete the appropriate release form within 7 days of the Retirement Board vote.

Failure to complete the buyback within the periods stated above will nullify the approval vote of the Retirement Board

September 3, 2002
Travel Regulations
The Northbridge 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/Northbridge.

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:	Neil Vaidya		
Appointed Member:	Sharon Susienka	Term Expires:	02/28/15
Elected Member:	John Meagher, Chairman	Term Expires:	06/30/15
Elected Member:	Muriel Barry	Term Expires:	06/30/15
Appointed Member:	Paul Mulrenin	Term Expires:	06/30/14

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 $50,000,000
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. Separate fidelity
Staff Employee:	)	coverage pertaining to ERISA/Crime to a limit of
		$1,000,000 issued through Travelers Casualty
		and Surety Company, deductible $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2012.

The actuarial liability for active members was	$17,315,662
The actuarial liability for inactive members was	320,418
The actuarial liability for retired members was	17,323,844
The total actuarial liability was	$34,959,924
System assets as of that date were (actuarial value)	21,760,036
The unfunded actuarial liability was	$13,199,888
The ratio of system's assets to total actuarial liability was	62.2%
As of that date the total covered employee payroll was	$7,298,729

The normal cost for employees on that date was	9.0% of payroll
The normal cost for the employer was	3.6% of payroll

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

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

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

($ in 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)
1/1/2012	$21,760	$34,960	$13,200	62.2%	$7,299	180.8%
1/1/2010	$20,630	$29,678	$9,048	69.5%	$7,084	127.7%
1/1/2008	$23,128	$27,276	$4,148	84.8%	$6,833	60.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	6	4	1	6	8	3	1	4	7	8
Ordinary Disability	0	0	0	0	0	0	1	0	0	0
Accidental Disability	1	0	0	0	1	0	0	0	2	0
Total Retirements	7	4	1	6	9	3	2	4	9	8
Total Retirees, Beneficiaries and Survivors	97	99	96	97	104	100	104	102	108	112
Total Active Members	170	182	188	194	173	204	194	189	207	216
Pension Payments										
Superannuation	$629,372	$709,401	$735,847	$808,992	$873,431	$969,128	$1,037,610	$1,052,253	$1,107,138	$1,233,136
Survivor/Beneficiary Payments	56,502	57,121	67,632	77,815	89,774	89,326	90,154	88,585	108,179	126,093
Ordinary Disability	0	0	0	0	0	0	6,932	27,694	27,904	28,324
Accidental Disability	157,705	182,946	185,467	188,774	202,595	205,346	173,543	162,020	249,682	234,997
Other	96,762	96,363	92,832	88,770	87,300	84,839	85,201	95,956	127,072	123,896
Total Payments for Year	$940,341	$1,045,831	$1,081,778	$1,164,351	$1,253,100	$1,348,639	$1,393,440	$1,426,508	$1,619,974	$1,746,446

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